



# Dŵr Cymru Welsh Water Annual Investor Review

12 July 2023



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# AGENDA

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- Welcome and opening remarks Alastair Lyons, Chair of the Board
- Operational performance Peter Perry, Chief Executive
- Financial results YE 31 March 2023 Mike Davis, Chief Financial Officer
- Balance sheet and financing Alan Carr, Treasurer
- PR 24 update Mike Davis, Chief Financial Officer
- Closing remarks Alastair Lyons, Chair of the Board



# Welcome

Alastair Lyons

*Chair of the Board*

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<b>Balance sheet and financing</b>	<b>Page 20</b>
<b>PR 24 update</b>	<b>Page 23</b>
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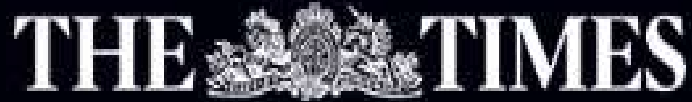
# Operational performance

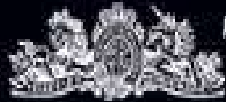
Peter Perry  
*Chief Executive*

- 2022-23 - Achieved best ever Safety Performance
- 1<sup>st</sup> Consumer Council for Water - Business Customer Satisfaction
- 2<sup>nd</sup> Most Trusted Water Company in the UK – CCW's Water Matters Report
- 2022-23 - 3<sup>rd</sup> for C-MeX (from water and sewerage companies): Ofwat's key customer satisfaction measure
- 2022-23 - 75% Employee Engagement Survey Score (+6% compared to 2021)

- Investing over **£1m a day** currently in our infrastructure
- General **operational performance**: Good but a number of key challenges
- Heightened **media and stakeholder focus** on environmental performance
- Continued preparation for PR24 & our biggest ever investment plan:  
**£3.2 billion 2025-2030**
- December 2022 – **Freeze / Thaw**: very challenging emergency incident but great response from our people
- **Water Resources 2023**: no current plans for restrictions despite conditions
- **Ofwat's Leakage Investigation**: Self-reported by us and Recovery Plan in place





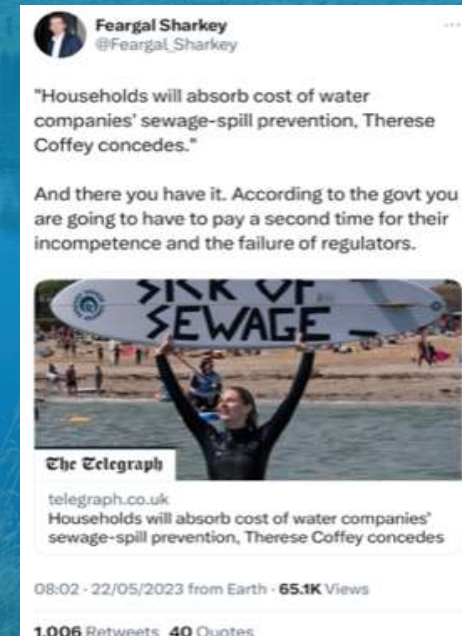
THE  TIMES

Water UK boss: We're sorry.  
This is our chance to put  
things right

- Mea culpa issued on behalf of the industry in England
- Announced a £10bn investment to focus on 'spill numbers' – not harm
- Well received initially but...



**BBC** Sewage spills: Water bills set  
to rise to pay for £10bn  
**NEWS** upgrade



# MANIFESTO FOR RIVERS IN WALES



- Apology for any environmental harm caused by our services
- Used to brief stakeholders/customers on key investment schemes

**£840m**

investment in  
wastewater services in  
2020-25

extra  
**£100m**  
from Glas  
model

to accelerate river  
quality improvement

**£1.4bn**

investment in  
wastewater services in  
2025-30

# MANIFESTO FOR RIVERS IN WALES



**14%**

of rivers in England meet  
'good' ecological status

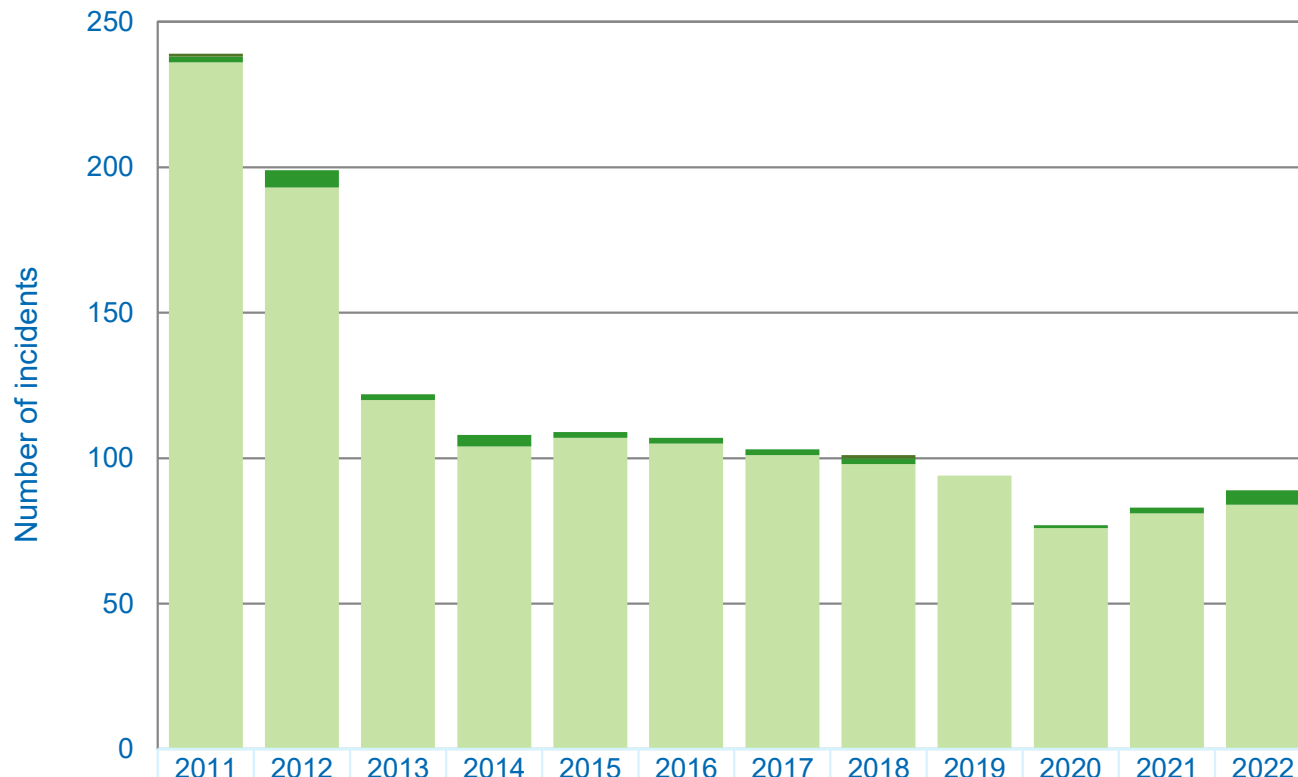
**44%**

of rivers in Wales meet  
'good' ecological status

**Focus in Wales is on 'harm' –  
supported by Welsh Government & NRW**

# POLLUTION INCIDENTS

## Number of sewerage incidents by year



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
High - major (Cat 1)	1	0	0	0	0	0	0	1	0	0	0	0
High - significant (Cat 2)	2	6	2	4	2	2	2	2	0	1	2	5
Low (Cat 3)	236	193	120	104	107	105	101	98	94	76	81	84

# ENVIRONMENT: CARBON EMISSION REDUCTION



One of the lowest emitters of carbon dioxide per Ml of water and wastewater treated in the UK

# RESPONSE TO COST-OF-LIVING CRISIS



## FINANCIAL ASSISTANCE

- Capacity to support 40,000 additional households
- Launch of new 'Cymuned' scheme to support working households
- Overall support
  - Social tariffs
    - HelpU, WaterSure Wales, Cymuned
  - Debt rehabilitation scheme
  - Forbearance schemes
    - payment holidays, low value plans, weekly payment plans

## COMMUNITY FOCUS

- Community hub – extend our reach to over 4,000 customers in 2022
- Training/awareness sessions delivered to over 1,000 representatives from partner organisations
- 400+ customer advice clinics with partner organisations

## PROMOTION & MARKETING

- Here for You Campaign
- Website redesign
- Annual conference

## BSI 18477 INCLUSIVE SERVICE STANDARD

## SUMMARY

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- **Very challenging period** for the sector and Welsh Water
- **Recovery plans** in place where issues have been identified
- **Increased support for vulnerable customers** during cost-of-living crisis
- **£100m additional** Glas Advantage funding earmarked to accelerate river water quality
- **£3.2 billion** investment plan proposed 2025 – 2030: our biggest since privatisation
- **PR24:** submitting our Business Plan in October – securing delivery resources and preparing for 2025
- **Continued stakeholder engagement** in response to increased external scrutiny
- Supporting and motivating **our people** through a difficult period



# Financial Results YE 31 March 2023

Mike Davis  
*Chief Financial Officer*





## GROUP CASH FLOW AND NET DEBT

Year ended (£m)	March 2023	March 2022	Variance %
Revenues	844	810	4%
Operational expenditure	(401)	(349)	13%
Other operating income	5	6	
<b>EBITDA (before IRE and exceptional costs)</b>	<b>448</b>	<b>467</b>	<b>(6%)</b>
Exceptional item	(31)	4	
Cash interest payable	(154)	(118)	31%
Non-cash indexation charges	(379)	(179)	112%
Interest receivable	14	5	
<b>Operational flows</b>	<b>(102)</b>	<b>179</b>	
Capital expenditure (net of grants and contributions)	(400)	(334)	
Net working capital movements	62	44	
<b>Increase in net debt</b>	<b>(440)</b>	<b>(111)</b>	

**High inflation has impacted on operational expenditure and borrowing costs**

## 2022/23 FINANCIAL HIGHLIGHTS

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### ➤ Revenues up £34m (4%) to £844m

Due to inflation increasing bills, increasing household consumption, offset by provision for leakage redress

### ➤ Opex up £52m (15%) to £401m

Due to price pressures in power, chemicals and employment costs and additional costs of drought in West Wales and freeze thaw events

### ➤ IRE up £16m (26%) to £78m

Infrastructure renewal expenditure, the ongoing cost of maintaining underground assets, due to higher volumes of leakage repairs, diversion works and reactive maintenance.

### ➤ Exceptional pension cost of £31m

Due to RPI inflation pension increases

### ➤ Net interest up £236m (79%) to £533m

Due to higher inflation on cash interest and non-cash indexation charges on index-linked debt

### ➤ Loss after tax down £89m (40%) to £134m

Due to fair value gains on the interest rate swap portfolio as interest rates rise

### ➤ Gearing stable at 58%

Net debt as a % of Regulatory Capital Value benefits from inflation

### ➤ Bills for 2023/24 to increase by 8-9% in line with CPIH inflation

### ➤ £113m of Return of Value announced

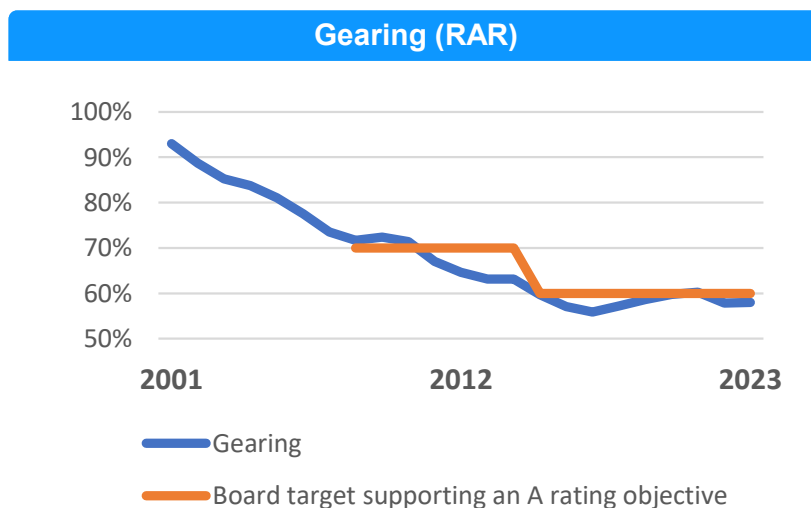
£13m company contribution to social tariffs for 2023/24 £100m investment in river water quality over next 3 years

### ➤ A grade credit ratings confirmed

By Moody's Investor Services (A3), Standard & Poor's (A-) and Fitch Ratings (A)

## MAINTAINING STRONG FINANCIAL DISCIPLINE

- Conservative group leverage target (~60%) achieved



- The single-A ratings for senior debt have been maintained

**Credit ratings**

	Moody's	S&P	Fitch
Senior debt (Guaranteed)	A1	AA	A
Senior debt	A3	A- (negative)	A
Junior debt	Baa2	BBB (negative)	BBB+

**Net Debt & Regulatory Gearing**

(£m)	FY23(a)	FY22(a)	FY21(a)
Regulatory Capital Value	7,161	6,460	6,010
Net debt	(4,162)	(3,722)	(3,611)
Financial reserves	2,999	2,738	2,399
<b>Gearing</b>	<b>58%</b>	<b>58%</b>	<b>60%</b>

**Interest cover and FFO/net debt \***

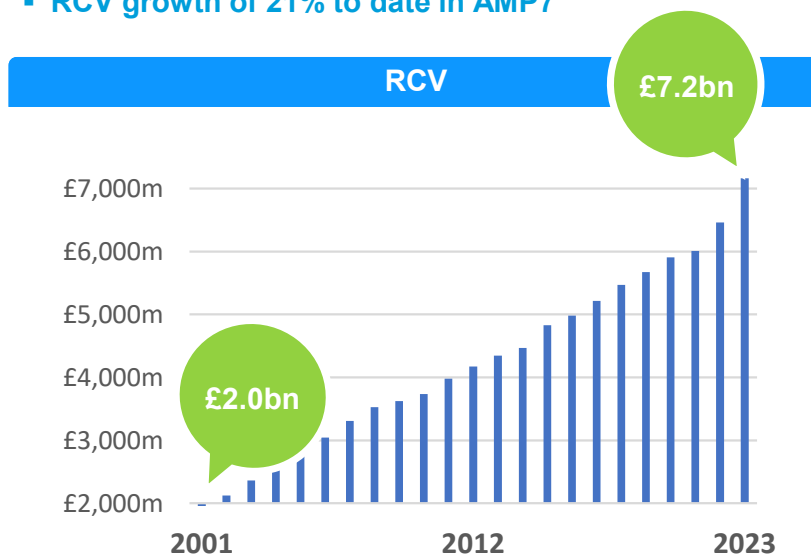
	FY24(f)	FY23(f)	FY22(a)
Moody's AICR	0.8x	0.8x	0.8x
S&P FFO/net debt	between 4 and 5	between 1 and 2	3.4
Fitch total cash PMICR	1.1x	0.9x	1.4x

**Significant covenant headroom over trigger and default levels**

\*Source: latest rating agency reports

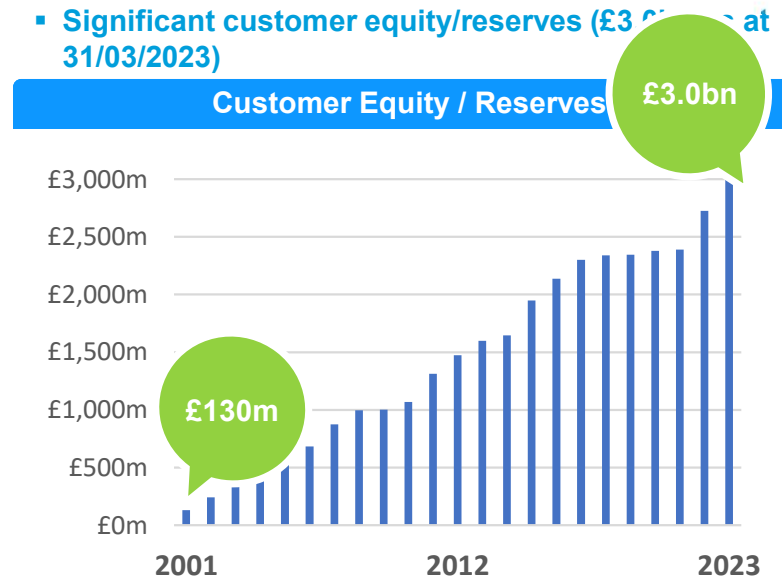
## EQUITY BASE BOOSTED BY INVESTMENT

- RCV growth of 21% to date in AMP7



- RCV has grown 21% since March 20 from 5.9bn to 7.2bn.
- This is driven by the investment in the capex programme and by inflation.
- Total AMP7 capex is expected to remain as forecast at £2.0bn, with £1.1bn spent in the first 3 years.

- Significant customer equity/reserves (£3.0bn) at 31/03/2023)



- Equity reserves have grown 26% since March 20 from 2.4bn to 3.0bn.
- equivalent to a CAGR of over 15% since 2001.

**AMP7 investment programme is on track and driving equity growth**

## FINANCIAL RESILIENCE SUPPORTED BY SUBSTANTIAL LIQUIDITY

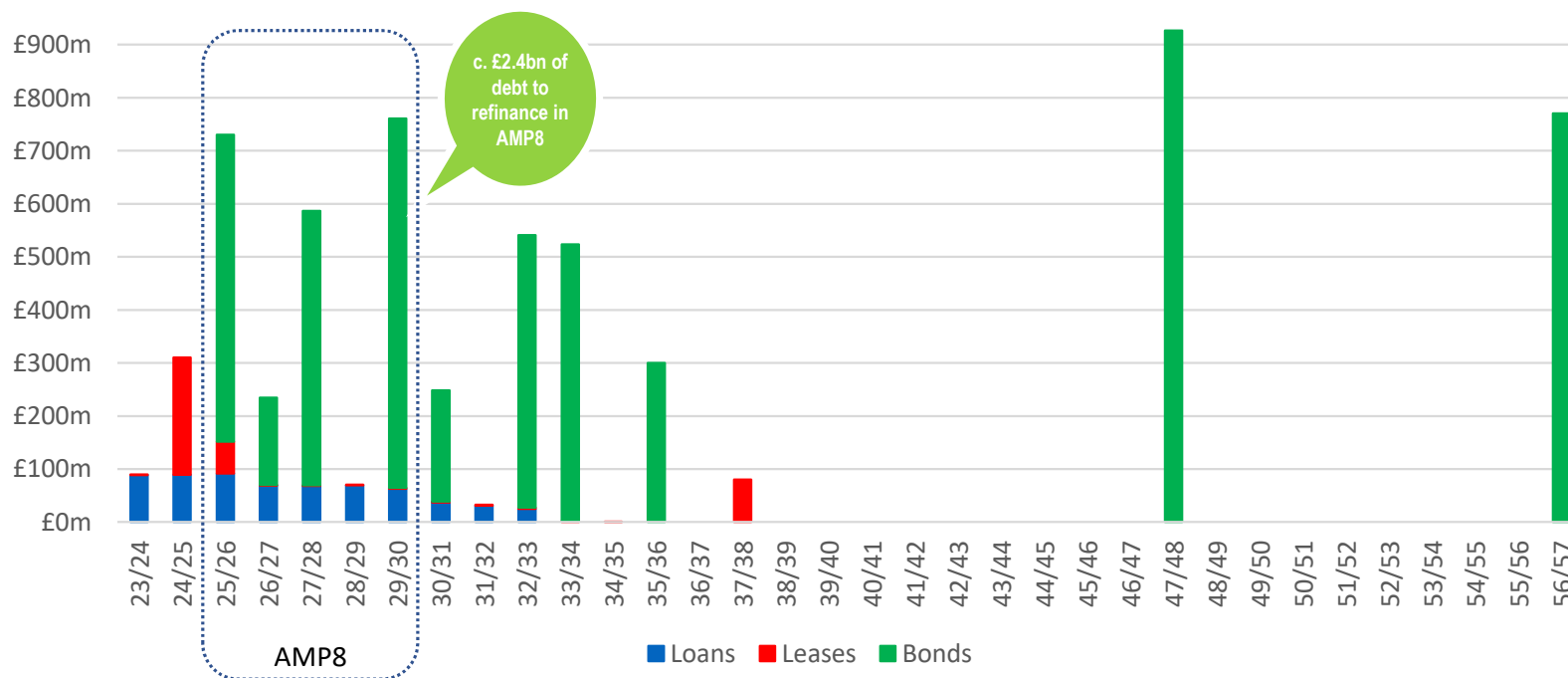
Liquidity as at 31 March 2023  
£579m

Cash £379m
Revolving Credit Facilities (undrawn) £200m

- RCFs totalling £200m available until 2023-24 and currently being renewed
- Prudent investment policy for surplus cash:
  - deposit maturities limited to maximum of three months
  - diversified list of counterparties with concentration limits,
  - and a focus on strong credit quality and ESG rankings.

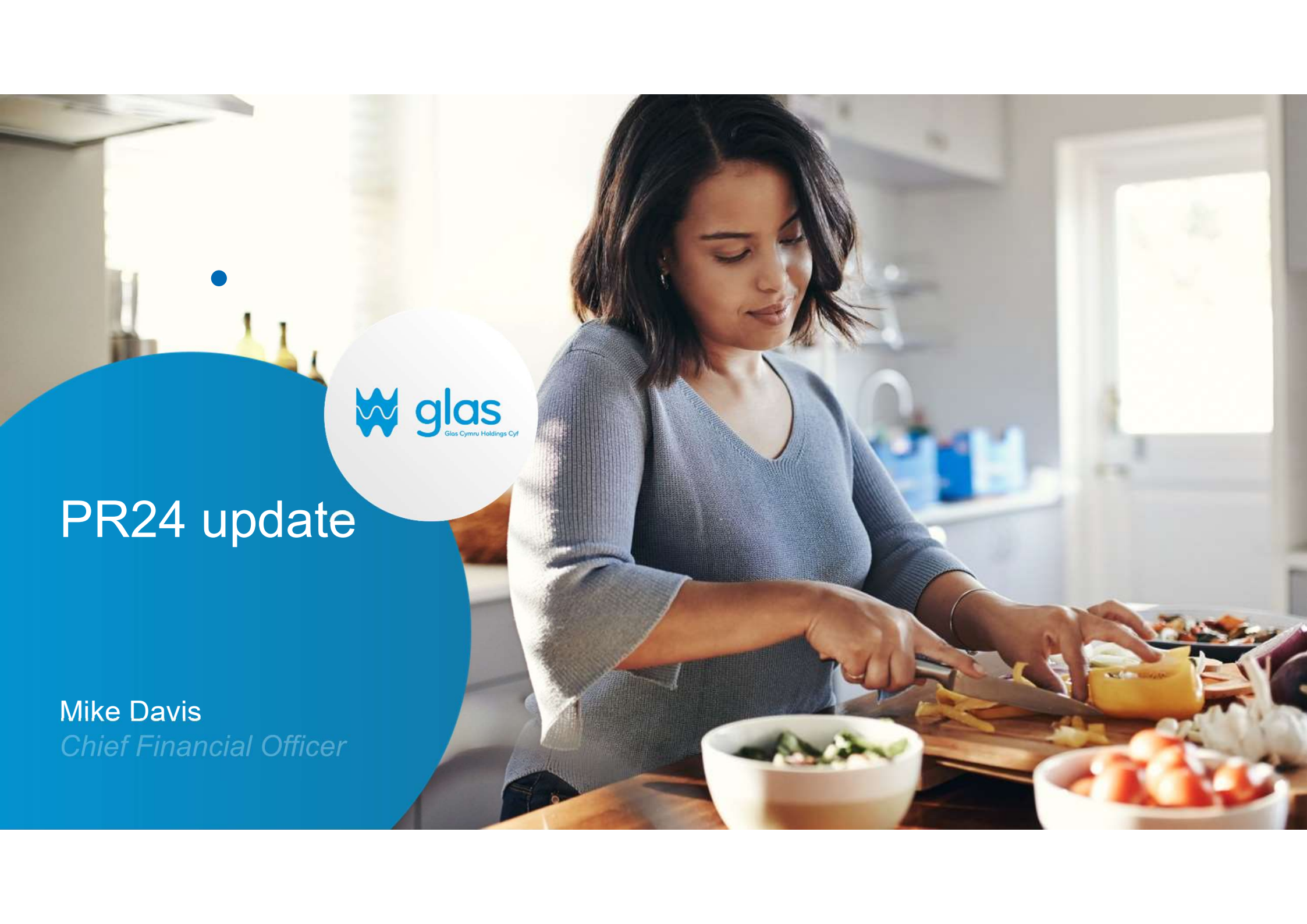
**Strong liquidity at 31 March 2023 – financing needs met out to 2024/25**

## DEBT MATURITY PROFILE



*Note: leases assumed terminated at earliest break points*

**No significant new debt expected to be required until AMP8**



# PR24 update

Mike Davis  
*Chief Financial Officer*

## PR24 AT A GLANCE

<b>SERVICE IMPROVEMENTS</b>		
	2024/25	2029/30
Supply interruptions	08:00	04:30
Acceptability of Water	1.75	1.00
Pollution incidents	78	68
Internal sewer flooding	200	165
External sewer flooding	3400	2700
Leakage	-2.80%	18.40%
SO Harm	54%	61%

<b>CAPITAL EXPENDITURE PLANS</b>		£m
Total enhancement programme		2,106
Less efficiency		(149)
		<u>1,957</u>
Capital maintenance	1,789	
Less efficiency	(313)	
		<u>1,476</u>
Less: capital income		(180)
Capex net of efficiency and income		<u><u>3,253</u></u>



# PR24 BILL INCREASES



- Typical household **bills to increase by 24%** in real terms (excluding inflation) to **£581** in 2029/30.
- Early indicators show this is at the **lower end of the range compared to other companies**

## Actions taken to minimise impact on customers:

### 1. Challenging cost efficiency targets:

- over £460 million investment programme cost reduction
- £42 million per annum cost reduction in Opex by 2029/30

### 2. Support for vulnerable customers:

- As a minimum, maintain £13 million company contribution to social tariffs
- Aspiration to keep social tariff increases at the rate of inflation - no real term increase

## INDUSTRY BILL INCREASE 2023/24 TO 2029/30 (EXCLUDING INFLATION)

Southern	67%
Wessex	42%
Northumbrian	30%
Severn Trent	24%
Thames	24%
South West	23%
United Utilities	23%
Dŵr Cymru	20%
Yorkshire	17%
Anglian	16%

# PR24 Timeline



## PR24 Key challenges to resolve

- 1. Reaching agreement with NRW on the National Environment Plan
- 2. Ofwat rejection of our CSO Harm measure as a Performance Commitment
- 3. Ofwat proposal to impose bigger penalties for missing targets

27<sup>th</sup> October  
'Your Water, Your Say' sessions





# Closing remarks

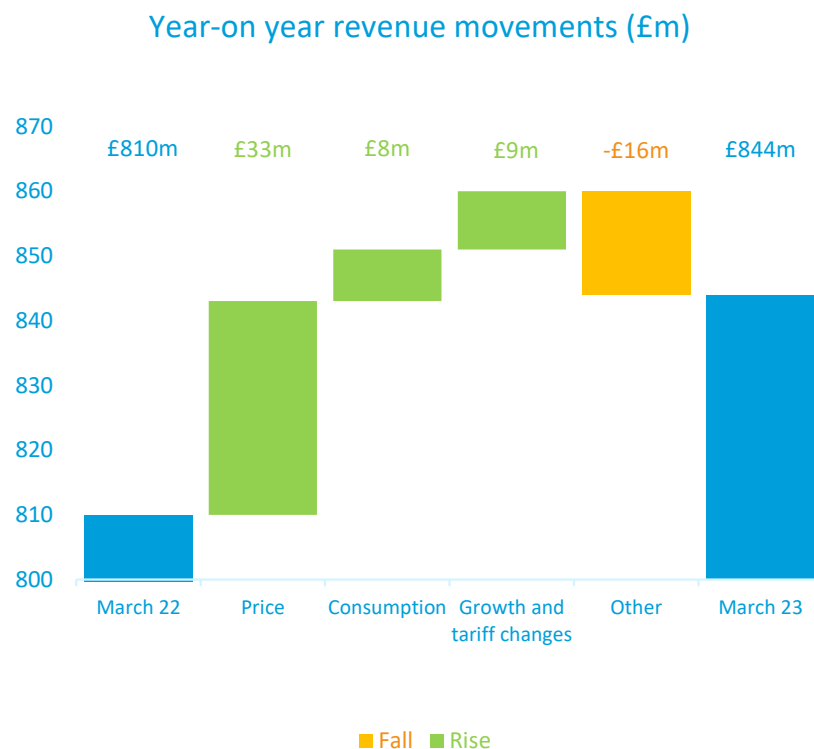
Alastair Lyons

*Chair of the Board*

# Appendices



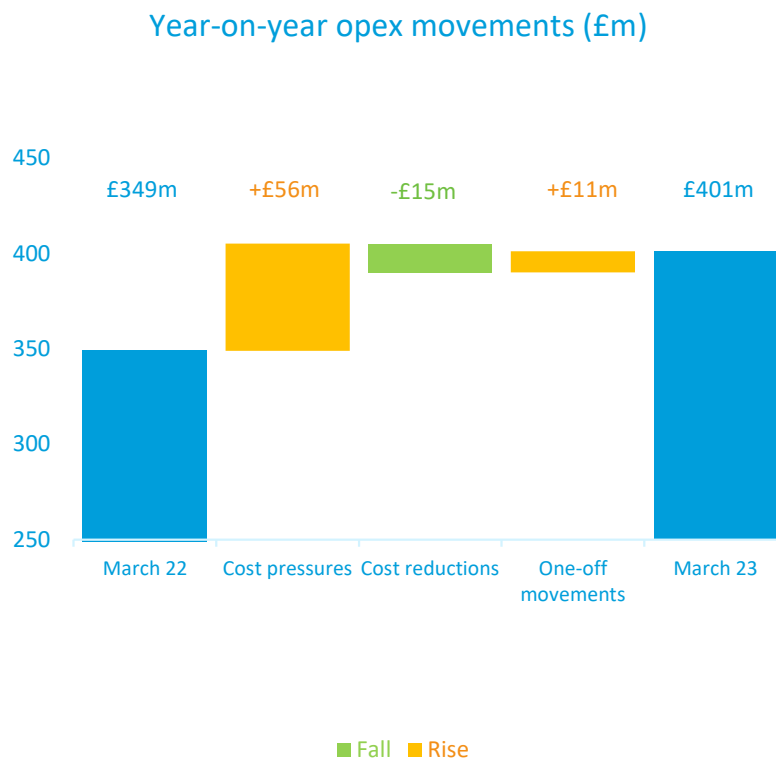
## Group revenues



- Price increases are in line with Ofwat's PR19 Final Determination and CPIH inflation. Average bills increased by 4.6% (household 3.7%, non-household 5.6%)
- Consumption increases were driven by a spell of hot, dry weather in summer 2022
- Growth and tariff changes include the impact of around 8,000 new customers
- Other movements principally reflect a (£15m) provision for a £10 rebate to all customers following the identification of leakage reporting errors.

**Price increases, increased consumption and customer growth partially offset by customer rebate**

# Group operational expenditure

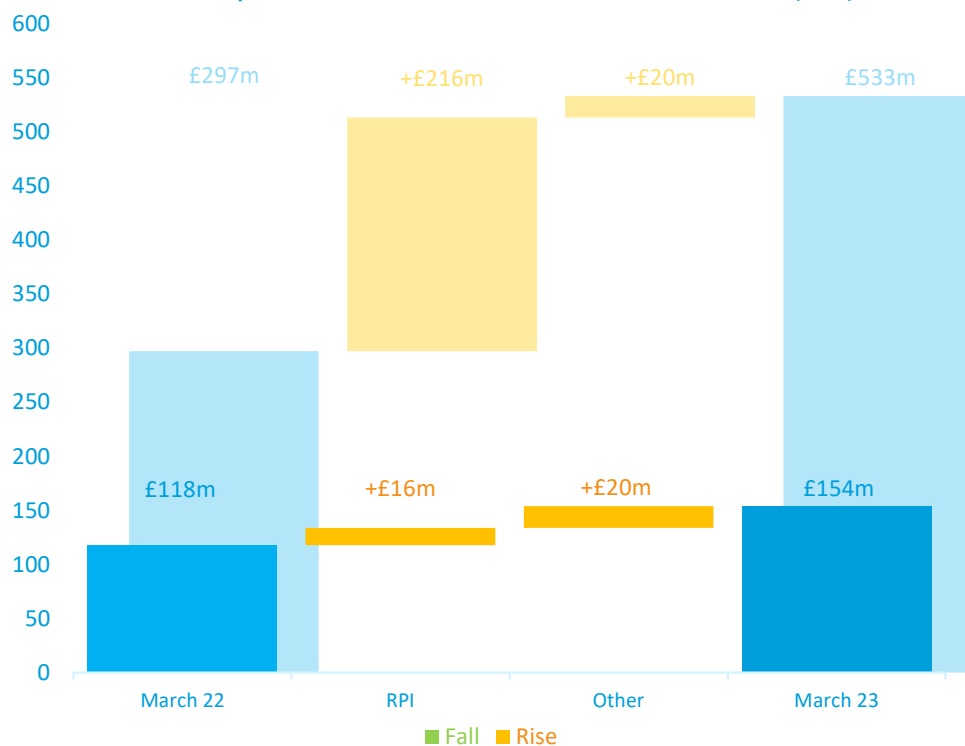


- Underlying opex, excluding exceptional items, is 13% higher than 2022.
- Cost pressures include inflationary increases across the whole cost base. The main increases are in energy (£14m) - some sheltering through hedging policy but still a 20% rise - and chemical costs have risen by 65% (£13m).
- Cost reductions reflect a higher level of employee cost capitalisation (£11m) as well as savings in IT costs and income collection commission.
- One-off movements principally comprise a £7m cost-of-living contribution to employees.
- Note: an exceptional item (£31m, not in chart) is a non-cash charge relating to the defined benefit pension scheme. A £4m credit in the prior year reflected the release of a bad debt provision which was no longer required.

**High inflation on employee costs, power and chemicals partially offset by cost reductions**

# Group cost of debt

Year-on-year cash and total interest movements (£m)



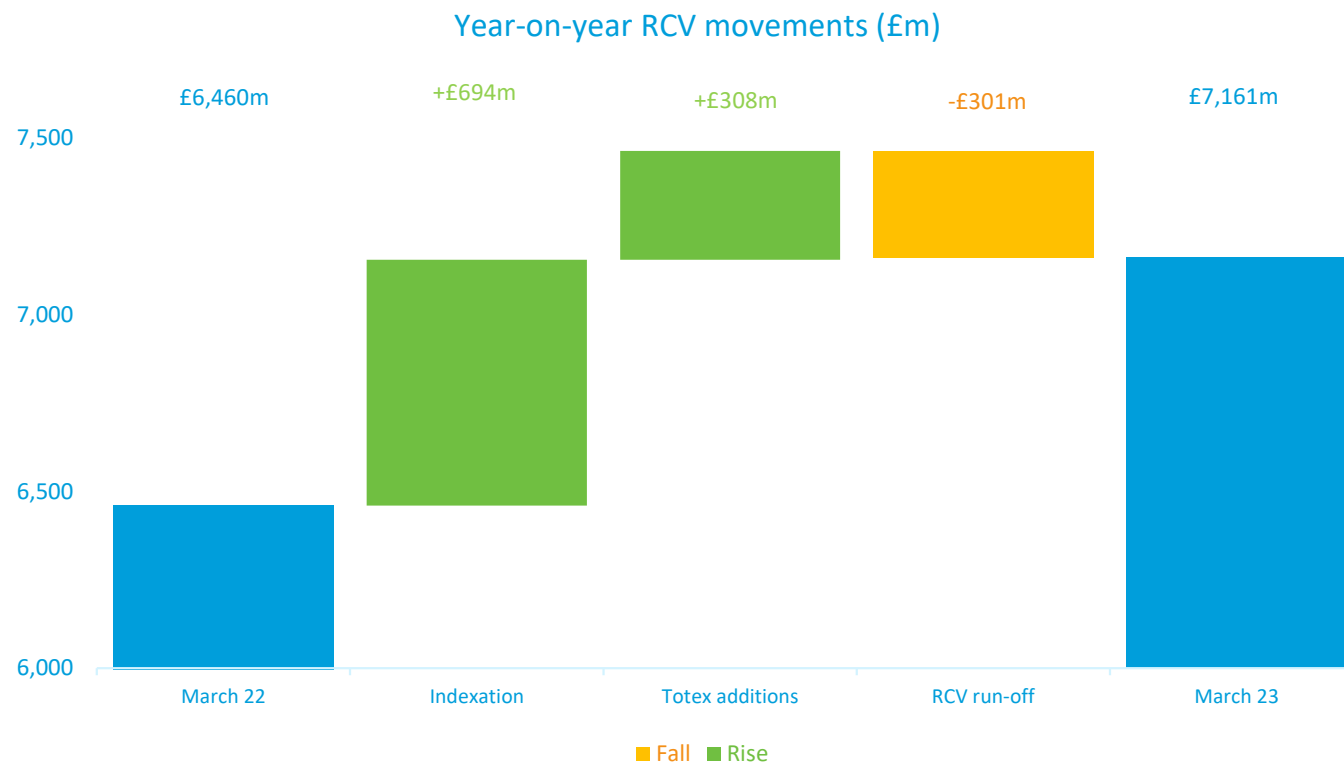
- Cash interest has risen by £16m as a result of higher coupons on RPI-linked bonds and annual RPI swap payments.
- Other increases reflect the impact of higher interest rates on finance lease and term loan interest.
- The total interest charge has risen by a further £200m, being the increase in non-cash bond and swap indexation charges driven by high RPI inflation.

Cash cost of debt 3.9% (FY22: 3.2%)

Total cost of debt 13.5% (FY22: 8.1%)

**Higher borrowing costs driven by increases in RPI inflation**

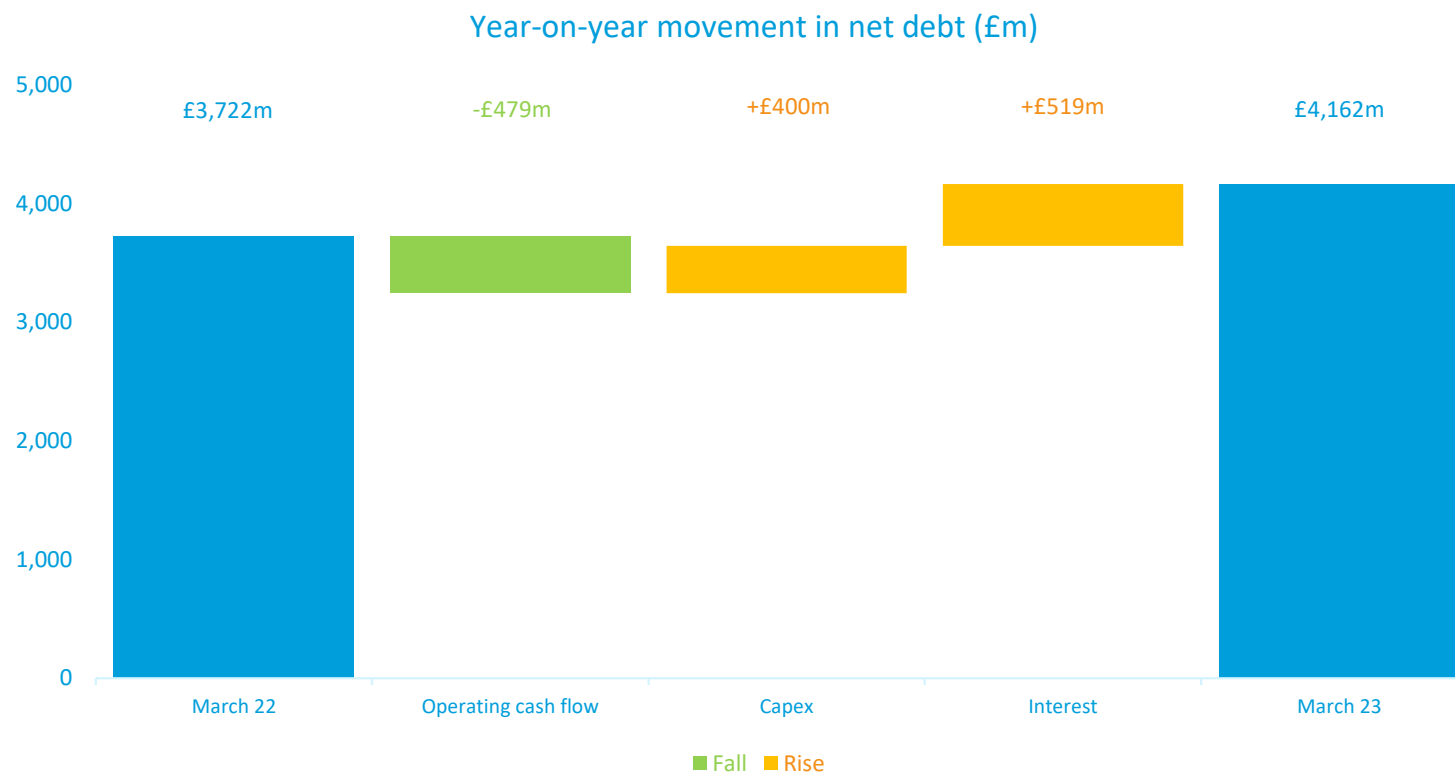
# Regulatory capital value



**Inflation the main contributor to an 11% rise in RCV**



# Group net debt



**Positive operating cash flows offset by capital investment and RPI inflation on borrowing costs**

## Financing: capital structure as at 31 March 2023

Rating	Class	Type	Interest rate %	Expected maturity	(£m)
AA/A1/A (Assured Guaranty wrap)	A1	Fixed/RPI swap	6.015/2.196	2028	434
	A4	RPI	3.514	2030	530
	A5	LPI	3.512	2031	161
	A6	Fixed/RPI swap	4.473/1.35	2057	176
A-/A3/A	B3	RPI	4.377	2026	257
	B4	LPI	4.375	2027	142
	B5	RPI	1.375	2057	88
	B6	RPI	1.859	2048	430
	B7	Fixed	2.500	2036	300
	B8	Fixed/RPI swap	1.375/-1.691	2033	371
BBB/Baa2/BBB+	C3	Fixed/RPI swap	1.625/-1.585	2026	248
	C4	Fixed/RPI swap	2.375/-1.149	2034	366
Bonds					3,503
Finance leases					378
European Investment Bank and KfW					609
Gross debt					4,490
Accrued interest					51
Cash <sup>1</sup>					(379)
Net debt					4,162

<sup>1</sup> Includes £15m cash held at GCHC group level (outside of the whole business securitisation)

## Debt characteristics

<b>Gross debt as at 31 March 2023 (£m)</b>	<b>Fixed</b>	<b>Index-linked</b>	<b>Floating</b>	<b>Total</b>	
Finance leases	-	378	-	378	8%
Bonds	300	3,203	-	3,503	78%
EIB/KfW	-	239	370	609	14%
	300	3,820	370	4,490	100%
Swaps - floating to fixed	192	-	(192)	-	
Swaps - floating to index-linked	-	55	(55)	-	
<b>Gross debt</b>	<b>492</b>	<b>3,875</b>	<b>123</b>	<b>4,490</b>	
	<b>11%</b>	<b>86%</b>	<b>3%</b>	<b>100%</b>	

- Cash balances offset residual exposure to floating rate risk

## Fair value movements on swaps

<b>Derivatives as at (£m)</b>	<b>31 Mar 2023</b>	<b>31 Mar 2022</b>	<b>Movement</b>
Floating to fixed rate interest rate swaps	(26)	(58)	32
Index-linked swaps	(419)	(576)	157
Energy swaps	10	39	(29)
<b>Total fair value (IFRS 9)</b>	<b>(435)</b>	<b>(595)</b>	<b>160</b>

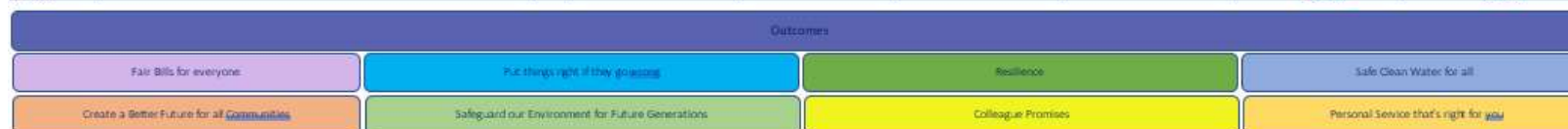
**Notes:**

1. Swap contracts are with Barclays, BNP Paribas, HSBC, Lloyds and NatWest Markets
2. None of the swap contracts has break clauses or accretion paydowns

# Ofwat ODI's (Outcome Delivery Incentives) Performance Commitments with Reward/Penalties and forecast to 2024/25

Table 1 - Performance Commitment – Common Measures			2022/23 Outturn	2021/22 Outturn	2022/23 FD Target (Final Determination)	2022/23 Vs FD Target	Penalty or Reward 2022/23 (£m)	Total ODI Incentive (2020/21 to 2024/25) (£m)
*C – Calendar year								
Wt1	Water Quality Compliance (CR) (%)	c	5.40	9.77	0	X	-1.659	-8.818
Wt2	Water supply interruptions (per 1,000,000)		44:31	16:17	05:45	X	-10.370	-23.302
Wt4	Mains repairs		156.2	136.6	135.1	X	-2.152	-2.285
En1	Treatment works compliance %	c	98.49	98.32	100.00	X	-0.357	-0.833
En3	Pollution incidents (per 10,000km of Sewer)	c	24.55	22.90	23.00	X	-0.333	-0.066
En4	Leakage (% reduction) – 3 year average		-11.5	-7.3	7.3	X	-4.486	-21.302
En5	Per capita consumption (% reduction) – 3 year average		-6.2	-5.6	2.0	X	0.000	-6.669
Rt1	Internal sewer flooding (per 10,000km sewer connections)		1.14	1.36	1.58	✓	1.880	1.624
Rt3	Sewer collapses (per 1,000km sewer)		6.68	6.71	7.20	✓	0.000	-0.069
Sv1	C-MeX – Company Measure		82.92	82.93			2.191	
Sv2	D-MeX		84.68	83.94			-1.156	

Table 2 - Performance Commitment – Bespoke Measures			2022/23 Outturn	2021/22 Outturn	2022/23 FD Target (Final Determination)	2022/23 Vs FD Target	Penalty or Reward 2022/23 (£m)	Total ODI Incentive (2020/21 to 2024/25) (£m)
*C – Calendar year								
Wt3	Acceptability of drinking water (contacts per 1,000 population)	c	2.35	2.44	1.91	X	-1.059	-4.116
En6	Km of river improved		122	94	25	✓	0.000	6.627
En7	Bioresources product quality %		98.3	99.2	97.3	✓	0.413	1.322
En8	Bioresources disposal compliance %	c	99.87	100.00	100.00	X	-0.013	-0.013
Pt4	Surface water removed from sewers (m3)		10,752	0	141,900	X	-0.050	-0.455
Pt10	Community education		80,194	45,655	73,000	✓	0.014	-0.203
Pt11	Visitors to recreational facilities		739,294	842,701	720,000	✓	0.019	-0.343
Rt2	External sewer flooding on customer property (per 10,000km sewer connections)		24.42	26.27	23.89	X	-0.476	-3.493
Rt4	Total complaints (per 10,000 connections)		49.9	28.2	UQ	X	-0.030	-0.084
Sv4	Business customer satisfaction		4.4	4.4	4.5	X	-0.125	-0.625
Bl4	Unbilled properties (Voids) %		3.93	3.78	3.70	X	-0.601	-0.888
<b>Total</b>							<b>-18.350</b>	<b>-63.991</b>



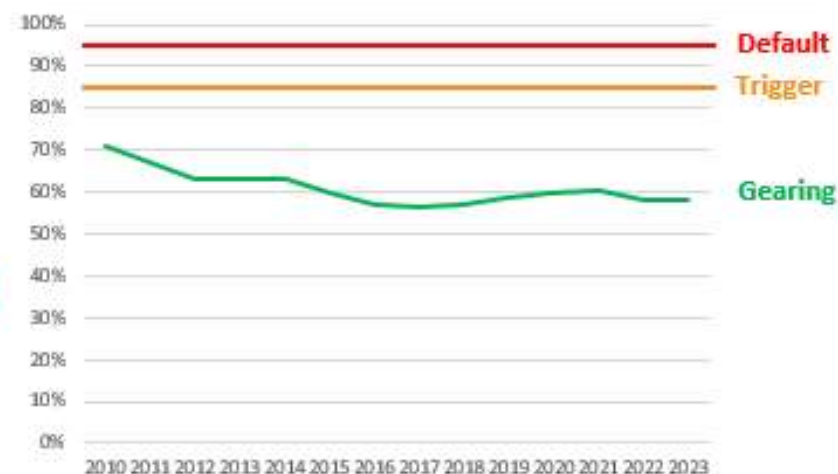
# Stringent investor protections

- Comprehensive protections provided to investors through the Whole Business Securitisation (WBS) structure
- Tightened in April 2017 by reducing the Gearing Trigger Event covenant to 85% (from 90%)
- ICR of 3.5x and gearing of 58% at 31 March 2023

Interest cover ratios (ICR)



Gearing (RAR)



- 75% headroom over trigger (3.5x versus 2.0x)
- Operating cash flows would need to deteriorate by £180m to hit trigger

- 32% headroom over trigger (58% versus 85%)
- RCV would need to be £2.3bn lower to hit trigger; or
- Net debt would need to rise by £1.9bn

Significant headroom over trigger event and default levels