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Location: Llandegfedd Reservoir

Dŵr Cymru Welsh Water

Debt Investor Presentation

March 2021

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Contents

1) Introduction & Business Overview.....	Page 4
2) The Welsh Water Difference.....	Page 7
3) Financing & Liquidity.....	Page 15
4) Summary.....	Page 20
5) Appendices.....	Page 23



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1) Introduction & Business Overview

Location: Pen Y Garreg Dam, Elan Valley

Introduction to Dŵr Cymru Welsh Water

About us

- Dŵr Cymru Cyf. (Welsh Water) is the regulated water and sewerage company serving most of Wales and adjoining parts of England

Ownership

- Owned by Glas Cymru since 2001
- 'Not-for-shareholder-dividend' Group
- No shareholders – financial surpluses are reinvested in the business resulting in a sector-leading Gearing position and utilisation of reserves to benefit customers

Key Statistics

- 5th largest company in Wales by turnover, as at 16 Dec 2020*
- 847 mega litres of water supplied daily
- Over 3,500 people employed
- 27,733km of water mains; over 36,000km of sewers; 834 sewage treatment works; 77 impounding reservoirs, 462 service reservoirs
- RCV £6.0bn as at 30th September 2020

Customer base as at 30th September 2020

- Serving 1.5m (92%) households
- Around 110,000 (8%) business customer sites*
- Approx. 100 business customers eligible for retail competition

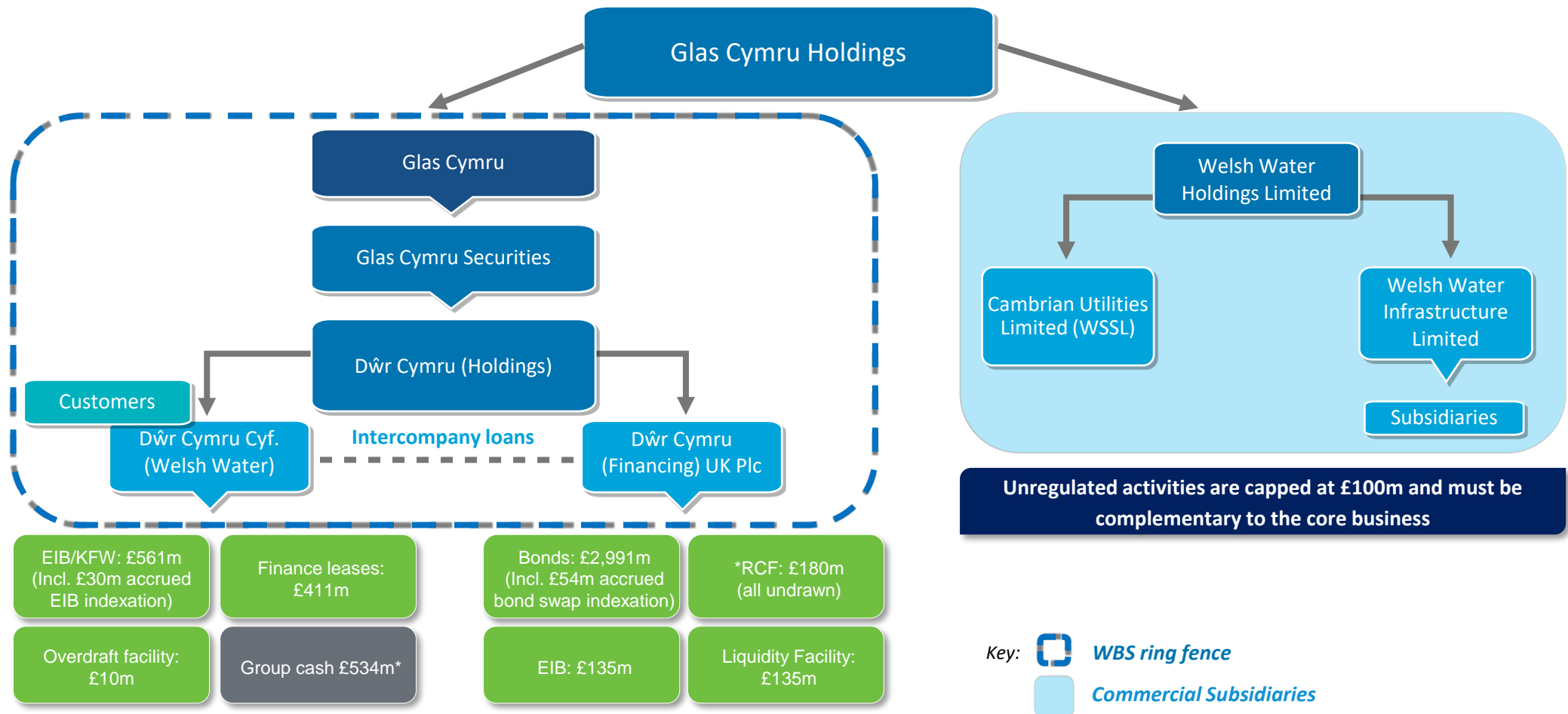


*Source: Business Live: <https://www.business-live.co.uk/economic-development/biggest-firms-wales-19439338>; Welsh Water Annual Report 2020

Welsh Water's Financing Structure Overview - at 30 September 2020



- 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 Commercial subsidiaries outside WBS ring-fence on 1st March 2016



EIB/KFW: £561m (Incl. £30m accrued EIB indexation)	Finance leases: £411m	Bonds: £2,991m (Incl. £54m accrued bond swap indexation)	*RCF: £180m (all undrawn)
Overdraft facility: £10m	Group cash £534m*	EIB: £135m	Liquidity Facility: £135m

Note: *£11m held at Glas Cymru Holdings Cyfyngedig level and £48m held in debt service reserve; RCF increasing to £200m in Nov-21

A scenic view of the Upper Lliw Reservoir in Velindre, Wales. The image features a prominent stone structure with a domed top, likely a water tower or part of the reservoir's infrastructure, situated on a stone wall overlooking the water. The background shows rolling hills under a clear blue sky.

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Location: Upper Lliw Reservoir, Velindre

2) The Welsh Water Difference

Welsh Water's Key Investment Highlights

1

Not-for-shareholder dividend business model

2

Impressive financial discipline

3

Resilient performance despite Covid-19 and Brexit

4

Strong customer service performance

5

Long-term approach to sustainability & environment

6

Experienced management team





Not-for-Shareholder-Dividend Business Model



- As a company wholly or mainly in Wales the company falls under the jurisdiction of the devolved Welsh Government
- The not-for-shareholder-dividend model allows the Group to invest profits to deleverage and to benefit customers
- Ownership model is aligned with the interests of both debt investors and customers

Benefits to our Investors

Stronger Position vs. Peers as we move to AMP7 Challenges

Without shareholders, Dŵr Cymru is in a stronger position to invest to meet the regulatory challenges of AMP7 than its peers

Lower Balance-Sheet Leverage than Peers & Ample Gearing Headroom

Welsh Water has significantly reduced leverage, where debt represented about 60.4% of the Group's RCV (at end of September 2020), (March 2020: 59.5%) compared to the peer average of c.80%. We have many refinancing options, balanced by more than ample gearing headroom, reflected in our strong credit ratings

Strong Commitment to Investment in Infrastructure

We plan to retain leverage at around 60% and invest in our assets and service – this will improve future operational performance and ensure the resilience of our assets

Benefits to our Customers

Growth in Social Tariffs

At 60.4% gearing, some of the additional funds generated can be returned to customers to help those who genuinely struggle to pay their water and sewerage bills. Just over 130,000 of our customers are now receiving assistance through Social Tariffs (and continuing to grow)

Constant Improvement in Customer Experience

The money received from customers is reinvested to maintain and improve our assets and services, in line with our commitment to customers in our Welsh Water 2050 strategy

Protecting and Sustaining the Environment

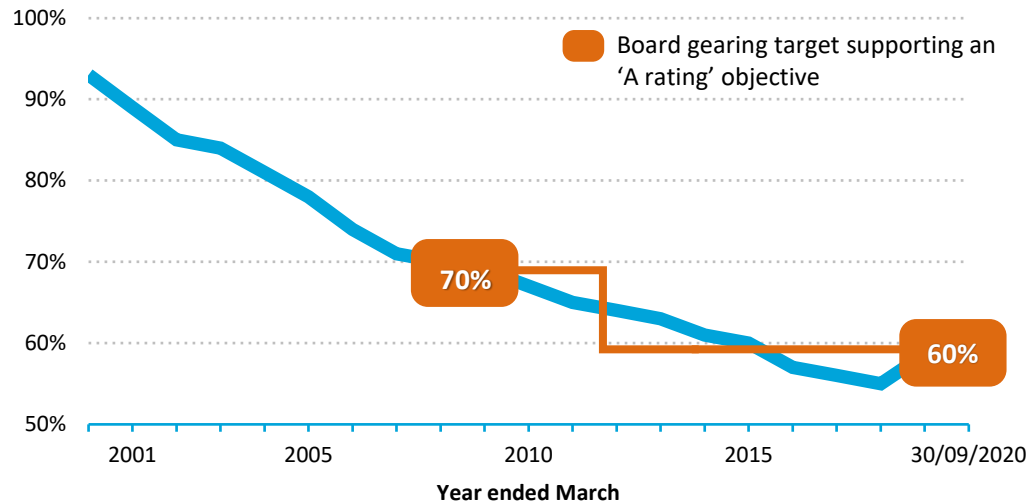
Money received through bills helps to improve sewerage services and protect the environment, not just now, but for years to come



Impressive Financial Discipline

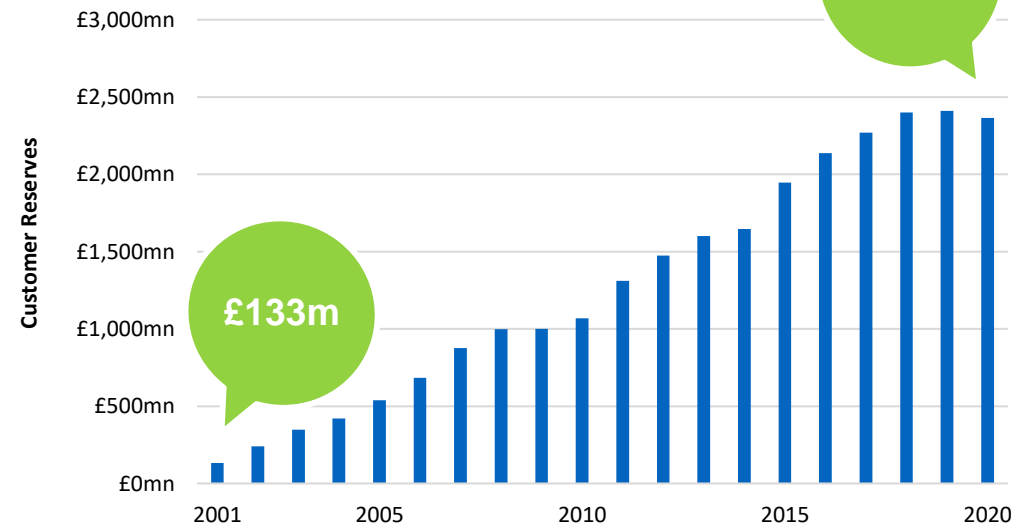
- Conservative group leverage target (around 60%)

Gearing (RAR)



- Significant customer equity/reserves (£2.4bn as at 30/09/2020)

Customer Equity / Reserves



Net Debt & Regulatory Gearing

(£m)	30 Sep 2020	31 Mar 2020	30 Sep 2019	31 Mar 2019
Regulatory Capital Value	5,973	5,906	5,821	5,671
Net debt	(3,607)	(3,528)	(3,410)*	(3,327)
Financial reserves	2,366	2,378	2,411	2,344
Gearing	60%	60%	59%	59%

Interest Cover Ratio & Liquidity Position

- Interest Cover Ratio (ICR) of 3.5x as at 31 March 2020 (versus trigger level of <2.0x)
- Strong liquidity position of £714m* as at 30 September 2020. Prudent investment policy for surplus cash continues with short deposit maturities and focus on bank credit ratings

*Excluding debt service reserves of £48m as at 30 September 2020

*Net debt at 30/09/19 includes £10m of cash held at Group level

Covid-19 and Brexit Challenges

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

- Revenues in the six months to 30 Sept-20 were £12 million lower than last year, principally as a result of reduced overall water usage during lockdown in spring/early summer plus the temporary suspension of standing charges for business customers deemed non-essential
- Operating costs of £153 million were £5 million lower than the same period last year reflecting savings as a result of a move to homeworking for employees, along with a lower underlying bad debt charge
- Exceptional costs of £17 million were related directly to Covid-19 and comprise of:
 - Additional bad debt charges (£7 million), personal protective equipment (£6 million), deep cleaning (£1 million) and an additional levy from National Grid following a drop in national demand (£2 million).
- For the six months to 30 Sept 2020 the Group's total bad debt charge was £13 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

4 Strong Customer Service Performance

- New measures of customer service introduced by Ofwat for PR19. From 1 April 2020, the primary customer satisfaction measure is C-MeX
- C-MeX is 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 those customers who have contacted their water company
- Water companies are now ranked annually based on quarterly scores
- Performance payments: up to 6% of residential retail revenues are awarded annually for companies that are above the ‘industry average’ score. Welsh Water can therefore 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 the end of the financial year

2020/21 Overall C-MeX Score					
	Q1	Q2	Q2 YTD	Q3	Q3 YTD
Company Score	85.20	83.43	84.38	86.07	84.95
Industry Average	82.82	80.18	81.53	81.93	81.65
Ranking	5th	4th	4th	2nd	4th

A top quartile YTD performance for C-MeX



5 Long-term Approach to Sustainability & Environment

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- 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) – generation powers the equivalent of 36,000 homes. Five locations have installed solar “farms”
- 2035 target that renewable energy will supply 35% of the energy needed to provide services to our customers. Additional £21 million of investment in energy efficiency/renewable energy planned to meet this target by 2035*
- £3 million of energy efficiency and renewable generation investment during 2019-20, Reduced grid imports by ~5.4GWh per year. £37.2 million invested during AMP6, grid energy usage reduced by 54.8GWh per year



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

6 Experienced Management Team

Welsh Water boasts a strong and well-experienced management team



Alastair Lyons CBE

Joined the board as a Non-Executive Director in May 2016 before becoming Chairman in July 2016

- Following an extensive executive career in financial services, Alastair has over 20 years' experience as a Non-Executive Chairman of both listed and private companies including at Admiral Group, Towergate Insurance, and Serco, and as Deputy Chairman of Bovis Homes and as Senior Independent Director at Phoenix, the life assurance consolidator. Alastair is currently Non-Executive Chairman of the Harworth Group plc, Vitality UK, AECS – the Admiral Group's European Holding company and the Eaton House Schools Group.



Peter Perry

Chief Executive Officer – since April 2020, Formerly Managing Director – from October 2017

- Appointed Operations Director in July 2006, Peter has a civil engineering background and was formerly the COO for United Utilities Operational Services (UUOS), having previously been the Operations Director for UUOS with responsibility for the operational contract with Welsh Water and UUOS's water interests in Scotland and Ireland. Prior to UUOS he had worked for Welsh Water for over 20 years. Pete is Chair of Business in the Community Cymru and a Member of the Water UK Board.



Mike Davis

Chief Financial Officer – in post since January 2020

- Mike previously held the positions of Director of Strategy and Regulation and Financial Controller at Welsh Water, with a focus on regulatory price reviews and competition. He has previous experience in the Media, ICT and Mining industries including as Finance Director for two private equity start-up businesses. Mike has been a Non-Executive Director at RCT Homes, a registered social landlord, and a Director of UK Water Industry Research.



Graham Edwards

Senior Independent Director - in post since October 2013. SID since July 2020

- Graham is currently Chief Executive Officer of Wales & West Utilities. He has significant senior management experience in the utility sector running electricity and water businesses with South Wales Electricity, Hyder and Thames Water. Prior to utilities he held senior positions across a range of manufacturing businesses, including engineering, production and HR. Graham is also a Non-Executive Director of The University of South Wales.



■ Debra Bowen-Rees



■ Prof. Tom Crick MBE



■ John Warren

■ Jane Hanson

■ Joanne Kenrick



Non-Executive Directors

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3) Financing & Liquidity

Location: Alwen Water Treatment Works

Group Cashflow and Net Debt

Period ended (£m)	Sep 2020	Mar 2020	Mar 2019
Revenue: RPI(3.2%) + K(-0.5%) + WRFIM*(-1.9%) = 0.8%	386	779	782
Operational expenditure (inc. COVID exceptional items)	(170)	(336)	(336)
EBITDA (before IRE)	216	443	446
Net interest payable (inc. indexation, excl. capitalisation)	(74)	(173)	(180)
Capital expenditure (net of grants & contributions)**	(187)	(456)	(452)
Net working capital movements	(31)	(15)	(12)
Increase in net debt	(81)	(200)	(198)

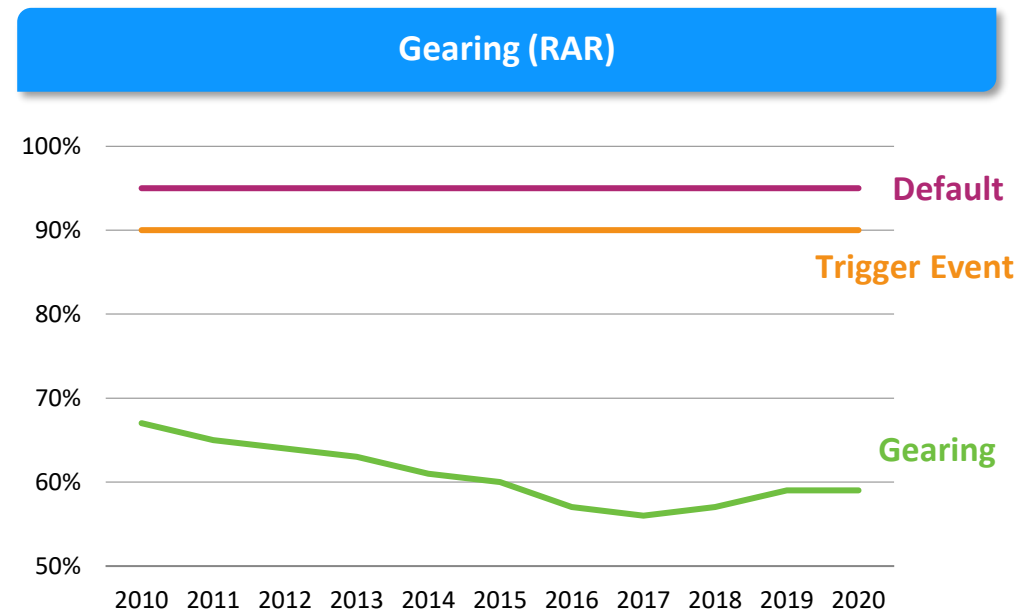
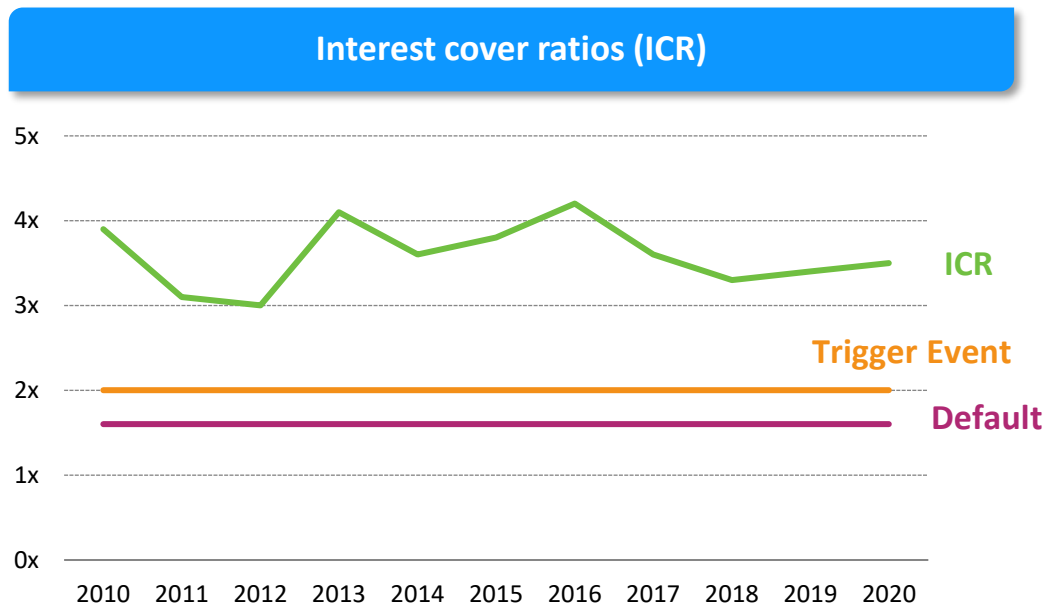
* Wholesale revenue incentive forecasting incentive mechanism

**Includes atypical costs of £3 million (severe weather costs) and £5 million (COVID-19 costs)

Stable business with a substantial regulated capital programme

Stringent Investor Protections

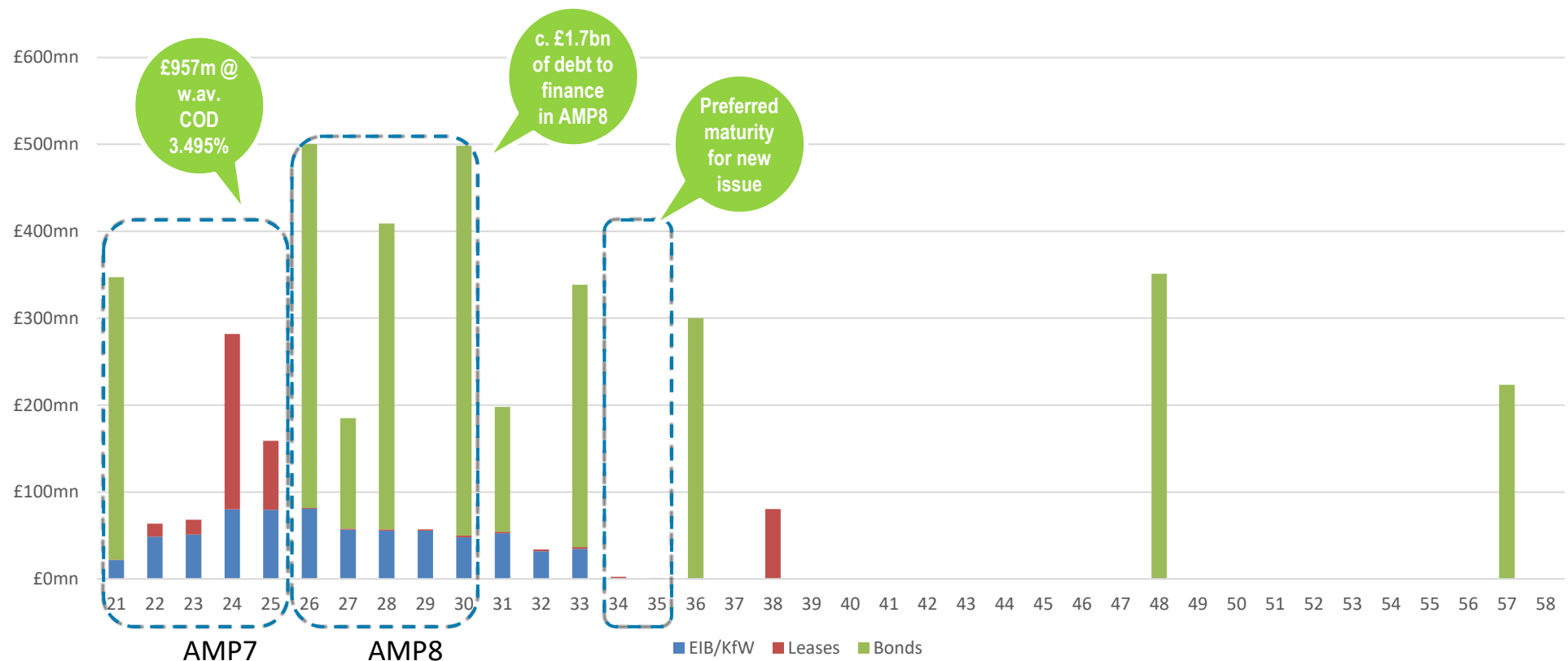
- Comprehensive protections provided to investors through the Whole Business Securitisation (“WBS”) structure
- Tightened by amendment to the Gearing Trigger Event covenant to 85% (from 90%)
- ICR of 3.5x and Gearing of 60% as at 30 September 2020



Significant headroom over trigger event default levels

Debt Maturity Profile

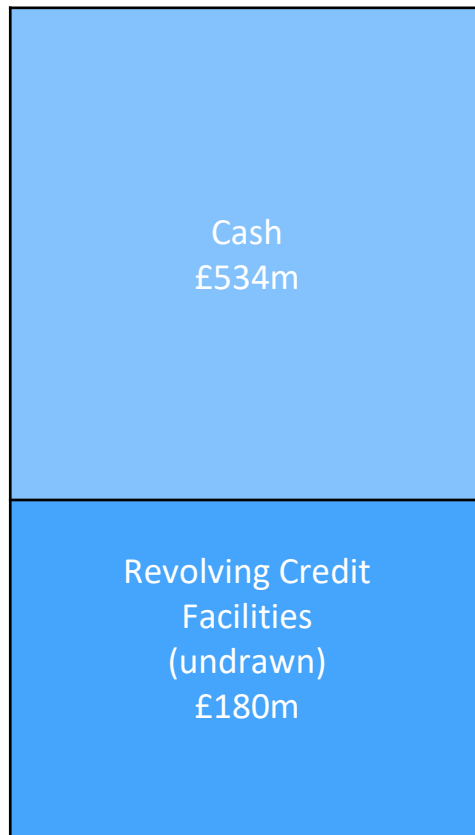
- Welsh Water’s strong financial discipline enables the Group to access public debt markets to take advantage of optimal market conditions



Prudent approach to meeting funding requirements in AMP7

Liquidity – as at 30 September 2020

Liquidity as at 30 September 2020
£714m



- Prudent investment policy for surplus cash continues with deposit maturities limited to maximum of one month and focus on strong bank credit ratings.
- £325m B1 bond maturity on 31 March 2021
- 4 revolving credit facilities (“RCFs”) were renewed throughout 2020 as they fell due - for a further 2 years with a 1 year extension options.
- At 30 September, 2 RCFs had been renewed and the facility size increased to £180m (from £170m). The remaining RCFs were renewed by end of November and the facility size was further increased to £200m total.

Strong liquidity position of £714m* at 30 September 2020 – financing needs met out to 2024/25

**Excluding debt service reserves of £48 million*



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4) Summary

Location: Elan Valley

Welsh Water's Key Investment Highlights

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Not-for-shareholder dividend business model

2

Impressive financial discipline

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Resilient performance despite Covid-19 and Brexit

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Indicative Term Sheet

- Dŵr Cymru (Financing) UK plc's financing documents employ a different naming system than other WBS issuers in the water sector
 - Class A refers to senior bonds which benefit from a guarantee from a monoline insurance company
 - Class B refers to senior bonds without a guarantee from a monoline guarantee
 - Class C bonds are subordinated to Class A and Class B

	Junior Bonds (Class C)
Issuer	Dŵr Cymru (Financing) UK plc
Format	RegS, Secured, Bearer Bonds Subordinated Obligations of the Issuer and are subordinated to the Class A Bonds and Class B Bonds
Expected Ratings (Moody's / S&P / Fitch)	Baa2 (stable) / BBB (stable) / BBB+ (stable)
Currency	GBP
Size	Benchmark
Maturity	13 year
Optional Redemption	Spens Clause
Use of Proceeds	General corporate purposes
Minimum Denominations	£100,000 + £1,000
Listing	Luxembourg Stock Exchange
Governing Law	English
Documentation	£4bn Base Prospectus dated 23 rd March 2021
Joint Active Bookrunners	Barclays (B&D), BNP Paribas, Natwest Markets



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5) Appendices

Location: Llyn Celyn reservoir

Final Determination – Outcome for the Business

- Ofwat has set a tough Determination for the sector
- Despite this, the Board decided not to appeal to the Competition and Markets Authority (“CMA”)
- The Final Determination differs from the August 2019 business plan (“BP”) as follows:

Key Features	August 2019 BP	Final Determination
Revenues	£3.721bn	£3.730bn
BOTEX*	£2.509bn	£2.493bn
Enhancement expenditure	£0.755bn	£0.584bn
RCV	Opening: £5.685bn Closing: £6.083bn	Opening: £5.667bn Closing: £5.819bn

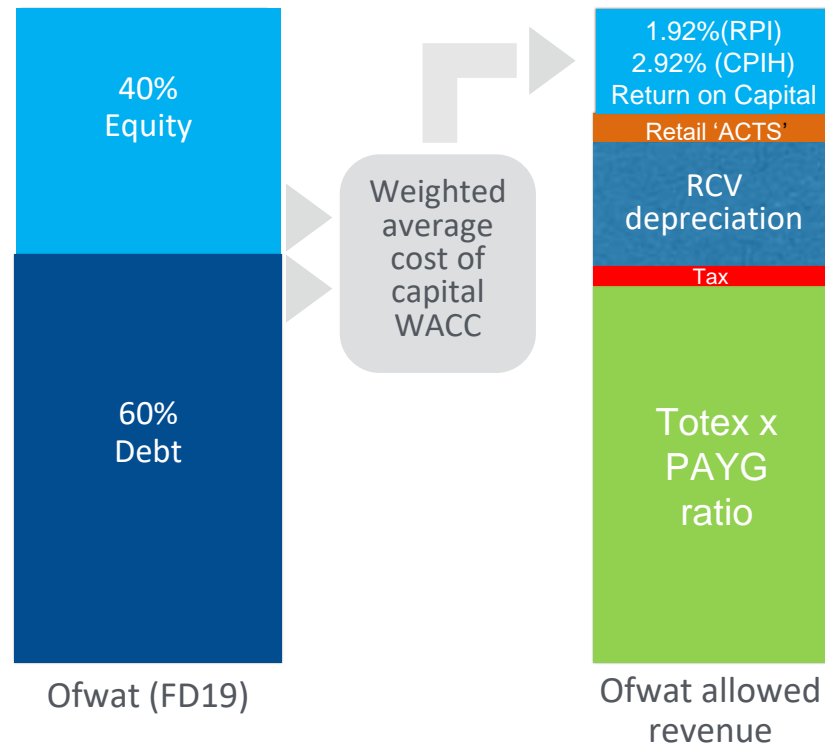
**Base Operating Total Expenditure including household retail*

A tough but financeable Final Determination

AMP7 cost of capital and Ofwat building blocks

Final Determination	
Total equity market return	8.63%
Risk-free rate	0.58%
Equity risk premium	8.05%
Gearing (Net Debt/RCV)	60%
Asset beta	0.36
Equity beta	0.71
Cost of equity	6.27%
Ratio of new to embedded debt	20:80
Cost of new debt	2.54%
Cost of embedded debt	4.47%
Issuance and liquidity costs	0.10%
Overall cost of debt	4.18%
Appointee WACC	5.02%
Deduction for retail amrgin	0.04%
Wholesale WACC (nominal)	4.98%

Source: Ofwat



Debt Characteristics

Gross debt as at 30 Sept 2020 (£m)	Fixed	Index-linked	Floating	Total	
Finance leases	-	380	31	411	10%
Bonds	625	2,366	-	2,991	73%
EIB/KfW	-	252	444	696	17%
Local authority debt	-	-	-	-	-
	625	2,998	475	4,098	100%
Swaps - floating to fixed	192	-	(192)	-	
Swaps - floating to index-linked	-	45	(45)	-	
Free cash balances - floating to index-linked	582	-	(582)	-	
Gross debt	1,399	3,043	(344)	4,098	
Percentage	34.1%	74.3%	-8.4%	100%	

Reconciliation to Investor Report:

Gross debt as above	4,098
Accrued interest & unamortised bond issue premium	91
Cash	(582)
Net debt as at 30 Sept 2020*	3,607

Notes

*Net debt using free cash balances at DCWW level only (i.e. excludes £11m held at Glas Cymru Holdings level)

Net debt above does not include non-cash items (e.g. IFRS provisions) which contribute towards the net debt figure published in our investor reports

Fair Market Value Movements on Swaps

Derivatives as at (£m)	30 Sep 2020	31 Mar 2020	Movement
Floating to fixed rate interest rate swaps	(102)	(99)	(3)
Index-linked swaps	(408)	(374)	(34)
Energy Swaps	7	(2)	9
Total MTM	(503)	(475)	(28)

Notes:

1. Swap contracts are with 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 £54m (Mar 2020: £45m) relating to the A1, A6, B8 & C3 bond swaps

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	<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>
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% 	