

# glas

Annual Investor Update  
- July 2019



Location: Elan Valley reservoir



Croeso

Welcome

Chris Jones, Chief Executive

## Introduction

Chris Jones, Chief Executive

## Financial results and operating performance

Peter Bridgewater, Finance Director

## Cash and financing update

Roger Morgan, Treasurer

## PR19 and business plan

Chris Jones, Chief Executive

## Appendices



Film: 2018-19 A Year of Extremes



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# Financial results & operating performance

5

Peter Bridgewater, Finance Director

Location: Llyn Celyn reservoir

## Cashflow and net debt

<b>Year ended 31 March (£m)</b>	<b>2019</b>	<b>2018</b>
Revenue: RPI(3.9%) + K(-1.0%) + WRFIM*(-0.9%) = 2%	782	757
Operational expenditure	(336)	(319)
EBITDA (before IRE)	446	438
Net interest payable (inc. indexation)	(180)	(172)
Capital expenditure (net of grants & contributions)	(452)	(415)
Net working capital movements	(12)	(52)
Decrease/(Increase) in net debt	(198)	(201)

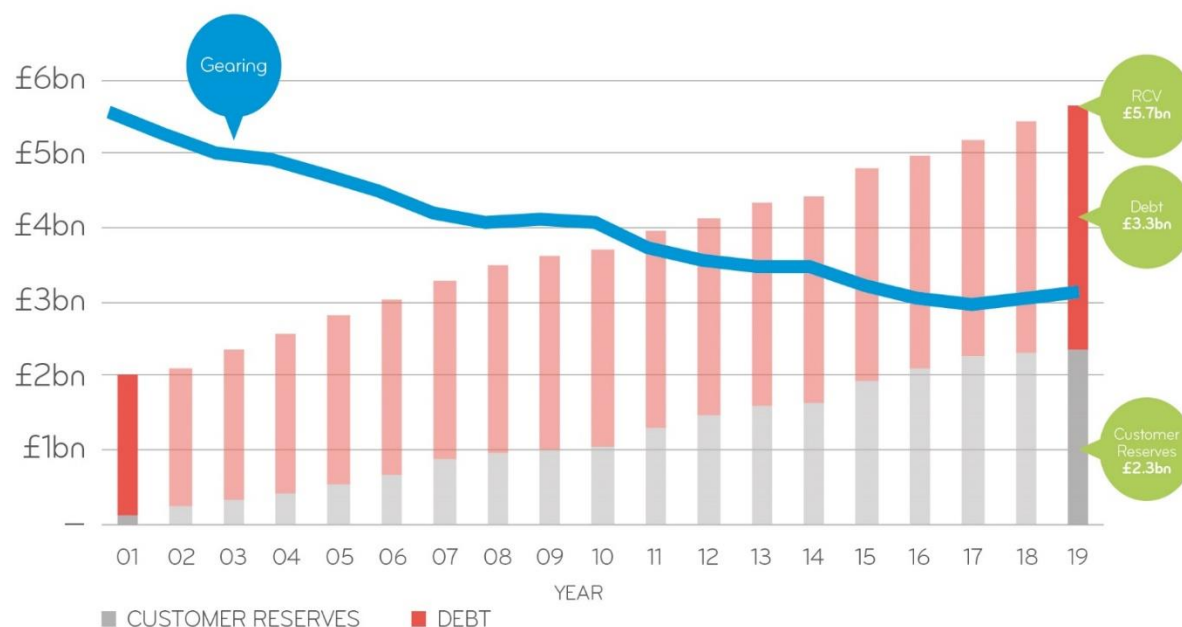
*\*Wholesale Revenue Forecasting Incentive Mechanism, the means by which an over- or under-recovery of a prior year's revenue cap is adjusted for in current year bills. In this case the adjustment relates to an over-recovery of some £4m in 2016/17*

# Operational expenditure

Year ended 31 March	2019 £m	2018 £m
Employee costs	100	97
Power	44	43
Chemicals, materials and equipment	16	15
Water and sewerage contractors	22	19
Severe weather costs	16	3
Other outsourced costs	41	38
Doubtful debts	21	22
Laboratories and analytical services	1	1
Vehicles and plant	8	9
Establishment and property costs	11	12
Insurance	4	4
Collection commissions	4	4
IT contracts	10	11
Research and development credit	(1)	(1)
Rates	24	27
Regulators' charges	15	15
<b>Total operational expenditure</b>	<b>336</b>	<b>319</b>
Less Atypical costs (severe weather)	(16)	(3)
<b>Underlying operational expenditure</b>	<b>320</b>	<b>316</b>

- Total employee costs have risen due to annual pay awards, additional resourcing of customer focused activities and higher operational demands.
- Water and sewerage contracts include the impact of increased expenditure to ensure that leakage targets are met, as well as a contractor change in November 2018
- Record-breaking warm and dry weather in June and July 2018 created a very challenging operating environment:
  - 25% more water put into the network to meet elevated demand
  - 62 treatment works manned 24 hours a day with 35 tankers in use
  - Incident centres set up to manage demand and monitor pumping and transport
  - close monitoring of rivers due to heightened pollution risk (low water levels)
  - Retail colleagues dealt with higher number of customer contacts
- **Underlying opex on track to deliver AMP6 allowed Totex. Overall underlying operational costs have increased by 1% (including RPI)**

## Gearing, customer reserves and debt



As at 31 March (£m)	2019	2018
Regulatory Capital Value (RCV)	5,671	5,468
Net debt	(3,316)	(3,118)
Financial reserves	2,355	2,350
Gearing	58%	57%

- Senior Interest Cover Ratio (ICR) of 3.3x as at 31 March 2019 (versus trigger level of <2.0x)
- Strong liquidity position of £532m as at 31 March 2019. Prudent investment policy for surplus cash continues with short deposit maturities and focus on bank credit ratings
- Significant customer equity/reserves (£2.36bn as at 31st March 2019)



## Operational performance

### 2018/19: Year of Extremes



April



Summer



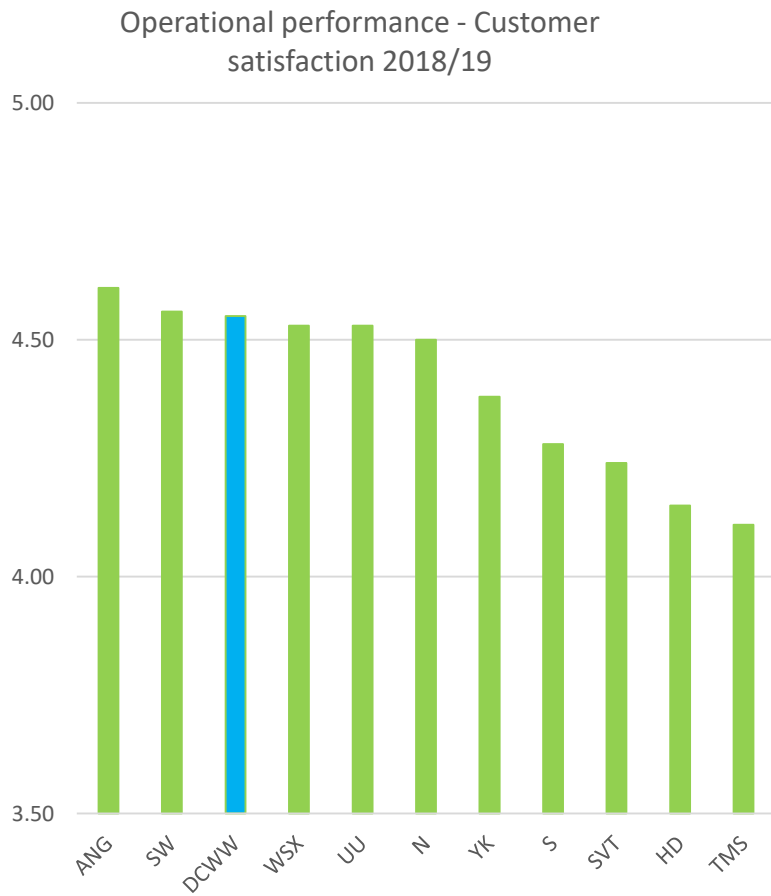
October

## Operational performance

### Highlights include:

- Continued improvement in leakage (172.8 ml/d to 169.5 ml/d)
- Stable environmental performance
  - 99.9% compliance with drinking water standards
  - Marginal increase in pollution and sewer flooding incidents to 339 (2018: 333) - still below FD targets to 2020
  - 44 'Blue Flags' for Welsh bathing waters
  - Water supply interruptions decreased to 16.0 mins (2018: 43.3 mins incl. severe weather impact of 28.3 mins)
- Carbon emissions cut by nearly 80% in the last decade
- £452m capital investment in 2019 (highest ever)
- Broken through 100k target of social tariffs to help disadvantaged customers – new record of 125k
- 10% reduction in written complaints from 3,862 to 3,491

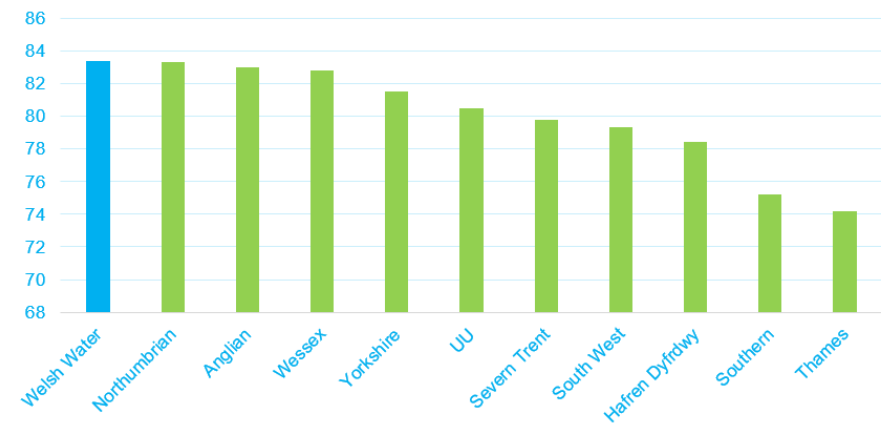
## Operational performance customer satisfaction (SIM) 2018/19



## CCWater - Water Matters July 2019 (Provisional)

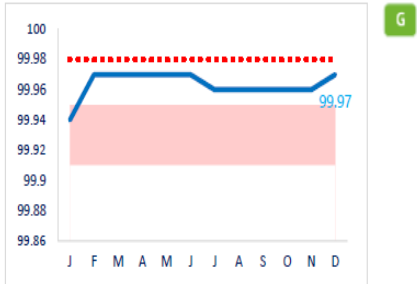


## Customer Experience 2018/19 (C-MEX, Ofwat)



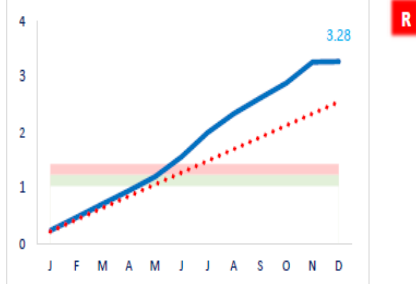
# Ofwat ODI's (outcome delivery incentives) – charts for the year

**A1b - Safety of Drinking Water (Actual MZC)**



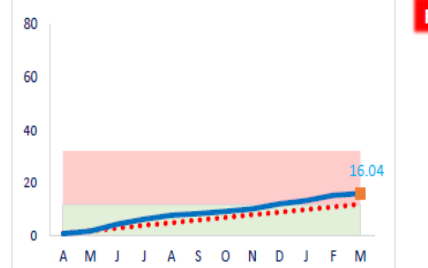
Penalty: £2.5m per 0.01% per year within the penalty zone.  
Maximum £10m pa "in year" penalty. c  
2018 year end – ODI Penalty deadband

**A2b - Customer Acceptability (appearance, taste & odour)**



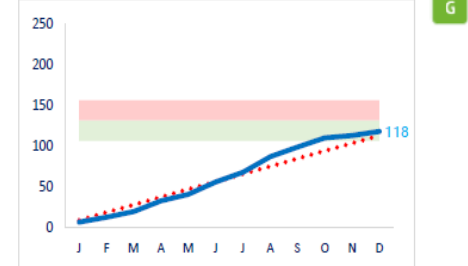
Penalty/Reward: £930k per 0.1 contacts per 1,000 population.  
A Maximum of £1.86m pa "in year" penalty or reward. c  
2018 year end – ODI Penalty of £1.86 million

**A3 - Reliability of Supply**



Penalty/Reward: £0.195m per minute.  
Reward Max £2.34m pa "in the year"  
Penalty Max £3.9m pa "in the year".  
2018/19 year end – ODI penalty of £0.78 million

**B3b - Preventing Pollutions (Cat 3 only)**



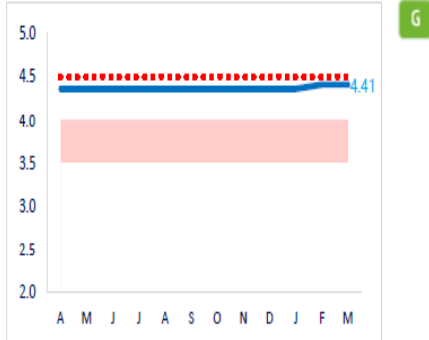
Penalty: £0.400m per incident (Max of £10m pa)  
Reward: £0.047m per incident (Max of £1.175m pa). c  
2018 year end – ODI reward payment of £0.611 million

**D3 - Properties flooded in the year**



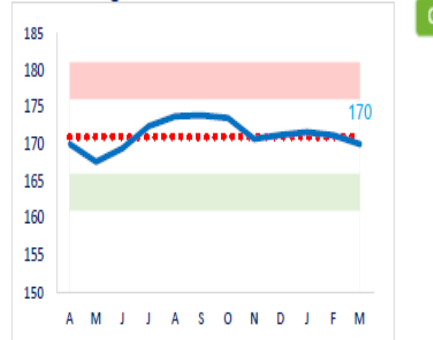
Penalty: £0.161m per property  
Reward: £0.062m per property.  
2018/19 year end – ODI reward £1.674 million

**D4b - Non Household Customer Satisfaction**



Penalty: £1m per 0.1 points scored (Max £5m pa).  
[Opinion Research Services commissioned to carry our survey]  
2018/19 year end – ODI Penalty deadband

**F2 - Leakage**



Penalty: £1.84m per MI/d (Max £9.2m penalty pa)  
Reward: £0.92m per MI/d (Max £4.6m reward pa).  
2018/19 year end – ODI Reward deadband

**Key**

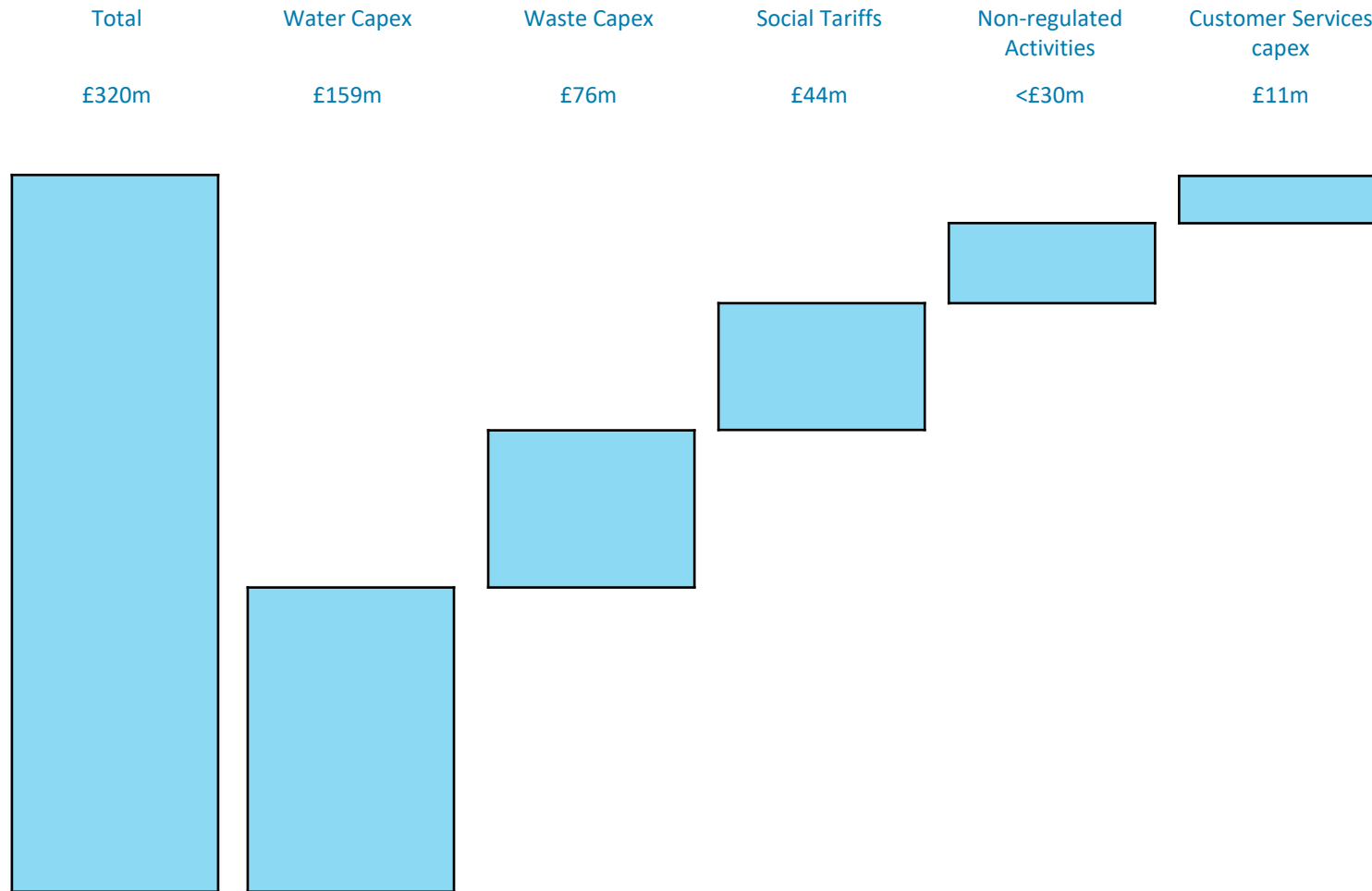
- IBP Target / Profiled target
- Penalty area
- Reward area
- Latest best estimate
- Actual

**G A R** Status reflects the risk of penalty payments being due in the current year.  
c. Calendar Year Measure 2018

- **Net ODI's are broadly neutral with net penalties of £0.36m**

# Amp 6 distribution policy

Customer distributions: High-level AMP6 allocation



## AMP6 - summing up

- Continuing excellent operational performance in 2018/19 with rewards/penalties being broadly neutral.
- Gearing moved up by 1.5% to 58.5% as at 31 March 2019 reflecting increased discretionary capital expenditure and social assistance tariffs
- No significant changes to the Commercial division portfolio of the business
- Wholesale expenditure is on track to deliver AMP6 allowed Totex
- Following a slow start to the AMP, the capital programme is accelerating its capex outturn to £452m for 2018/19

The background of the slide is a photograph of the Llyn Onn reservoir. In the foreground, a stone wall runs across the bottom. To the right, a prominent stone tower with a crenellated top and a small window stands on the wall. The reservoir is in the middle ground, and the background is filled with lush green forested hills under a clear blue sky.

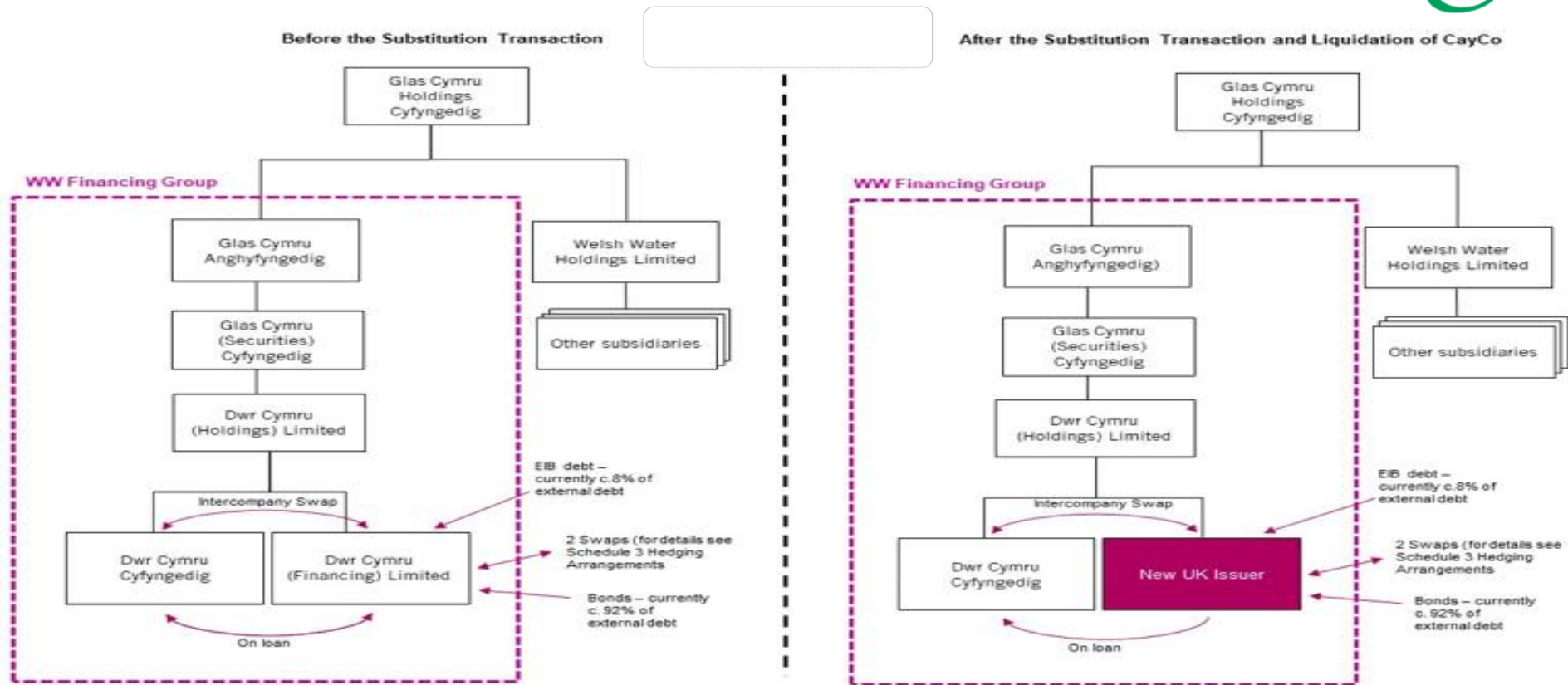
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## Cash & financing update

Roger Morgan, Treasurer

Location: Llwyn Onn reservoir

# Cayco unwind



## Key steps and timing

- STID proposal approved 7 June 2019 with unanimous approval from creditors
- Transfer of new Issuer company to DC Holdings
- Re-registration of debt with Luxembourg bourse for new Issuer – expected July 2019
- Transfer of debt to UK NewCo – expected July 2019
- Liquidation of CayCo – during 2020



## Financing activity

### 2018/19

Dec 2018	Drawdown of £250m EIB loan (15 year floating, amortising after 10 years)
Apr 2019	£135m 5 year rolling liquidity facility established with Assured Guaranty – an innovation for the water sector
Jun 2019	100% creditor approval of DCWW STID proposal to replace its Cayman issuer

- **AMP6 funding needs met**

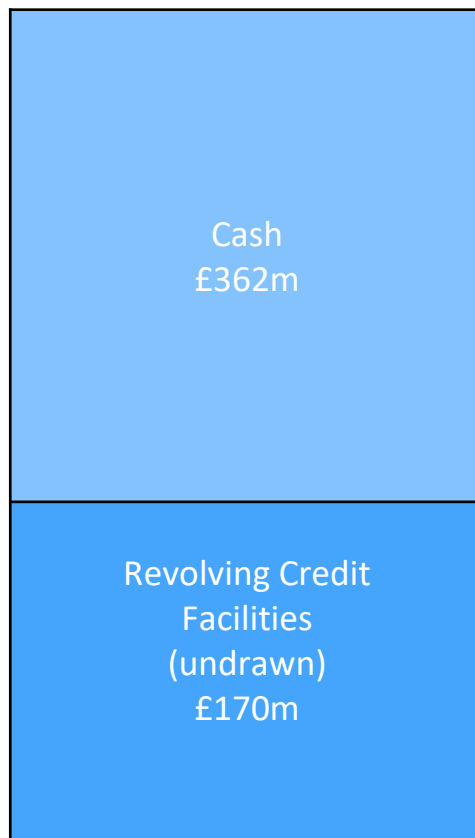
### Forward planning

Jul 2019	Complete execution of transfer of debt to DCWW's UK domiciled – Dwr Cymru (Financing) UK Plc issuer
Oct 2019	STID proposal to further modernise Common Terms Agreement
Nov 2019	Deferred issuance to part refinance 2021 B1 bond (c£200 - £250m)
Jan 2020	Refinancing of RCF (sized at c£200m)

- **Excellent ongoing financial markets access**

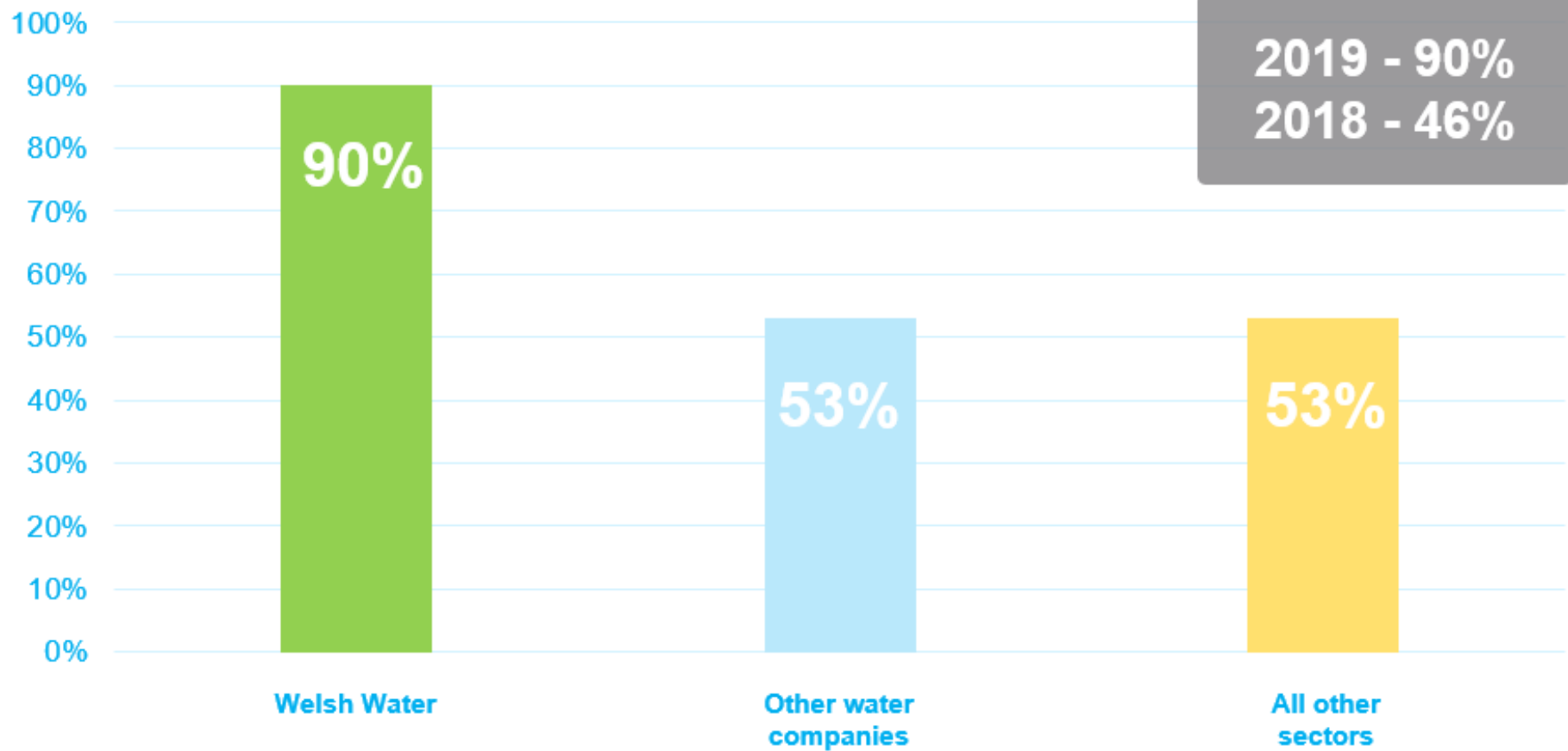
## Liquidity – as at 31 March 2019

Liquidity as at 31 March 2019 £532m

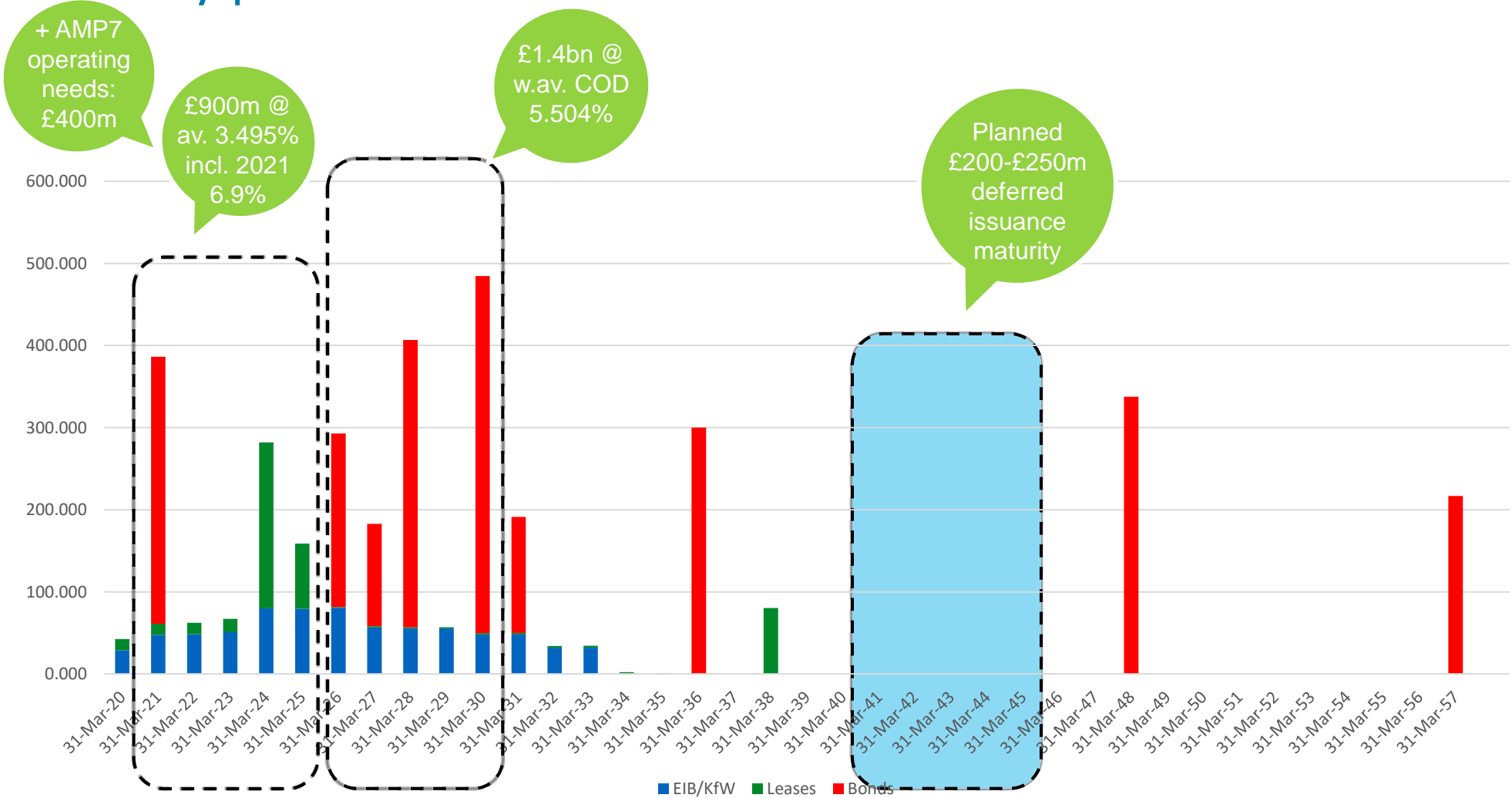


- Revolving credit facilities available until 2020
  - £250m EIB loan drawn during December 2018
  - Prudent investment policy for surplus cash continues with deposit maturities limited to maximum of one month and focus on bank credit ratings.
- 
- **Strong liquidity position of £532m at 31 March 2019 – at least 2 years’ financing needs**

## Payments to Suppliers – paid within 30 days



# Maturity profile of debt



## Net interest payable

12 months to 31 March (£m)	2019	2018
Fixed rate bonds	51	45
Index-linked bonds	44	42
EIB and KfW loans	4	3
Finance leases	3	3
RPI PAYG inflation swaps	20	24
Fixed interest swap	10	10
Financial guarantee fees	4	4
Other interest costs	1	4
RPI indexation of bonds & EIB loans	46	54
Interest receivable	(5)	(4)
Net interest payable	178	185
Pension scheme interest charge	2	3
Interest capitalised (IAS 23)	(16)	(16)
Total per IFRS accounts	164	172

- Indexation charge based on lower RPI of 3.2% (2018: 3.6%)
- Average nominal interest cost of 5.7% (2018: 6.4%)
- Indexation of £46m for bonds/EIB loans is split: Bonds £39m and EIB £7m



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# PR19 & business plan

Chris Jones, Chief Executive

22

Location: Pen Y Garreg Dam, Elan Valley

## Our Proposals

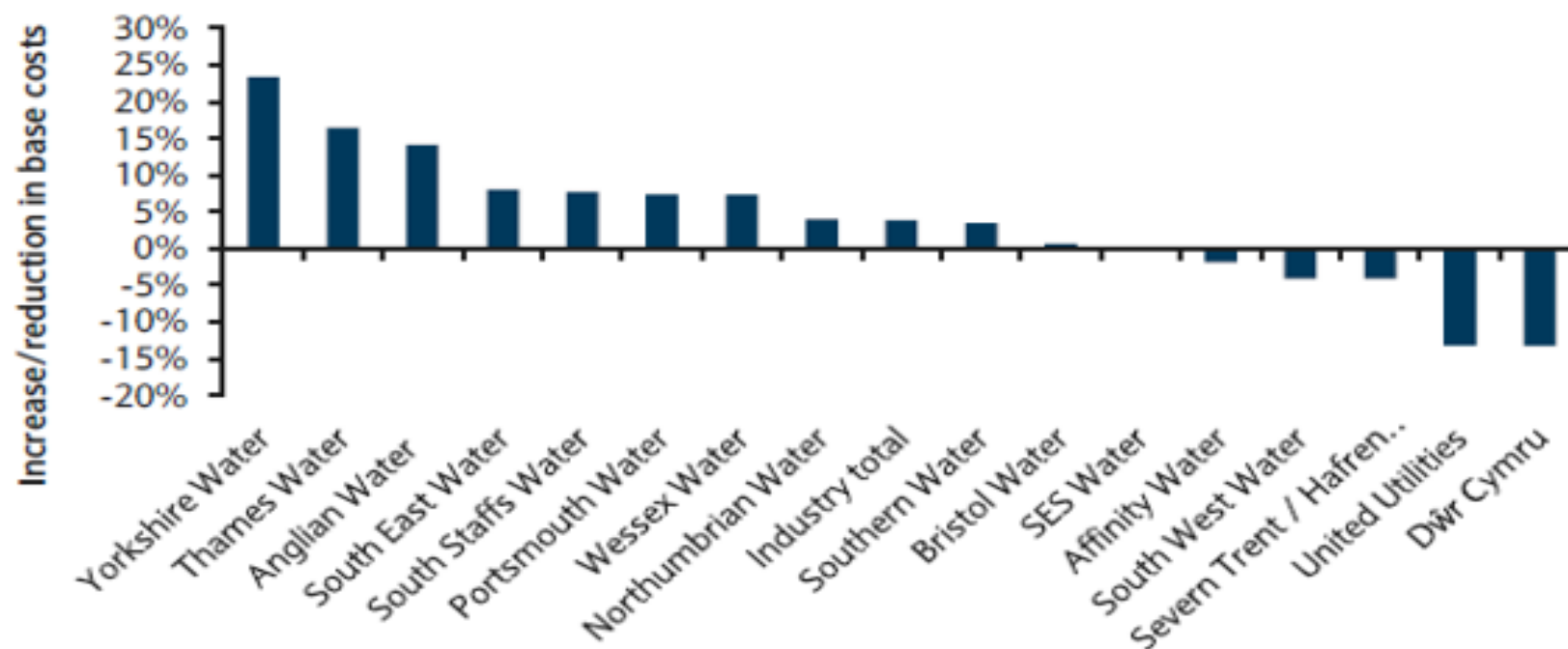
92%  
acceptable

95%  
affordable

- **£2.3 bn investment programme**
- **£20** reduction in average household bill
- **£85** million to fund social tariffs
- Expand Priority Services Register to **100,000**
- **Free leak repair** service Lead pipe replacement for **7,000** homes
- New **compensation scheme and surface water removal incentive** for developers

- **RainScape** – **10** priority catchments
- **LandScape** – **23** catchment management schemes
- **New water treatment works** for South Wales
- **New wastewater treatment works** for Gwili Gwendraeth
- New Dam Safety requirements – **29** priority reservoirs
- **Water Resource Management Plan** to 2050

Botex AMP7 business plan projections from historic base costs. Based on the previous 5 historic year actuals (in real terms).



Source: Ofwat, Barclays Research estimates

Overall the average water company asked for their base costs to be 4% higher – DCWW's 13% lower.



## Ofwat's Initial Assessment of Business Plans

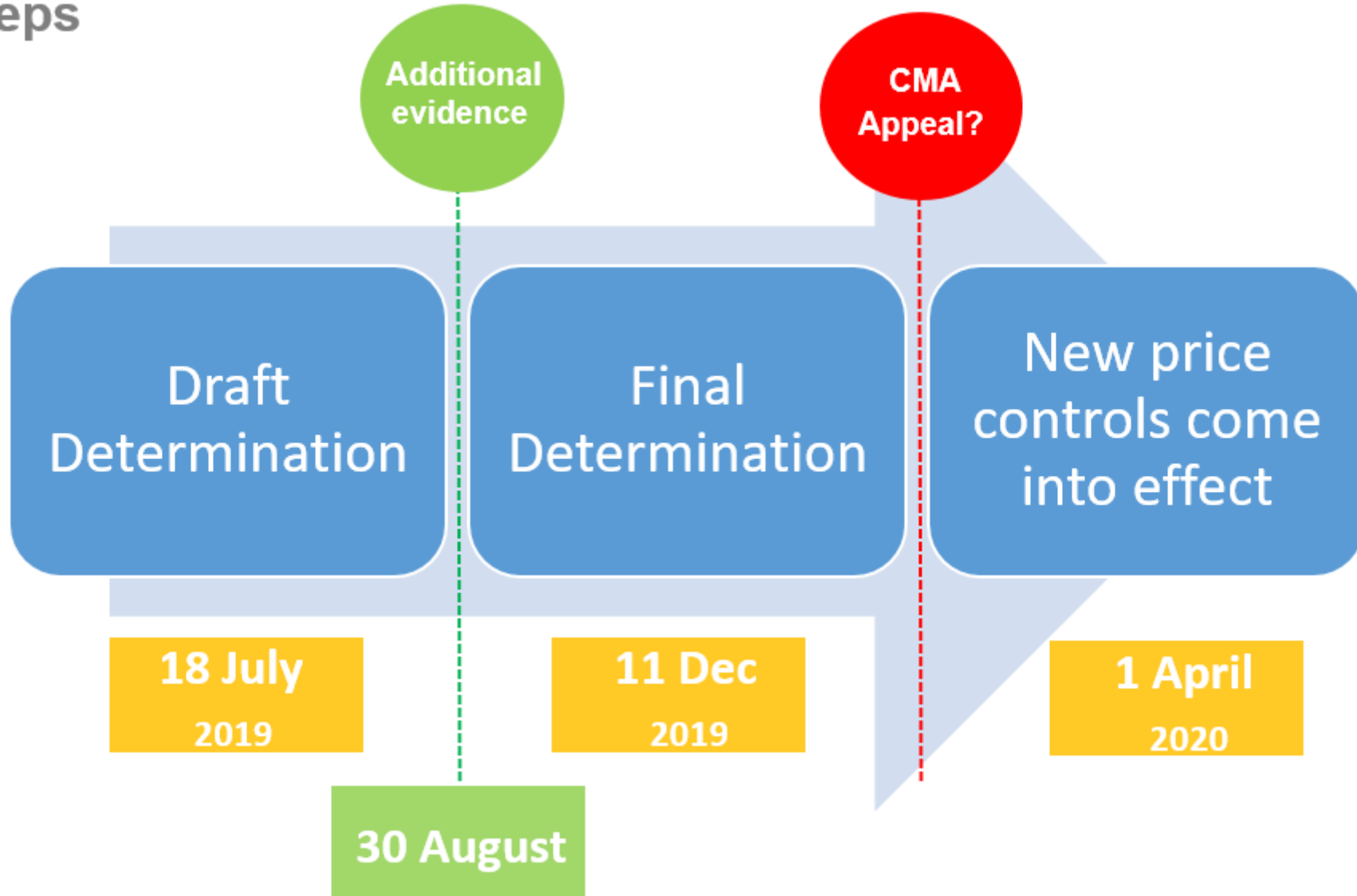
### 2020-25 EXPENDITURE

	DCWW Plan £m	"GAP" £m	Ofwat IAP £m	"Inefficiency" %
Running Costs:				
Water	1,088	1	1,089	0%
Wastewater	1,118	(63)	1,055	-6%
Retail	268	(65)	203	-24%
Total	<u>2,474</u>	<u>(127)</u>	<u>2,347</u>	-5%
Service Enhancement Investment	1,041	(523)	518	-50%
	<u><b>3,515</b></u>	<u><b>(650)</b></u>	<u><b>2,865</b></u>	<b>-18%</b>

## Our PR19 plan includes:

- Operational cost reductions of £35m pa (7% vs 17/18 prices) by 2025
- Support services and overheads cost reductions of £15m pa (14% vs 17/18 prices) by 2025
- Reduced embedded debt cost on £900m @ weighted average cost of 3.5% in AMP7 (incl. £325m @ 6.9%) and £1.4bn in AMP8 (incl. £1bn @ 6.6%)
- DCWW's ODIs towards lower end of range circa +1.2% to -1.2% of RORE, (assumes a net neutral outturn for rewards/penalties)
- More support for low-income customers (via funding of social tariffs)
- April resubmission – no material change to the overall expenditure. Rather, we focused on providing further evidence to support our Service Enhancement investment.

## Next steps



**Diolch**  
**Thank you**



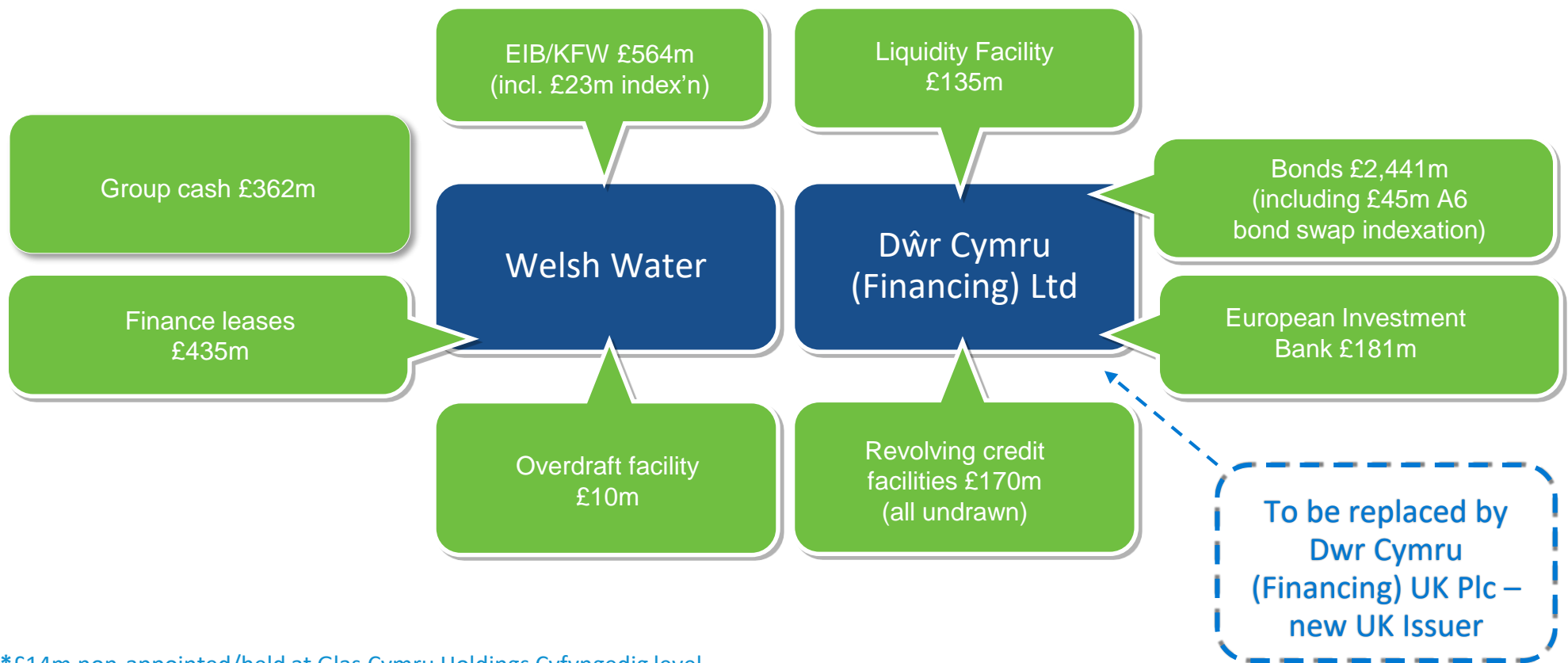
**Q&A**

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Appendices

Location: Llandegfedd reservoir

## Glas Cymru - financing structure 31 March 2019



\*£14m non-appointed/held at Glas Cymru Holdings Cyfyngedig level

## Financing: capital structure as at 31 March 2019

Rating	Class	Type	Interest rate %	Expected maturity	(£m)
AA/A2/A neg (Assured Guaranty wrap)	A1	Fixed	6.015	2028	350
	A4	RPI	3.514	2030	435
	A5	LPI	3.512	2031	141
	A6	Fixed/(RPI swap)	4.473/(1.35)	2057	145
A neg/A2 neg/A neg	B1	Fixed	6.907	2021	325
	B3	RPI	4.377	2026	211
	B4	LPI	4.375	2027	125
	B5	RPI	1.375	2057	72
	B6	RPI	1.859	2048	337
	B7	Fixed	2.500	2036	300
	Bonds				
Finance leases					435
European Investment Bank and KfW					744
Other debt					1
Gross debt					3,621
Accrued interest					51
Cash					(362)
Net debt					3,310

## Debt characteristics

Gross debt at 31 March 2019 (£m)	Fixed	Index-linked	Floating	Total	%age
Finance leases	-	380	55	435	12%
Bonds	975	1,466	-	2,441	67%
EIB/KfW	-	253	491	744	21%
Local authority debt	-	-	1	1	-
	975	2,099	547	3,621	100%
Swaps - floating to fixed	192	-	(192)	-	
Swaps - floating to index-linked	-	81	(81)	-	
Gross debt	1,167	2,180	274	3,621	
Free cash balances – floating to fixed	362	-	(362)	-	
Percentage	42.2%	60.2%	(2.4)%	100%	

### Reconciliation to Investor Report:

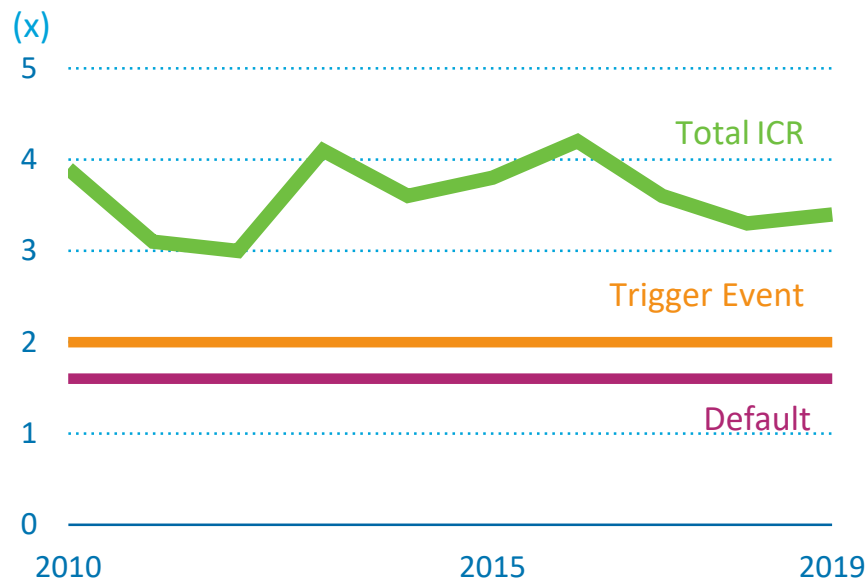
Gross debt as above	3,621
Accrued interest/adj. for non-appointed cash items	32
Cash	(262)
Net debt as at 31 March 2019	3,327



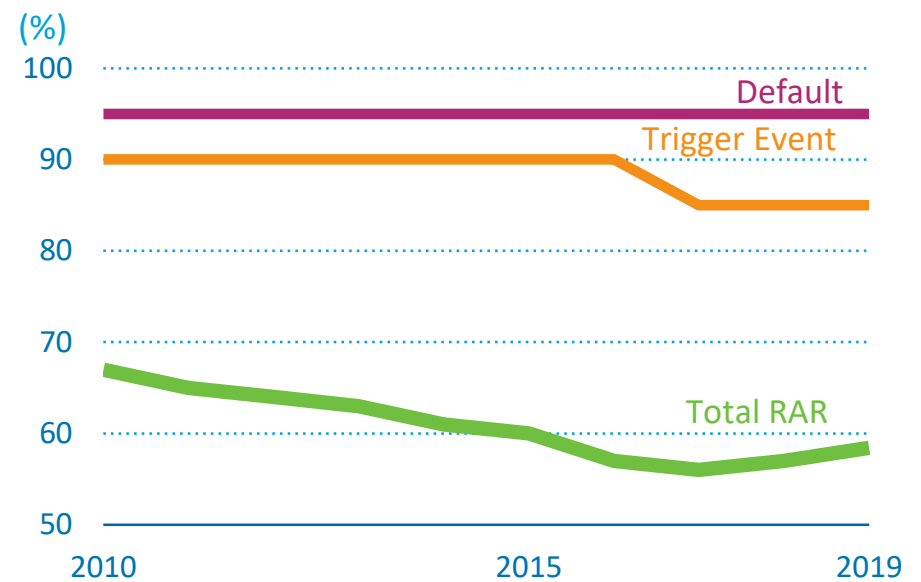
# Financial covenants - interest cover and gearing

- ICR of 3.4x and Gearing of 58% as at 31 March 2019

### Interest cover ratios (ICR)



### Gearing (RAR)



Significant headroom over trigger event default levels

## Fair market value movements on swaps

Derivatives as at (£m)	31/3/2019	31/3/2018	Movement
Floating to fixed rate interest rate swaps	(91)	(90)	(1)
Index-linked swaps	(340)	(312)	(28)
Energy Swaps	4	3	1
<b>Total MTM</b>	<b>(427)</b>	<b>(399)</b>	<b>(28)</b>

**Notes:**

1. Swap contracts are with Nat West Markets, HSBC and Lloyds
2. None of the swap contracts have break clauses or accretion paydowns
3. In addition to the MTM values above, there is an additional liability for cumulative indexation of £45m (2018:£40m) relating to the A6 bond swap

## Stringent Investor Protections — Covenant package

<b>Normal business</b> Operating within covenant package	<b>Trigger event step-in period</b> One or more financial or operational 'trigger' covenants breached	<b>Default standstill period</b> One or more events of default occur and continue	<b>Special administration</b>
<p>No creditor involvement</p>	<p>No customer dividends</p> <p>Option to commission independent review</p>	<p>Majority of secured claims frozen</p> <p>18 month opportunity to remedy situation or find a buyer for Welsh Water</p> <p>Liquidity facilities keep senior debt whole</p> <p>Security over shares of Welsh Water and holding Group can be enforced</p>	<p>Regulator applies to court to appoint a Special Administrative Receiver (SAR) to run business</p> <p>SAR acts in interest of creditors and customers</p>
<b>Financial covenants:</b>			
	<ul style="list-style-type: none"> <li>• Senior ICR: &lt;2.0</li> <li>• Senior PMIC: &lt;1.0</li> <li>• Gearing Ratio: &gt;85%</li> </ul>	<ul style="list-style-type: none"> <li>• Senior ICR: &lt;1.6</li> <li>• Senior PMIC: N/A</li> <li>• Gearing Ratio: &gt;95%</li> </ul>	