



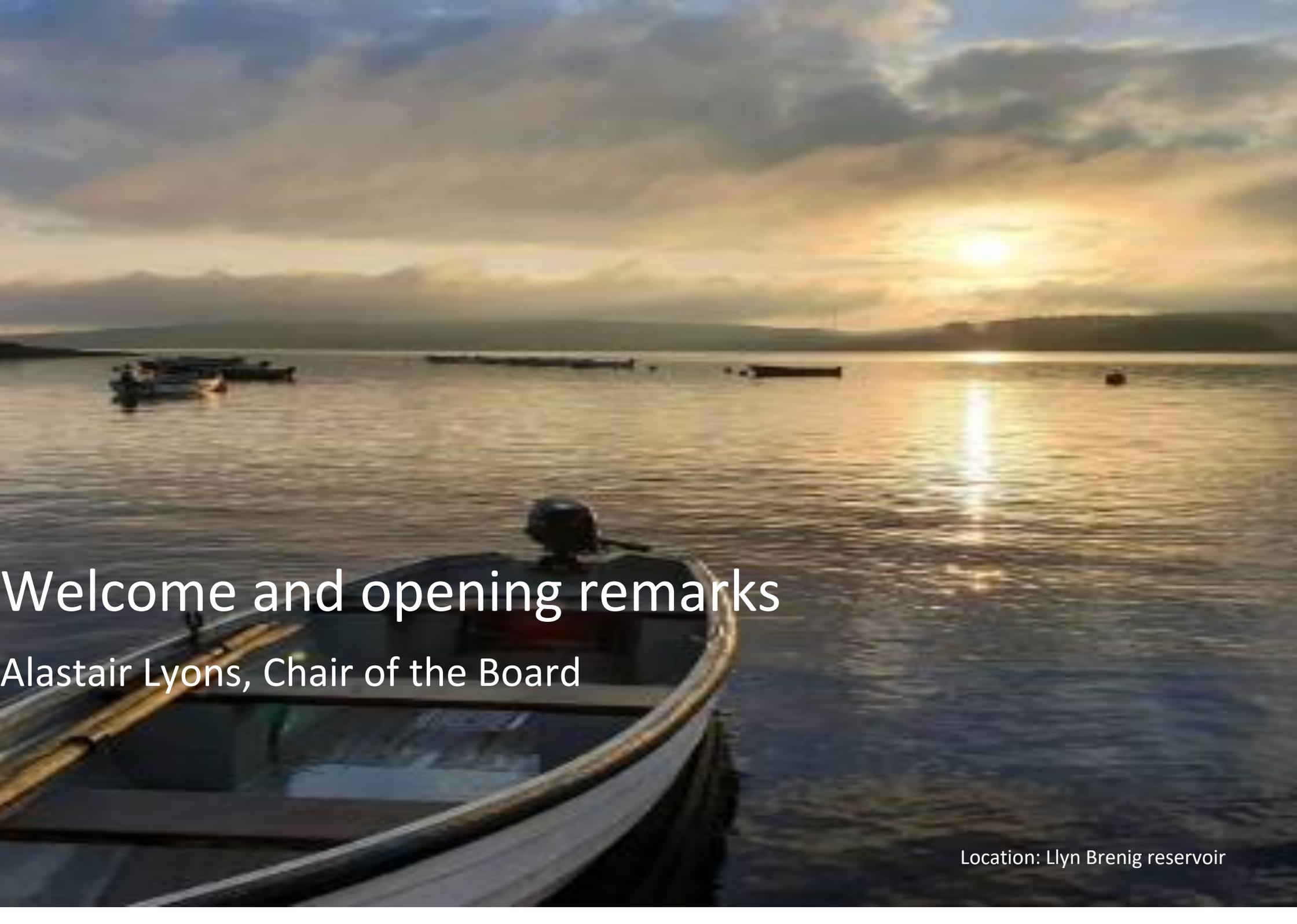
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Annual Investor Update July 2020

Location: Elan Valley reservoir

Agenda

- Welcome and opening remarks: Alastair Lyons, Chair of the Board
- PR19 and operational performance: Peter Perry, Chief Executive
- Financial results YE 31 March 2020: Mike Davis, Chief Financial Officer
- Cash and financing: Roger Morgan, Treasurer
- Q&A: Executive Team
- Closing remarks: Alastair Lyons, Chair of the Board

A scenic view of a reservoir at sunset. The sun is low on the horizon, creating a bright reflection on the water. In the foreground, the bow of a boat is visible, with a motor and some equipment. Other boats are scattered across the water in the distance. The sky is filled with soft, golden light from the setting sun.

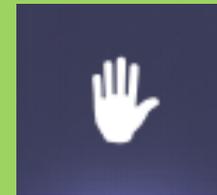
Welcome and opening remarks

Alastair Lyons, Chair of the Board

Location: Llyn Brenig reservoir

Housekeeping

- Microphones should be left on mute
- To ask a question, please use 'hand sign' on toolbar
(or unmute if you don't have this facility) and wait to be called
- After asking a question, please 'deactivate' hand sign and return to mute
- Slides have also been made available to view in the Investor Section of the Dwr Cymru Welsh Water website





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PR19 implications & operational performance

Peter Perry, Chief Executive

Location: Pen Y Garreg Dam, Elan Valley

PR19 implications

Highlights

- Average **bill reduction** of £25 in real terms
- **Halve** interruptions to supply
- Replace **7,000** lead pipes
- **400km** of river quality improvement
- Continue to **reduce flooding & pollution**
- **31%** self-generated energy by 2025



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- **31%** self-generated energy by 2025

Challenges

- £38m per year efficiency reductions in operating costs by 2025 (£10m pa for Retail Services)
- £1.9bn capital investment programme reflecting a 15% efficiency savings in unit costs by 2025
- Some targets universally applied
- New financial KPI regime where delivering plan would result in a £35m penalty over the period

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Challenges

- £38m per year efficiency operating costs by 2025 (Retail Services)
- £1.9bn capital investment plan reflecting a 15% efficiency saving unit costs by 2025
- Some targets universally applied
- New financial KPI regime where delivering plan would result in a £35m penalty over the period

Covid-19

- Per capita consumption
- Water quality
- Delay to efficiency initiatives
- Visitor numbers
- Bad debt

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- Average **bill reduction** of £25 in real terms
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- Replace **7,000** lead pipes
- **400km** of river quality improvement
- Continue to **reduce flooding & pollution**
- **31%** self-generated energy by 2025

Challenges

- £38m per year efficiency savings to meet operating costs by 2025 (excluding Retail Services)
- £1.9bn capital investment plan reflecting a 15% efficiency savings to meet unit costs by 2025
- Some targets universally applied
- New financial KPI regime where delivering plan would result in a penalty over the period

Covid-19

- Per capita consumption
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CMA appeal

- Anglian Water
- Yorkshire Water
- Northumbrian Water
- Bristol Water

Storms Ciara & Dennis – February 2020



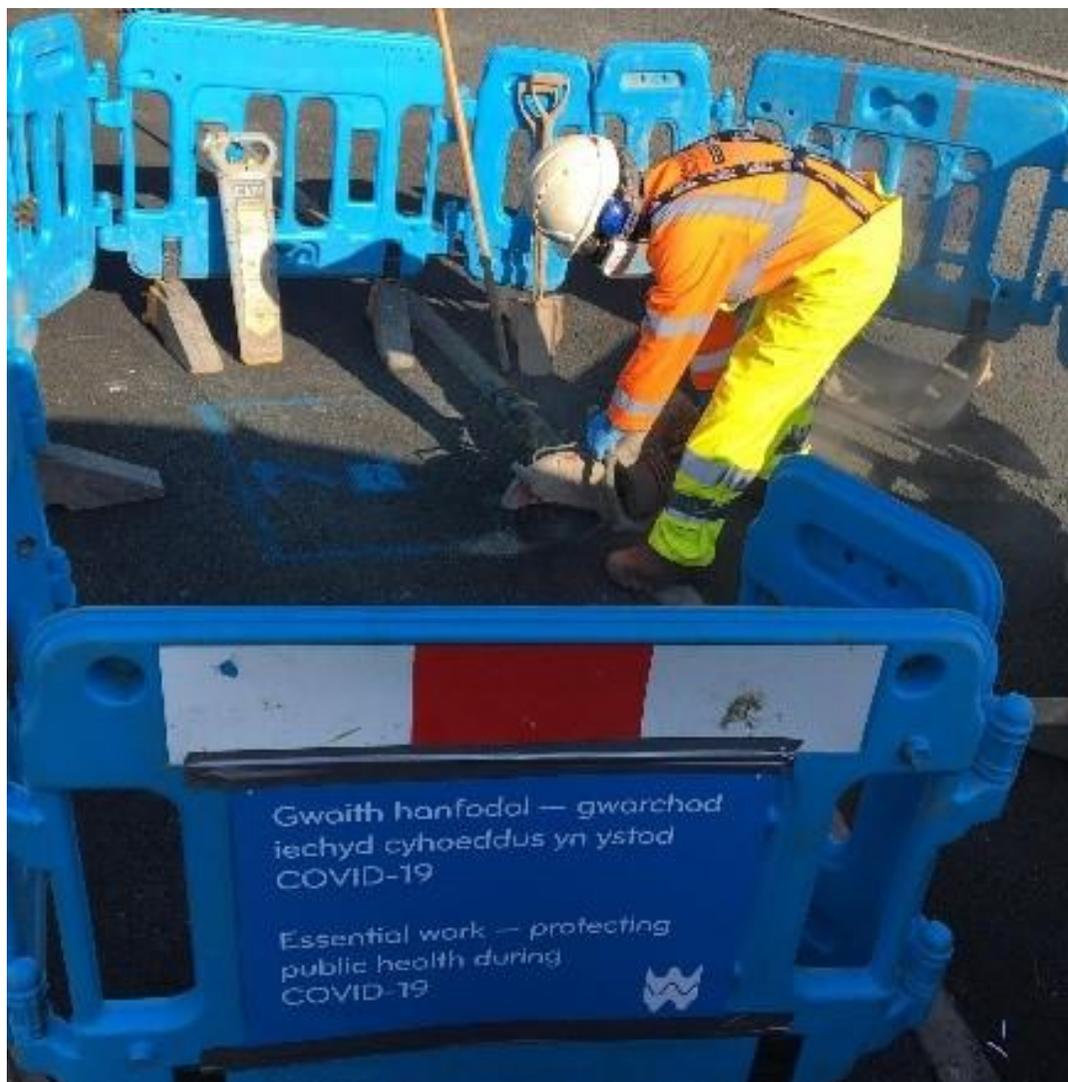
- **Significant Climate Events** – made worse by the compound effect not experienced before
- **Storm Dennis** – 40+ assets overwhelmed and major impact averted by fantastic effort of our people
- Wide recognition of the need for **long-term resilience**

Spring 2020 - Drought Conditions



- Significantly **lower rainfall** April and May + higher than usual temperatures
- Previously **unseen** sustained **demand** so early in the year – 25% up due to ‘lockdown’ (usually 800 ml/d peaking at 1,060 ml/d)
- Medium-/Long-term forecast of **below average rainfall**
- Wastewater challenge: **low river levels & heightened pollution risks**
- **No restrictions planned** on customer use as we have managed the drought to plan

Coronavirus – COVID-19



- Unprecedented circumstances — but business is stable
- Recognition that our services even more 'essential'
- Ongoing 24/7 **Gold Incident Response** — no major impact to date
- **Safety First** approach — appropriate PPE & working practices
- Preparing for the **long-term** — 2nd and successive wave plans in place
- Increased focus on **wellbeing & mental health**

Operational performance

Highlights include:

- Continued improvement in leakage(169.5 ml/d to 167.9 ml/d) - below FD target
- Stable environmental performance
 - 99.9% compliance with drinking water standards
 - Reduction in pollution and sewer flooding incidents to 336 (2019: 339) -below FD target
 - 44 'Blue Flags' for Welsh bathing waters
 - Water supply interruptions decreased to 14.7 mins (2019: 16.0 mins)
 - Carbon emissions cut by nearly 80% in the last decade
- £456m capital investment in 2020
- Broken through 100k target of social tariffs to help disadvantaged customers – new record of 121k
- 23% reduction in written complaints from 3,491 to 2,693



Customer Satisfaction

- **C-MeX – Ofwat’s new customer satisfaction measure. A shadow measure for the first year with DCWW scoring top position for 2019/20.**
- SIM - Ofwat’s ‘old’ customer satisfaction measure. DCWW ranked second in the sector.
- D-MeX – Ofwat’s new satisfaction measure for developers. DCWW score: 84.38/100. Peer comparatives not available. For Water UK’s levels of service measures , DCWW consistently ranked in the top quartile throughout AMP6.
- Top Water company in the UK Customer Satisfaction Index and 47th overall

In Summary

- Operational performance in 2019/20 has been strong despite experiencing severe storm weather related challenges. Overall, there were net ODI penalties of £3.2m.
- No restrictions planned for water use
- No plans to extend our range of commercial activities
- Wholesale expenditure delivered AMP6 allowed Totex
- Following a slow start to AMP6, the capital programme accelerated. Capex outturn was £456m for 2019/20 resulting in total spend of £1.9bn across the AMP (incl. Capex customer distributions) versus £1.7bn PR14 FD plan
- AMP6 Customer Distributions, made possible by DCWW's unique not-for-shareholder structure allowing all surpluses to be reinvested in the business, totalled £228m. (Comprising additional discretionary Capex of £186m and support to customers struggling to pay their bills of £42m)



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Financial results year ended 31 March 2020

Mike Davis, Chief Financial Officer

Location: Llyn Celyn reservoir

Cashflow and net debt

Year ended 31 March (£m)	2020	2019
Revenue: RPI(3.2%) + K(-0.5%) + WRFIM*(-1.9%) = 0.8%	779	782
Operational expenditure	(336)	(336)
EBITDA (before IRE)	443	446
Net interest payable (inc. indexation)	(172)	(180)
Capital expenditure (net of grants & contributions)	(456)	(452)
Net working capital movements	(15)	(12)
Increase in net debt	(200)	(198)

**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 in 2017/18*

Operational expenditure

Year ended 31 March	2020 £m	2019 £m
Employee costs	98	100
Power	46	44
Chemicals, materials, vehicles, plant & property costs	36	35
Other outsourced costs	34	41
Doubtful debts	25	21
Rates	24	24
Water & sewerage contractors	20	22
Regulators' charges	15	15
IT contracts	14	10
Other costs	9	8
Underlying operational expenditure	321	320
Exceptional costs (AMP7 restructuring)	11	-
Atypical costs (severe weather)	4	16
Total operational expenditure	336	336

Overall total opex in line with prior year absorbing inflation price increases

- Doubtful debt charge is £4.2m higher than last year with improved collections being more than offset by the impact of the Covid-19 pandemic
- Increased IT costs are the result of a licencing change which has been offset by a corresponding capex reduction

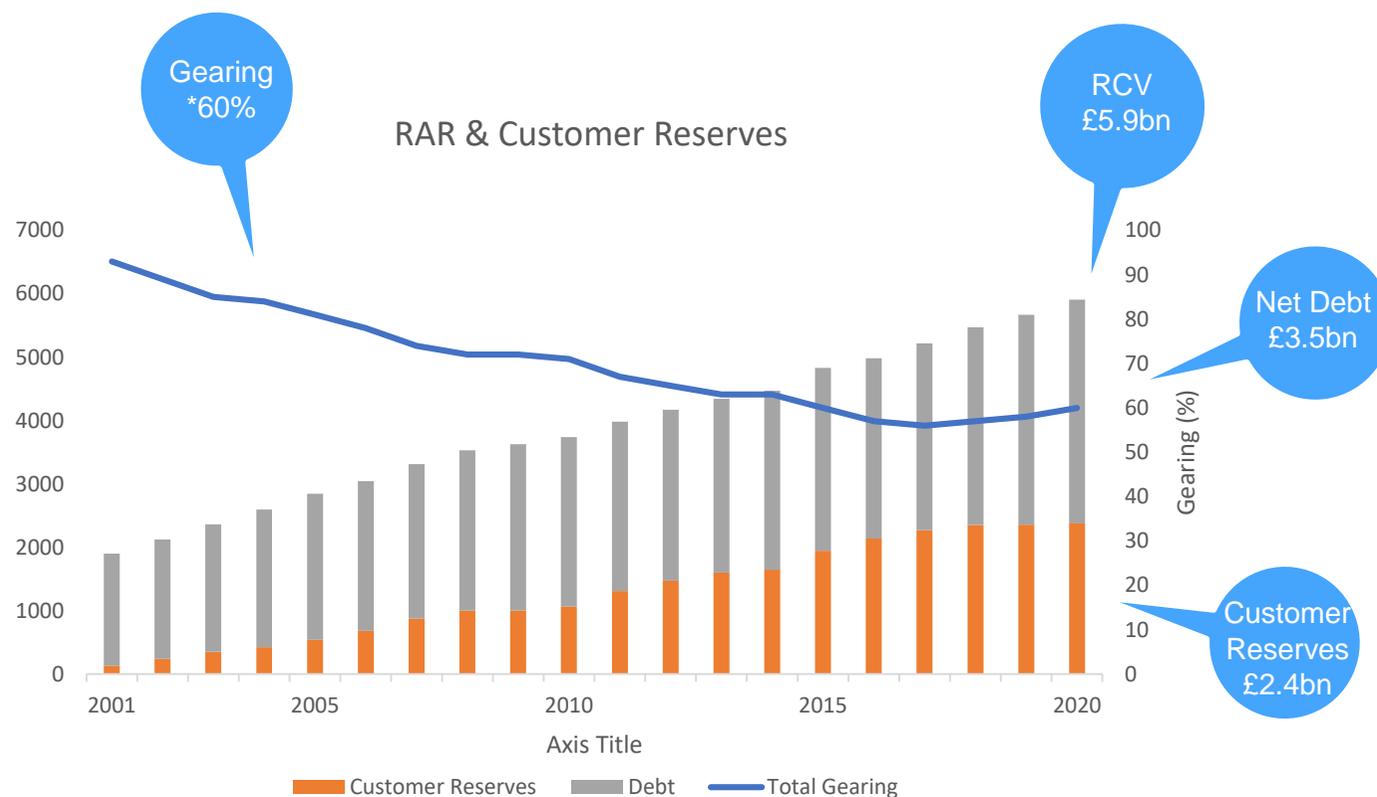
Net interest payable

12 months to 31 March (£m)	2020	2019
Bond interest	99	97
Finance leases, EIB & KfW loans	8	7
Net swap payments	24	30
Financial guarantee fees & other costs	5	5
RPI indexation of bonds & EIB loans	42	46
Interest receivable	(6)	(5)
Net interest payable	172	180
Interest capitalised (IAS 23)	(14)	(16)
Total per IFRS accounts	158	164

Low cost financing during the year (together with accompanying swap activity) resulted in a significant reduction of the effective nominal interest rate to 4.2% (2019: 5.7%)

- During the year £350m of fixed-rate bonds were swapped to index-linked. The bonds mature in March 2028
- Lower RPI of 2.8% (2019: 3.2%) resulting in reduced swap payments & indexation on bonds & loans.
- Indexation of £42m for bonds/EIB loans is split: Bonds £36m and EIB £6m

Customer reserves



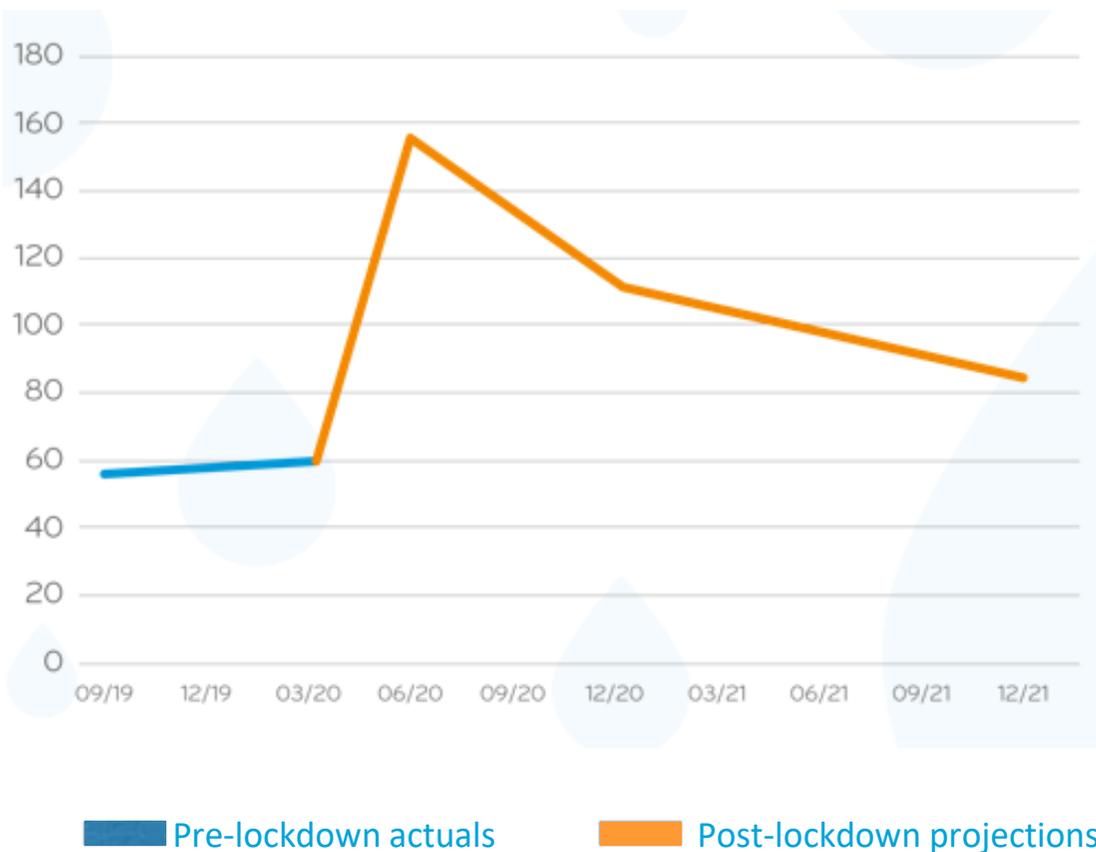
As at 31 March (£m)	2020	2019
Regulatory Capital Value (RCV)	5,906	5,671
Net debt	(3,516)	(3,316)
Customer reserves	2,390	2,355
Gearing	59.5%	58.5%

- Senior Interest Cover Ratio (ICR) of 3.5x as at 31 March 2020 (versus trigger level of <2.0x)
- Strong liquidity position of £837m as at 31 March 2020. Prudent investment policy for surplus cash continues with short-term deposit maturities and focus on bank credit ratings
- Significant customer reserves (£2.39bn as at 31st March 2020)

**Capital Incentive Scheme ("CIS") – £76 million reduction to RCV for correction of Ofwat error post-PR14 FD was applied as a midnight adjustment on 31 March 2020 adding circa 1% to gearing*

Financial Impact of Covid-19

Unemployment Claimant Count in Wales (000s)



Very uncertain economic outlook but our strong financial position means we are able to withstand even extreme financial shocks

Short-term (lockdown) impact

- 45,000 businesses closed – revenue loss of c. £5m per month
- Increased household demand – revenue gain of c.£2m per month
- Net revenues losses recoverable in 2022/23
- Some delays to cost efficiency programme
- Capital investment programme on track
- Minor impact on ODIs

Longer-term (recession) impact

- Unemployment in Wales could rise from 60,000 in March '20 to some 155,000 by the end of June .- impact on cash collection and doubtful debt charge
- Lower inflation - lowering income and RCV – partially mitigated by 74% of debt index-linked.

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Cash & financing

Roger Morgan, Treasurer

Location: Llwyn Onn reservoir



Financing activity

2019/20

Aug 2019	Establishment of UK-domiciled issuer – Dwr Cymru (Financing) UK Plc
Feb 2020	Debt Capital Markets - issuance of £300m B8 2033 and £200m C3 2026 bonds
Mar 2020	Completion of tender for £850m swap notionals, swapping from fixed rate coupons to RPI index-linked
May 2020	Renewal of the first of four bilateral RCF's maturing during 2020 - £60m BNPP RCF

- **AMP7 business plan funding requirements substantially met**

Forward planning

Jul - Nov 2020	Completion of the refinancing of the 3 remaining RCF bi-laterals
Oct / Nov 2020	Launch of STID proposal to further modernise Common Terms Agreement
Mar 2021	Repayment of maturing B1 £325m bond

- **Excellent ongoing financial markets access**

Liquidity – as at 31 March 2020

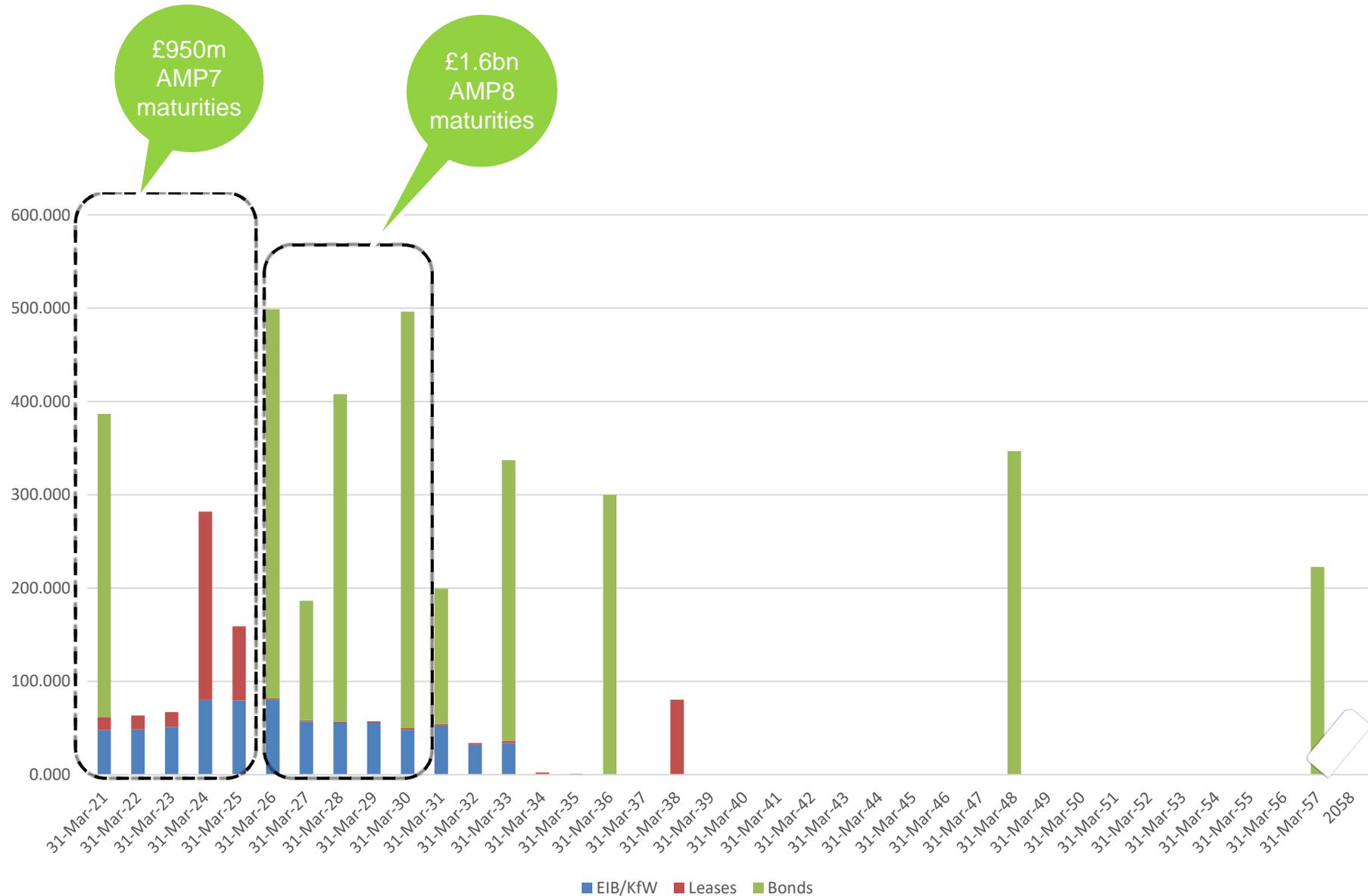
Liquidity as at 31 March 2020
£837m



Strong liquidity position of £837m at 31 March 2020 – substantially covering AMP7’s financing needs

- 4 bilateral revolving credit facilities all due for renewal during 2020 and are in the process of being extended for a further 2 years with an optional 1 year extension
- Prudent investment policy for surplus cash continues with deposit maturities limited to maximum of one month and focus on bank credit ratings.

Maturity profile of debt



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Q&A





Thank you

Location: Pontsticill reservoir

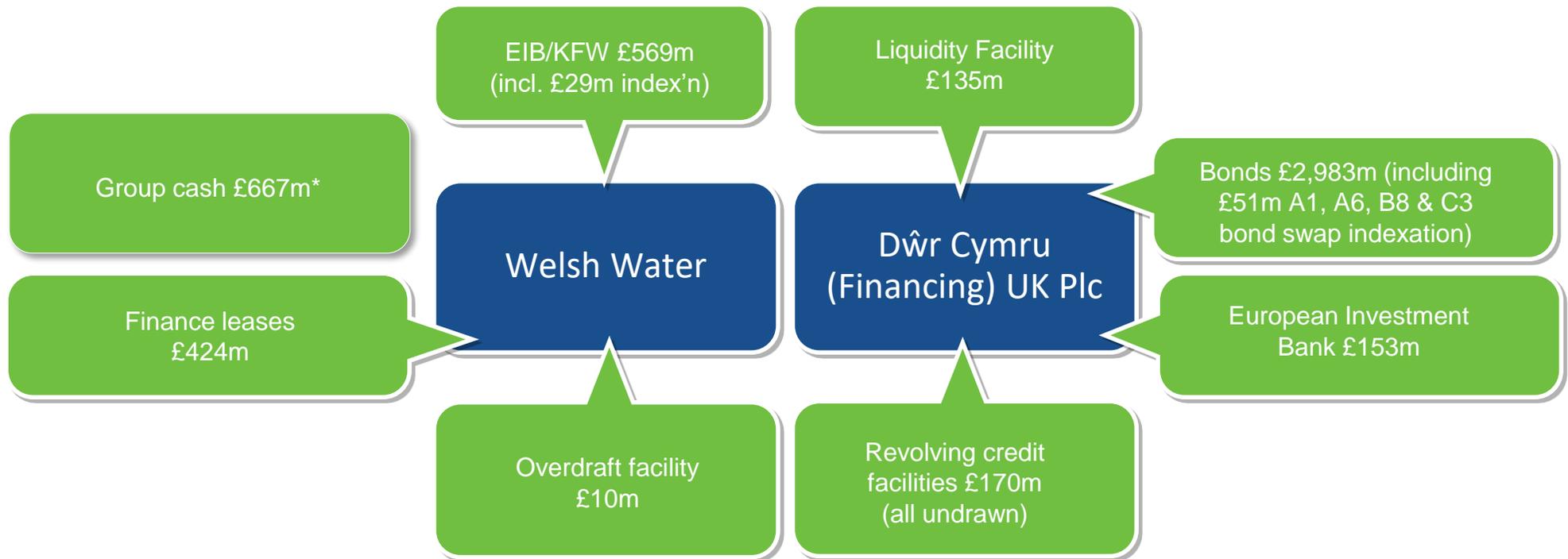
Appendices

Ofwat ODIs (outcome delivery incentives)

Measure	Penalty/ (Reward) (£m)
Water Mean Zonal Compliance	2.500
Customer acceptability (taste & odour)	1.860
Reliability of supply	0.527
Cat 3 pollution preventions	(0.517)
Properties flooded in year	(1.178)
Non-household customer satisfaction	-
Leakage	-
Asset resilience - water	-
Asset resilience – waste	-
Climate change	-
Net ODI penalties AMP7	3.192

- Mean Zonal Compliance performance reduced from 99.97% to 99.94% resulting in a £2.5m penalty. Mainly attributable to a number of taste and odour detections, that on investigation were caused by domestic plumbing issues.
- Customer acceptability (appearance, taste and odour) improved in the year to 2.80 contacts per 1,000 customers (2018/19: 3.28). Penalty of £1.86m as expected following setting of PR14 FD targets.
- Significant improvement in Reliability of Supply performance to 14.7 minutes (2018/19: 16.0 minutes). Still short of 12 minute target, incurring a £0.5m penalty.
- Penalties are offset by rewards for Preventing Pollutions (£0.5m) and Properties Flooded (£1.2m).
- Total net penalty for AMP6 (2015-20) £3.2m.

Glas Cymru - financing structure 31 March 2020



* Includes £12m held at Glas Cymru Holdings Cyfyngedig level

Financing: capital structure as at 31 March 2020

Rating	Class	Type	Interest rate %	Expected maturity	(£m)
AA/A2/A (Assured Guaranty wrap)	A1	Fixed/RPI swap	6.015/2.196	2028	351
	A4	RPI	3.514	2030	447
	A5	LPI	3.512	2031	145
	A6	Fixed/RPI swap	4.473/1.35	2057	147
A-/A3/A	B1	Fixed	6.907	2021	325
	B3	RPI	4.377	2026	217
	B4	LPI	4.375	2027	128
	B5	RPI	1.375	2057	74
	B6	RPI	1.859	2048	347
	B7	Fixed	2.500	2036	300
	B8	Fixed/RPI swap	1.375/(-1.691)	2033	301
	C3	Fixed/RPI swap	1.625/(-1.585)	2026	201
Bonds					2,983
Finance leases					424
European Investment Bank and KfW					722
Other debt					1
Gross debt					4,130
Accrued interest					53
Cash					(667)
Net debt					3,516

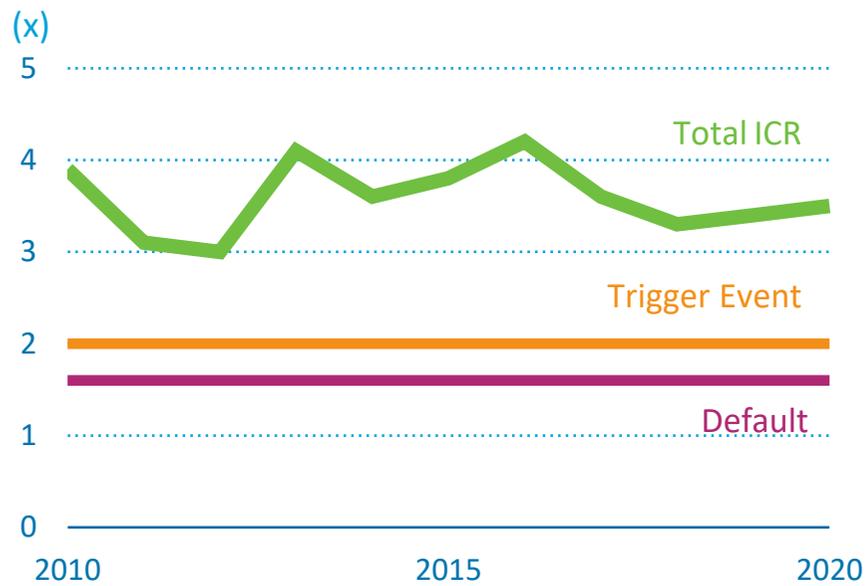
Debt characteristics

Gross debt at 31 March 2020 (£m)	Fixed	Index-linked	Floating	Total	%age
Finance leases	-	380	44	424	10%
Bonds	625	2,358	-	2,983	73%
EIB/KfW	-	259	463	722	17%
Local authority debt	-	-	1	1	-
	625	2,997	508	4,130	100%
Swaps - floating to fixed	192	-	(192)	-	
Swaps - floating to index-linked	-	45	(45)	-	
Gross debt	817	3,042	271	4,130	
Free cash balances – floating to fixed	668	-	(668)	-	
Hedged percentage including free cash balances	35.9%	73.7%	(9.6)%	100%	
Reconciliation to Investor Report:					
Gross debt as above				4,130	
Accrued interest/adj. for non-appointed cash items				53	
Cash				(667)	
Net debt as at 31 March 2020				3,516	

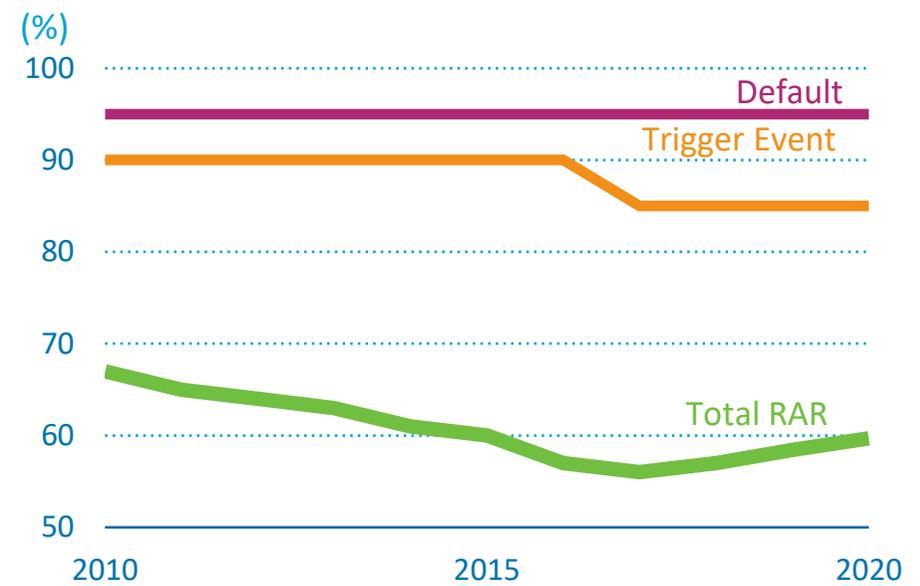
Financial covenants - interest cover and gearing

- ICR of 3.5x and Gearing of 60% as at 31 March 2020

Interest cover ratios (ICR)



Gearing (RAR)



Significant headroom over trigger event default levels

Fair market value movements on swaps

Derivatives as at (£m)	31/3/2020	31/3/2019	Movement
Floating to fixed rate interest rate swaps	(100)	(91)	(9)
Index-linked swaps	(373)	(340)	(33)
Energy Swaps	(2)	4	(6)
Total MTM	(475)	(427)	(48)

Notes:

1. Swap contracts are with BNP Paribas, HSBC, Lloyds and Nat West Markets
2. None of the swap contracts have break clauses or accretion paydowns

Stringent Investor Protections — Covenant package

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