



Dŵr Cymru
Welsh Water

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Glas Cymru Holdings Cyf

Glas Cymru Annual Investor Update

— 21st July 2021

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Any prospective purchaser of the securities in the Company is recommended to seek its own independent financial advice.

Agenda

- Welcome and opening remarks: Peter Perry, Chief Executive
- Financial results YE 31 March 2021: Mike Davis, Chief Financial Officer
- Cash and financing: Mike Davis, Chief Financial Officer
- Operational performance: Peter Perry, Chief Executive
- Closing remarks: Peter Perry, Chief Executive

Welcome and opening remarks

Peter Perry, Chief Executive

Our Vision

We will earn
the trust of
our customers
every day.

...is more
important
than ever

*Companies cannot afford to
have a transactional
relationship with society –
they must demonstrate mutual
benefit and make a greater
contribution to society.*

— Edelman Trust Barometer 2021

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Financial results year ended 31 March 2021,
cash and financing

Mike Davis, Chief Financial Officer

Group Cashflow and Net Debt

Period ended (£m)	Mar 2021	Mar 2020
Revenue	778	779
Operational expenditure	(329)	(336)
EBITDA (before IRE and COVID-19 exceptional item)	449	443
Atypical COVID-19 costs	(33)	-
Net interest payable (incl. indexation, excl. capitalisation)	(145)	(172)
Capital expenditure (net of grants & contributions)	(353)	(456)
Net working capital movements	(13)	(15)
Increase in net debt	(95)	(200)

Stable business with a substantial regulated capital programme

Operational Expenditure

Year ended 31 March	2021 £m	2020 £m
Employee costs	100	98
Power	45	46
Chemicals, materials, vehicles, plant & property costs	35	36
Bought-in services and other costs	38	34
Doubtful debts	21	25
Rates	27	24
Water & sewerage contractors	19	20
Regulators' charges	16	15
IT contracts	14	14
Other costs	13	13
Underlying operational expenditure	328	325
Exceptional items	34	11
Total operating expenditure	362	336

- Underlying opex, excluding exceptional items, is broadly in line with last year
- Overall, opex is £26m higher YOY, with exceptional items being largely due to COVID and atypical weather-related costs. A covid related bad debt provision of £13m is also included.
- £3m accrued for innovation programme introduced by OFWAT (as part of bought-in services costs) – to be recovered in revenue.

Underlying opex broadly in line with prior year

Covid-19 and Brexit Challenges

Slight underperformance during the year due to the impact of Covid-19

- The business proactively responded to the challenges of the Covid 19 pandemic, changing its working practices with the health and safety of all staff being a priority while continuing to provide this vital service. A Crisis Management Team was promptly established to receive and deal with all Covid related issues and continues to operate today.
- Revenues for YE 31 March 2021 were broadly in line with the prior year at £778 million (2020: £779 million). Growth and price increases were largely offset by Covid-19 costs (recoverable in 2022-23 under Ofwat's regulatory mechanism).
- Operating costs of £328 million were £3 million higher than the same period last year (c.1%) reflecting slight increases in inflationary cost pressures being partially offset by ongoing efficiency initiatives
- Exceptional costs of £34 million were related directly to Covid-19 and include:
 - Additional bad debt charges (£13 million), personal protective equipment (£8 million), increased hygiene measures and deep cleaning (£6 million) and an additional levy from National Grid following a drop in national demand (£3 million).

Well prepared for challenges arising from Brexit

- Further funding from the European Investment Bank is expected to cease going forward
- Strong credit ratings and low gearing enables us to access the bond markets for future funding, as needed
- Essential pipe materials and chemicals are sourced from EU suppliers. Through Water UK, we have participated in UK-wide initiatives in coordination with the UK government (through its "Project Defend" initiative) to ensure that any disruption as a result of the new relationship is minimised.

Resilient performance despite headwinds

Financing Activity

2020/21

May-Nov 2020	Refinance of 4 RCF bi-laterals (2 years +1 Year optional extension). £200m Total.
Feb 2021	Launch of STID proposal to further modernise Common Terms Agreement
Mar 2021	Debt Capital Markets - issuance of £300m C4 bonds due 2034 and repayment of £325m B1 bond
Apr 2021	Completion of tender for £300m swap notionals, swapping from fixed rate coupons to RPI index-linked

- **AMP7 business plan funding requirements completed**

Forward planning

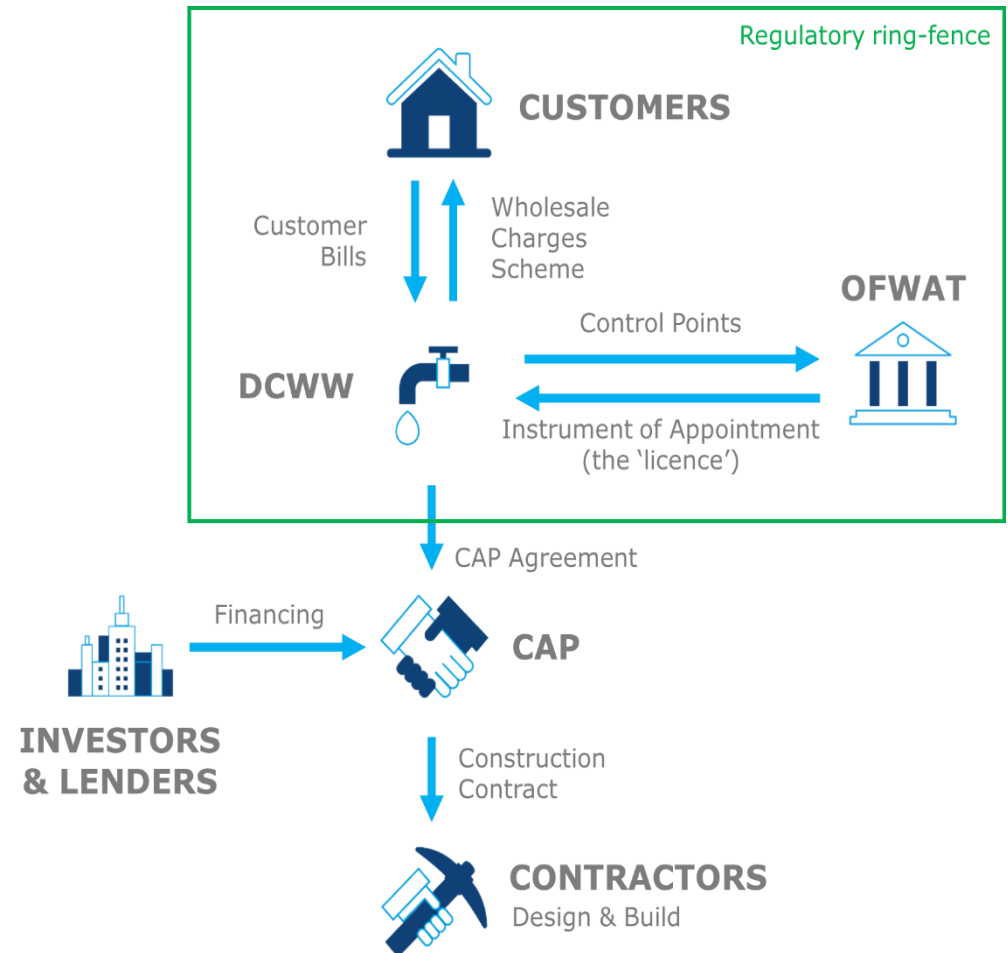
Jul - Sept 2021	Agree Libor reform changes to financial documents
Jul- Dec 2021	DPC – Finance Planning ahead of 2022 “Competitively Appointed Provider” tender

- **Maintaining excellent ongoing financial markets access**

Direct Procurement for Customers (DPC) Model

The Cwm Taff Water Supply Strategy

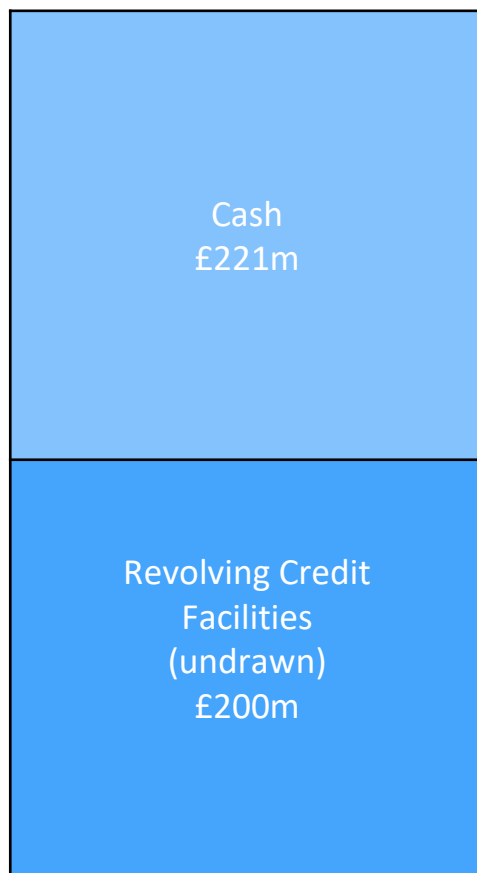
- Build a new WTW near Merthyr Tydfil with a capacity to produce 225 megalitres per day.
- Decommission 3 existing treatment works at Pontsticill, Llywnon and Cantref
- Deliver under a design/build/finance model. Operation and maintenance to be retained by DCC.
- Timetable: AMP7 (by 2025) - design/tender; AMP8 (by 2030) – build; AMP9 (by 2030) - operate
- Design and delivery teams comprise DCC, SME advisors and multiple stakeholders.
- Estimated cost £265m



* **CAP: Competitively Appointed Provider**

Resilience supported by substantial liquidity

Liquidity as at 31 March 2021
£421m

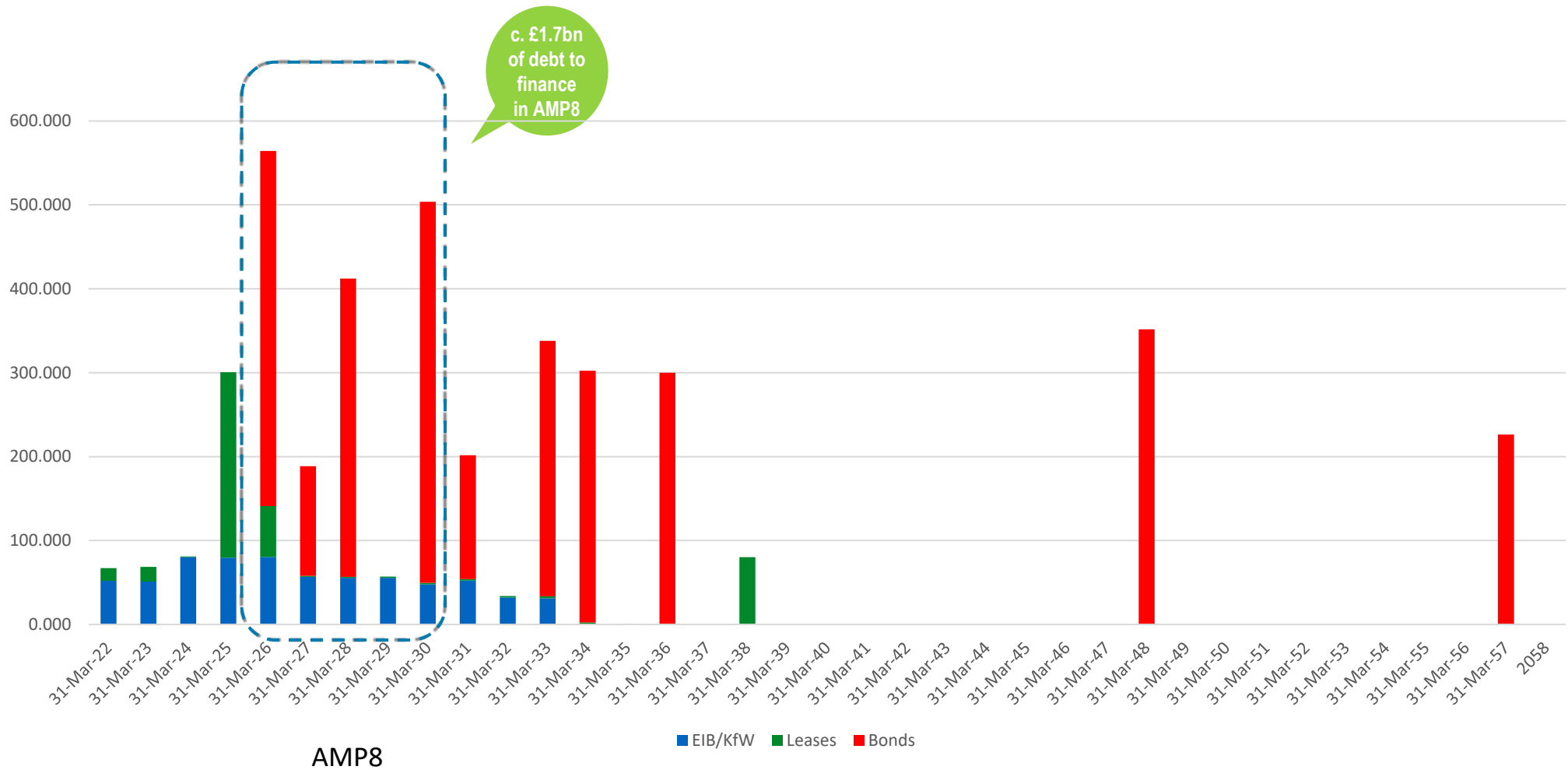


- £325m B1 bond maturity on 31 March 2021
- £300m C4 (junior) bonds issued post-31 March (9 April)
- 4 revolving credit facilities (“RCFs”) were renewed during 2020 and RCF overall size increased by £20m to £200m. RCFs now available until 2022 with a further 1 year extension options.
- Prudent investment policy for surplus cash continues with deposit maturities limited to maximum of one month and focus on strong bank credit ratings.

Strong liquidity position of £421m* at 31 March 2021 – financing needs met out to 2024/25

**Excluding £300m C4 bond issue on 9 April 2021*

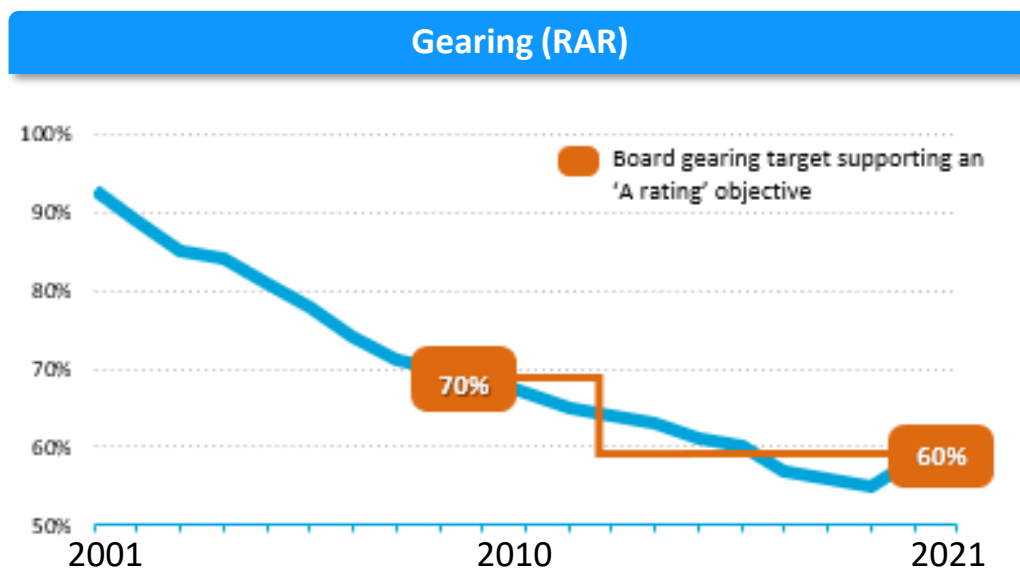
Debt Maturity Profile



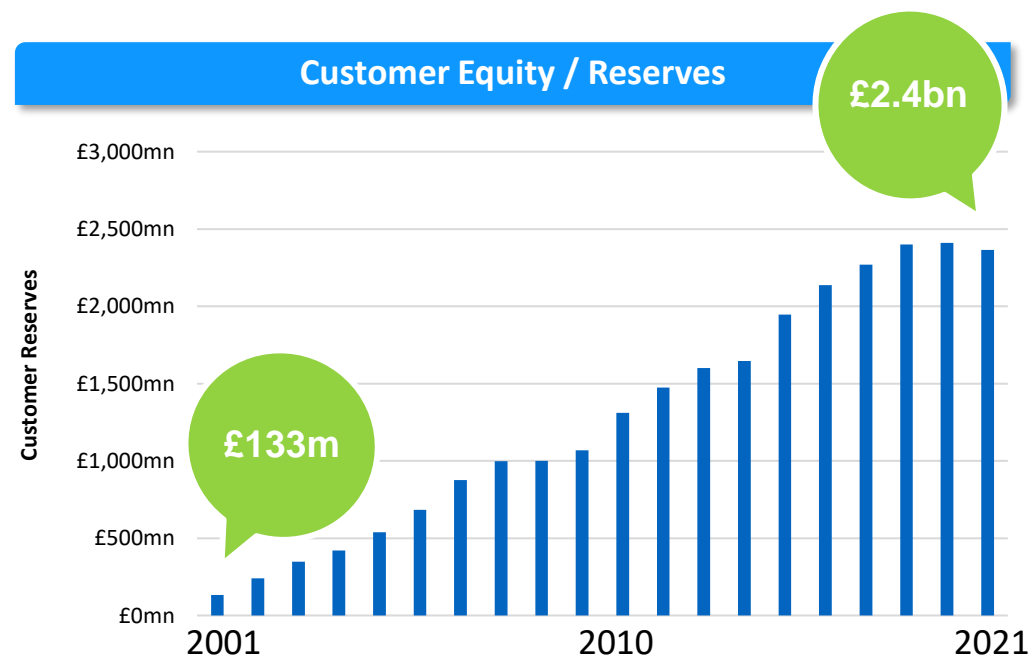
Note: Includes £300m C4 (junior) bond issue settled 9 April 2021

Maintaining Strong Financial Discipline

- Conservative group leverage target (around 60%)



- Significant customer equity/reserves (£2.4bn as at 31/03/2021)



Net Debt & Regulatory Gearing

(£m)	31 Mar 2021	31 Mar 2020	31 Mar 2019
Regulatory Capital Value	6,010	5,906	5,671
Net debt per investor report	(3,622)	(3,528)	(3,327)
Financial reserves	2,399	2,378	2,344
Gearing	60%	60%	59%

Interest Cover Ratio & Liquidity Position

- Interest Cover Ratio (ICR) of 3.6x as at 31 March 2021 (versus trigger level of <2.0x)
- Strong liquidity position of £421m* as at 31 March 2021. Prudent investment policy for surplus cash continues with short deposit maturities and focus on bank credit ratings

* Excludes £300m of C4 Bonds issued on 9th April 2021

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Operational performance

Peter Perry, Chief Executive

Location: Pen Y Garreg Dam, Elan Valley

Strong Customer Service Performance

- New measures of customer service introduced by Ofwat for AMP7. C-MeX now the primary customer satisfaction measure. Water companies ranked annually based on quarterly scores
- C-MeX – a single score combining two Ofwat surveys:
 - i. Customer Experience Survey – a customer satisfaction survey from a random sample of each water company’s customers; and
 - ii. Customer Service Survey – a customer satisfaction survey amongst a random sample of customers that have contacted each water company
- Performance payments: up to 6% of residential retail revenues awarded annually for companies that are above the ‘industry average’ score. Welsh Water can earn up to £3 million if we out-perform this average. A further incentive of up to 6% (£3 million equivalent for Welsh Water) is also awarded to the top 3 companies based on a combination of complaints performance and C-MeX ranking at financial year end

2020/21 Overall C-MeX Score							
	Q1	Q2	Q2 YTD	Q3	Q3 YTD	Q4	Year End
Company Score	85.20	83.43	84.38	86.07	84.95	85.77	85.15
Industry Average	82.82	80.18	81.53	81.93	81.65	81.51	81.62
Ranking	5th	4th	4th	2nd	4th	3rd	4th

A top quartile YE performance for C-MeX – Reward of £2.018m

Covid 19 - Our response...

- **Adapting working practices** and procedures (e.g. no shared vehicles, essential worker letters, closing visitor attractions)
- **£8 million** investment in **additional PPE**, sanitisers and face coverings to protect frontline colleagues
- **Homeworking** for over **2,000** colleagues
- **Support** and **monitoring** arrangements & supply chain/contractor compliance
- **Quarterly Health & Safety Days & joint site visits with Trade Union reps** to help reinforce 'good' behaviours
- **Consistent, clear communications** throughout the pandemic

Long-term Approach to Sustainability & Environment

- DCWW plans to achieve net zero carbon emissions by 2040 (with a 90% reduction in emissions by 2030). During the current AMP a further £21 million will be invested to become 35% energy self-sufficient by 2025, ultimately becoming 100% energy self-sufficient - or energy neutral - by 2050.
- To transform water and wastewater services, the Company has set aside a record budget of over £80 million for research and innovation over the next five years. Between now and 2040 it plans to innovate how it harnesses nature through its biodiversity plan, peatland restoration, wetland treatment and catchment management.
- Significant investment in renewable technology across the estate, including major investments in treatment works at Five Fords (Wrexham), Cardiff East and Cog Moors (Vale of Glamorgan) to install advanced anaerobic digestion facilities. The Group has committed to buying-in energy through green sources only – resulting in a carbon footprint reduction of nearly 80% since 2010
- Increased self-generation capacity for clean energy since 2015 (hydro, wind power, solar photovoltaics, anaerobic digestion facilities) – powers the equivalent of 36,000 homes. Five locations have installed solar “farms”



Five Fords Wastewater Treatment Works & Energy Park



Advanced Digestion Installation at Cardiff Wastewater Treatment Works



Wind turbines installed at both Nash & Swansea Wastewater Treatment Works

Demonstrates strong sustainability and environmental credentials

Capital programme... £353 million investment during 2020-21



£8.5 million in Hook & Johnson Wastewater Treatment Works (WwTW) in Pembrokeshire

£4 million to replace the spillway chute and stilling basin structures at Lower Carno Reservoir (Ebbw Vale)

£7 million to upgrade Lletty Brongu WwTW in Maesteg to remove phosphorus from the process

In Summary

- Operational performance in 2020/21 remains strong despite continuing pandemic and weather related challenges. Overall, there were net ODI penalties of £5.8m
- Top quartile performance for C-MeX: Primary Ofwat customer satisfaction measure
- 4* environmental performance assessment: first time ever achieved
- Majority of key targets achieved (water quality, leakage, supply interruptions)
- No plans to extend our range of commercial activities
- Capital programme on track to deliver against AMP7 total expenditure despite the pandemic
- £11m customer assist tariff programme provides support to 144,000 customers
- Health and safety – best ever performance



Thank you

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Appendices

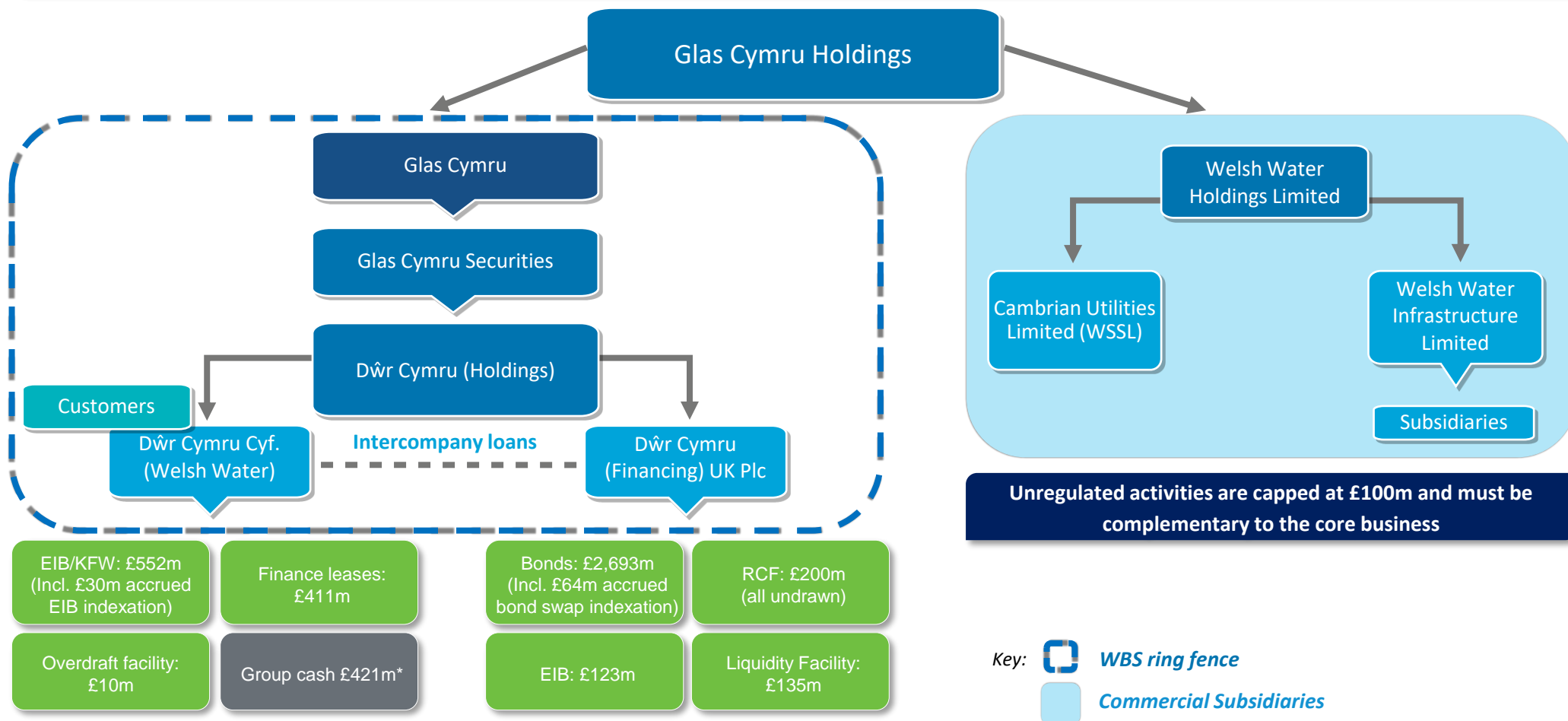


Welsh Water's Financing Structure Overview

- at 31st March 2021



- Dŵr Cymru Cyf. (Welsh Water) is a regulated water and wastewater utility
- Dŵr Cymru (Financing) UK Plc. is a special purpose financing vehicle which on-lends funds to Welsh Water
- All senior financial creditors have the benefit of a common package of structured finance covenants and security over shares of Welsh Water and other companies in the event of default
- Bonds are listed on the Luxembourg Stock Exchange
- Glas Cymru Holdings formed and Commercial subsidiaries outside WBS ring-fence on 1st March 2016



EIB/KFW: £552m (Incl. £30m accrued EIB indexation)	Finance leases: £411m	Bonds: £2,693m (Incl. £64m accrued bond swap indexation)	RCF: £200m (all undrawn)
Overdraft facility: £10m	Group cash £421m*	EIB: £123m	Liquidity Facility: £135m

Note: *£12m held at Glas Cymru Holdings Cyfyngedig level and £34m held in debt service reserve;

Financing: capital structure as at 31 March 2021

Rating	Class	Type	Interest rate %	Expected maturity	(£m)
AA/A2/A (Assured Guaranty wrap)	A1	Fixed/RPI swap	6.015/2.196	2028	355
	A4	RPI	3.514	2030	454
	A5	LPI	3.512	2031	148
	A6	Fixed/RPI swap	4.473/1.35	2057	151
A-/A3/A	B3	RPI	4.377	2026	220
	B4	LPI	4.375	2027	130
	B5	RPI	1.375	2057	75
	B6	RPI	1.859	2048	352
	B7	Fixed	2.500	2036	300
	B8	Fixed/RPI swap	1.375/(-1.691)	2033	304
BBB/Baa2/BBB+	C3	Fixed/RPI swap	1.625/(-1.585)	2026	203
Bonds*					2,693
Finance leases					411
European Investment Bank and KfW					675
Other debt					3
Gross debt					3,782
Accrued interest					49
Cash**					(221)
Net debt					3,610

*Excludes £300m of C4 (junior) bonds issued 09.04.2021

** Includes £12m cash held at GCHC level

Debt Characteristics

Gross debt as at 31 March 2021 (£m)	Fixed	Index-linked	Floating	Total	
Finance leases	-	380	31	411	11%
Bonds	300	2,393	-	2,693	71%
EIB/KfW	-	244	431	675	18%
Other debt	-	-	3	3	-
	300	3,017	465	3,782	100%
Swaps - floating to fixed	192	-	(192)	-	
Swaps - floating to index-linked	-	4	(4)	-	
Free cash balances - floating to fixed	221	-	(221)	-	
Gross debt	713	3,021	48	3,782	
Percentage	18.8%	79.9%	1.3%	100%	

Fair Market Value Movements on Swaps

Derivatives as at (£m)	31 Mar 2021	31 Mar 2020	Movement
Floating to fixed rate interest rate swaps	(85)	(99)	14
Index-linked swaps	(404)	(374)	(30)
Energy Swaps	8	(2)	10
Total MTM	(481)	(475)	(6)

Notes:

1. Swap contracts are with Barclays, BNP Paribas, HSBC, Lloyds and NatWest Markets
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 £64m (Mar 2020: £45m) relating to the A1, A6, B8 & C3 bond swaps

Ofwat ODI's (Outcome Delivery Incentives) Performance Commitments with Reward/Penalties for 2020/21

Ofwat will be reviewing ODIs and if they accept some of our Covid-19 impacts they may adjust some penalties

Table 1 - Performance Commitment – Common Measures			2020/21 Outturn	2019/20 Outturn	2020/21 FD Target (Final Determination)	2020/21 Vs FD Target	Penalty or Reward 2020/21 (£m)
C – Calendar year							
Wt1	Water Quality Compliance (CRI) (%)	c	4.17	3.97	0	X	-1.059
Wt2	Water supply interruptions (min:secs)		11:05	17:46	06:30	X	-2.796
Wt4	Mains repairs		140.2	138.8	138.9	X	-0.133
En3	Pollution incidents (per 10,000km of Sewer)	c	21.46	26.20	24.51	✓	0.543
En4	Leakage (% reduction) – 3 year average		2.2	N/A	1.8	✓	0.114
En5	Per capita consumption (% reduction) – 3 year average		-5.2	N/A	1.0	X	-1.310
Rt1	Internal sewer flooding (per 10,000km sewer connections)		2.05	1.75	1.68	X	-1.581
Rt3	Sewer collapses (per 1,000km sewer)		7.69	7.23	7.20	X	-0.069
Sv1	C-MeX – Company Measure		85.15	82.47			2.018
Sv2	D-MeX		82.69	84.38			-0.354

Table 2 - Performance Commitment – Bespoke Measures			2020/21 Outturn	2019/20 Outturn	2020/21 FD Target (Final Determination))	2020/21 Vs FD Target	Penalty or Reward 2020/21 (£m)
C – Calendar year							
Wt3	Acceptability of drinking water (contacts per 1,000 population)	c	2.70	N/A	2.24	X	-1.107
En7	Bioresources product quality %		96.1	N/A	95.0	✓	0.454
Ft4	Surface water removed from sewers (m3)		38,473	N/A	141,900	X	-0.050
Ft10	Community education		5,834	N/A	70,000	X	-0.112
Ft11	Visitors to recreational facilities		294,763	N/A	560,000	X	-0.530
Rt2	External sewer flooding on customer property (per 10,000km sewer connections)		25.82	30.85	26.70	✓	0.660
Rt4	Total complaints (per 10,000 connections)		122.1	N/A	86.5 / UQ	X	-0.054
Sv4	Business customer satisfaction		4.4	N/A	4.5	X	-0.125
Bl4	Unbilled properties (Voids) %		4.03	N/A	3.90	X	-0.340
Total							-5.831

Outcomes

Fair Bills for everyone

Put things right if they go wrong

Resilience

Safe Clean Water for all

Create a Better Future for all Communities

Safeguard our Environment for Future Generations

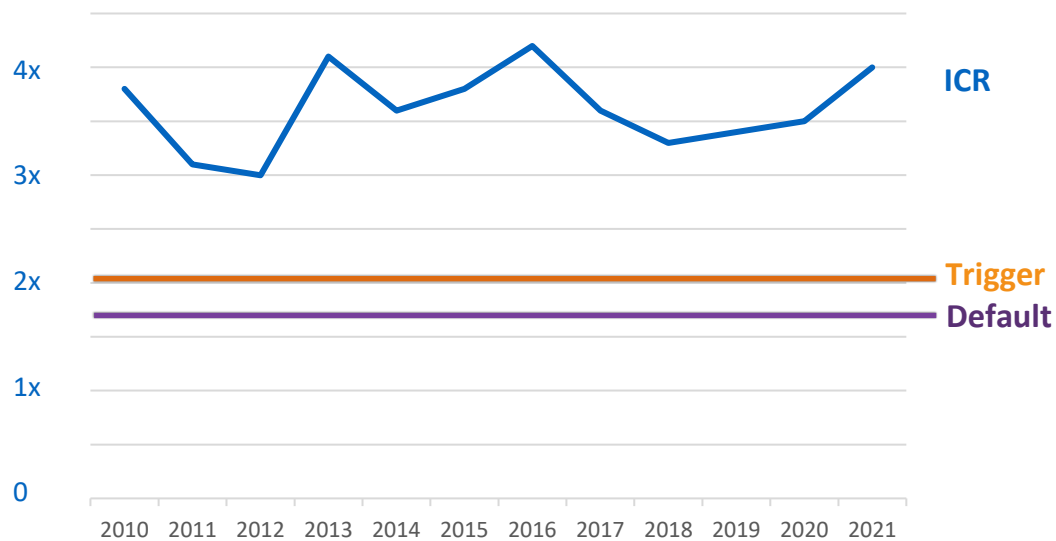
Colleague Promises

Personal Service that's right for you

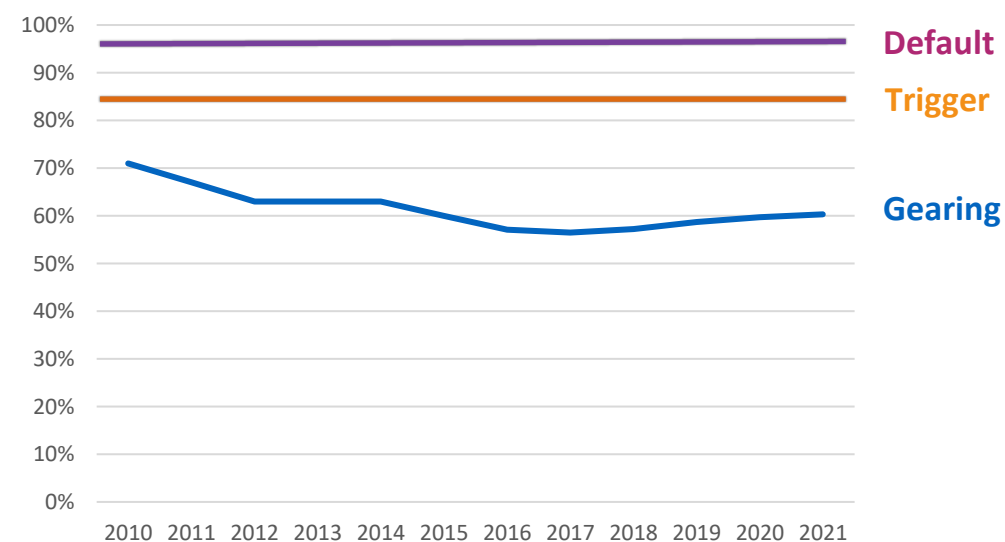
Stringent Investor Protections

- Comprehensive protections provided to investors through the Whole Business Securitisation (“WBS”) structure
- Tightened by amendment to the Gearing Trigger Event covenant to 85% (from 90%)
- ICR of 3.6x and Gearing of 60% as at 31st March 2021

Interest cover ratios (ICR)



Gearing (RAR)



Significant headroom over trigger event default levels

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% 	