

## Dwr Cymru (Financing) Ltd

Rating Type	Rating	Outlook	Last Rating Action
Dwr Cymru (Financing) Ltd Class A debt	A	Negative	4 June 2019
Dwr Cymru (Financing) Ltd Class B debt	A	Negative	4 June 2019
Dwr Cymru (Financing) Ltd Class C debt	BBB+	Negative	4 June 2019

[Click here for full list of ratings](#)

## Financial Summary

(GBPm)	Mar 2018	Mar 2019	Mar 2020F	Mar 2021F
Gross Revenue	757	782	811	793
Operating EBITDAR Margin (%)	58.7	57.0	62.5	52.3
FFO Margin (%)	39.6	39.6	44.6	32.5
FFO Fixed-Charge Coverage (x)	3.2	3.3	3.5	2.7
FFO Adjusted Net Leverage (x)	7.1	7.4	6.9	9.1

Source: Fitch Ratings, Fitch Solutions

The Negative Outlook reflects Fitch Ratings' forecast of weaker cash flows for the next price control (AMP7) resulting in a post-maintenance interest cover ratio (PMICR) below our negative rating sensitivity and reduced gearing headroom. We will revise the Outlook to Stable or downgrade the ratings depending on the final determination for AMP7 and the company's performance on totex and outcome delivery incentives (ODI) at the start of AMP7. We view the company's proposal to substitute issuers as rating neutral.

## Key Rating Drivers

**Future Regulatory Challenge:** For AMP7 from April 2020, Ofwat sets the cost of capital allowance at 2.3% based on RPI inflation, substantially lower than the 3.5% for the current price-control period, reducing operating cash flow generation. Ofwat also expects a step-change in cost efficiency and will apply tougher benchmarking and cost baselines. For Dwr Cymru, Ofwat has queried GBP450 million of proposed capex, although the plan has customer support and 70% of this is not discretionary. The company hopes to narrow the differences with Ofwat in the draft determination due on 18 July 2019. The company is due to publish its representations with respect to July's draft determination on August 30.

**Pressure on PMICR:** We expect Dwr Cymru to be free cash flow negative for the rest of AMP6 and all of AMP7. An expected reduction in EBITDA in fiscal year to end-March 2021 (FY21) with AMP7 coincides with a peak in gearing on net debt/RCV regulatory capital value at just above 60% compared with our negative rating sensitivity of 65% (revised down from 67.5%, reflecting our view of higher business risk in the UK water sector). PMICR depends on totex, ODI and cost of debt performance. As there is no totex, ODI or cost of debt outperformance (Fitch assumes 4.36%-4.60%) over AMP7 in our rating case, it will be hard for the PMICR to recover to our negative rating sensitivity of 1.5x (revised up from 1.4x).

We may tolerate a slightly weaker PMICR considering the remaining gearing headroom, but a revision of the Outlook to Stable will depend on the final determination for AMP7 and the company's performance.

**Delivery on AMP6:** Dwr Cymru's totex continued with outperformance in the fiscal year to end-March 2018 (FY18), although this almost entirely reflects the catch-up on capex compared with the original profiling for AMP6. The company addressed one of the areas of poor regulatory performance, written complaints, but the other outstanding area, reliability of supply, was hit by one-offs in FY18. The company's regulatory performance for FY18 was mostly in the upper quartile. However, an increase in opex based on weather-related issues has negatively affected EBITDA in FY19.

**Increase in Customer Distributions:** A non-profit organisation with no dividends to shareholders, Dwr Cymru overspent baseline capex, raising regulatory gearing and lowering PMICR in AMP5. The company expects to increase social tariffs during AMP6 by GBP33 million compared with its previous forecast and to reinforce asset resilience and operational sustainability. The company is reviewing distribution policy consistent with gearing on net debt/RCV of 60%. Dwr Cymru also has creditor approval to invest up to GBP100 million outside the regulatory ring-fence in energy from waste and competitive retail business for business customers in England.

**Liquidity and Refinancing:** We view the company's new liquidity facility provided on a rolling five-year basis by Assured Guaranty Municipal Corp., and its proposal to substitute issuer as per the security trust and intercreditor deed proposal dated 17 May 2019, as rating neutral. Dwr Cymru is considering refinancing the 6.91% GBP325 million notes due March 2021, which we assume would reduce its average cost of debt. The capital structure benefits from committed reserve liquidity facilities and enhancements including trigger mechanisms with profit distribution lock-up provisions tied to financial, positive and negative covenants.

## Rating Derivation Relative to Peers

Rating Derivation vs. Peers	
Peer Comparison	The rating reflects a lower level of target leverage on net debt/RCV at around 60% and our negative rating sensitivity of 65% compared with peers Yorkshire Water Services Finance Limited (Class A debt rated 'A', Outlook Negative) and Anglian Water Services Financing Plc (Class A debt rated 'A', Outlook Negative), with negative rating sensitivities at 67%. Offsetting this, we expect a PMICR level at around 1.4x to be weaker than for Yorkshire and in line with Anglian. Unlike its peers, Dwr Cymru does not pay dividends to external shareholders, but instead makes discretionary customer distributions affecting PMICR. Any discussion around nationalisation applies to the English water companies only.
Parent/Subsidiary Linkage	No parent/subsidiary linkage is applicable.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	n.a.
Source: Fitch Ratings, Fitch Solutions	

## Rating Sensitivities

### Developments that May, Individually or Collectively, Lead to Positive Rating Action

- A sustainable reduction in target gearing to below 57% and improvement of PMICR above 1.7x

### Developments that May, Individually or Collectively, Lead to Negative Rating Action

- A marked deterioration in operating and regulatory performance or adverse changes to the regulatory framework
- A sustained increase in gearing to 65% and decline in PMICR to below 1.5x

## Liquidity and Debt Structure

---

**Sufficient Liquidity:** At 31 March 2019, the company's undrawn credit facilities and cash totalled GBP518 million. This includes revolving credit facilities totalling GBP170 million. A European Investment Bank loan facility of GBP250 million was fully drawn on 17 December 2018.

**ESG Considerations:** Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

## Liquidity and Debt Maturity Scenario with No Refinancing\*

Available Liquidity (GBPm)	2020F	2021F
Beginning Cash Balance	501	204
Rating Case FCF after Acquisitions and Divestitures	-115	-184
<b>Total Available Liquidity (A)</b>	<b>386</b>	<b>20</b>
<b>Liquidity Uses</b>		
Debt Maturities	-54	-388
<b>Total Liquidity Uses (B)</b>	<b>-54</b>	<b>-388</b>
<b>Liquidity Calculation</b>		
Ending Cash Balance (A+B)	332	-368
Revolver Availability	170	170
<b>Ending Liquidity</b>	<b>502</b>	<b>-198</b>
<b>Liquidity Score</b>	<b>9.3</b>	<b>0.5</b>
Source: Fitch Ratings		
*Excludes rolling 5-year perpetual facility issued in April 2019.		

Scheduled Debt Maturities	Original
Statement Date	31 March 2019
2020	54
2021	388
2022	65
2023	52
<b>2024</b>	<b>282</b>
Thereafter	2,873
<b>Total</b>	<b>3,714</b>
Source: Fitch Ratings, Fitch Solutions	

## Key Assumptions

---

### Fitch's Key Assumptions within Our Rating Case for the Issuer

- Allowed weighted average cost of capital in AMP7 of 2.3% (RPI-based) and 3.3% (CPIH-based) in real terms, excluding retail margins
- Average pay as you go rate of 46.3%, average run-off rate of 3.5% for FY21-FY25
- AMP7 totex of GBP3,546 million (nominal)
- Zero totex outperformance, zero ODI-related rewards in AMP7
- Retail EBITDA of around GBP15 million a year average during AMP7
- Average cash interest cost falls from 4.2% in FY20 to 3.6% in FY25
- 65% of total debt is index-linked, average cost of new debt is 3.0%
- Pension deficit recovery payments of GBP3 million a year in AMP7

## Financial Data

(GBPm)	Historical			Forecast		
	Mar 2017	Mar 2018	Mar 2019	Mar 2020F	Mar 2021F	Mar 2022F
<b>Summary Income Statement</b>						
Gross Revenue	744	757	782	811	793	815
Revenue Growth (%)	0.1	1.8	3.3	4.0	-2.2	2.8
Operating EBITDA (Before Income from Associates)	434	444	446	507	415	429
Operating EBITDA Margin (%)	58.4	58.7	57.0	62.5	52.3	52.6
Operating EBITDAR	434	444	446	507	415	429
Operating EBITDAR Margin (%)	58.4	58.7	57.0	62.5	52.3	52.6
Operating EBIT	104	77	153	249	194	196
Operating EBIT Margin (%)	13.9	10.2	19.5	30.8	24.5	24.0
Gross Interest Expense	-147	-181	-169	-145	-154	-143
Pretax Income (Including Associate Income/Loss)	-64	-46	-124	104	40	53
<b>Summary Balance Sheet</b>						
Readily Available Cash and Equivalents	68	275	501	127	127	126
Total Debt with Equity Credit	2,964	3,348	3,715	3,642	3,879	4,046
Total Adjusted Debt with Equity Credit	2,964	3,348	3,715	3,642	3,879	4,046
Net Debt	2,896	3,073	3,214	3,515	3,752	3,920
<b>Summary Cash Flow Statement</b>						
Operating EBITDA	434	444	446	507	415	429
Cash Interest Paid	-125	-135	-133	-145	-154	-143
Cash Tax	1	0	1	0	0	0
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	3	0	0	0	0	0
Other Items Before FFO	-11	-14	-9	0	-4	-4
Funds Flow from Operations	306	299	309	362	258	283
FFO Margin (%)	41.2	39.6	39.6	44.6	32.5	34.7
Change in Working Capital	-17	5	8	-9	9	-8
Cash Flow from Operations (Fitch Defined)	289	304	318	353	267	275
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-325	-425	-468			
Capital Intensity (Capex/Revenue) (%)	43.7	56.2	59.8			
Common Dividends	-30	0	0			
Free Cash Flow	-66	-121	-150			
Net Acquisitions and Divestitures	0	3	1			
Other Investing and Financing Cash Flow Items	0	-1	0	0	0	0
Net Debt Proceeds	3	325	362	-36	185	114
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	-63	207	213	-151	1	-2
<b>Calculations for Forecast Publication</b>						
Capex, Dividends, Acquisitions and Other Items Before FCF	-355	-422	-467	-468	-451	-390
Free Cash Flow After Acquisitions and Divestitures	-66	-118	-149	-115	-185	-116

Free Cash Flow Margin (After Net Acquisitions) (%)	-8.9	-15.6	-19.1	-14.2	-23.3	-14.2
<b>Coverage Ratios</b>						
FFO Interest Coverage (x)	3.4	3.2	3.3	3.5	2.7	3.0
FFO Fixed Charge Coverage (x)	3.4	3.2	3.3	3.5	2.7	3.0
Operating EBITDAR/Interest Paid + Rents (x)	3.5	3.3	3.4	3.5	2.7	3.0
Operating EBITDA/Interest Paid (x)	3.5	3.3	3.4	3.5	2.7	3.0
<b>Leverage Ratios</b>						
Total Adjusted Debt/Operating EBITDAR (x)	6.8	7.5	8.3	7.2	9.3	9.4
Total Adjusted Net Debt/Operating EBITDAR (x)	6.6	6.9	7.2	6.9	9.0	9.1
Total Debt with Equity Credit/Operating EBITDA (x)	6.8	7.5	8.3	7.2	9.3	9.4
FFO Adjusted Leverage (x)	6.9	7.8	8.5	7.2	9.4	9.5
FFO Adjusted Net Leverage (x)	6.8	7.1	7.4	6.9	9.1	9.2
Net debt / RAB (%)	58	56.2	59.3	59.5	60.3	60.2
PMICR (x)	1.6	1.3	1.4	1.5	1.2	1.3
Source: Fitch Ratings, Fitch Solutions						

#### How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

FitchRatings

Dwr Cymru (Financing) Ltd



Corporates Ratings Navigator  
EMEA Regulated Networks

Factor Levels	Business Profile										Issuer Default Rating
	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility	
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A-
bbb+											BBB+
bbb											BBB
bbb-											BBB-
bb+											BB+
bb											BB
bb-											BB-
b+											B+
b											B
b-											B-
ccc+											CCC+
ccc											CCC
ccc-											CCC-
cc											CC
c											C
d or rd											D or RD



Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries w here economic value is created and w here assets are located.
aa	Financial Access	aa	Very strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
b-	Systemic Governance	aa	Systemic governance (eg rule of law , corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
ccc+			

Sector Positioning

a	Operation Type	bbb	Local or regional monopoly asset owners, regional monopoly asset operators.
a-	Non-Regulated Earnings (% of Total Earnings)	a	up to 10%
bbb+			
bbb			
bbb-			

Asset Base

a	Diversification	bbb	Limited diversification by geography w/out regulatory diversification; regional utility.
a-	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
bbb+	Asset Quality and Residual Life	bbb	Md-range asset quality not affecting opex and capex requirements compared w/ith peers. The residual life of regulatory assets is average.
bbb			
bbb-			

Profitability and Cash Flow

a-	Return on Capital		n.a.
bbb+	Volatility of Profitability	bbb	Stability and predictability of profit in line w/ith utility peers.
bbb	Investment Cycle	bbb	Investment cycle position and dividend policy contributing to negative free cash flow. Moderate flexibility in smoothing capex plans.
bbb-			
bb+			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy w/ith only modest deviations allow ed.
a-	Liquidity	a	Very comfortable liquidity. Well spread debt maturity schedule. Diversified sources of funding.
bbb+	FFO Fixed-Charge Cover	bbb	3.5x
bbb	FX Exposure	aa	No material FX mismatch.
bbb-	PMICR: (CFO - Maintenance Capex)/Interest	bbb	1.5x

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

a+	Management Strategy	a	Coherent strategy and good track record in implementation.
a	Governance Structure	a	Experienced board exercising effective checks and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb+	Financial Transparency	bbb	Good-quality reporting w/out significant failings. Consistent w/ith the average of listed companies in major exchanges.
bbb			

Regulatory Environment

aa-	Independence, Transparency, Predictability	a	Transparent frameworks w/ith strong track record and multi-year predictable tariffs set by independent regulators; little political risk.
a+	Licensing, Ring-Fencing, Concessioning	a	Licensing includes effective ring-fencing provisions w/ith creditworthiness requirements; limited concession renew al risk.
a	Cost and Investment Recovery	a	Tariff setting w/ith challenge mechanisms that may marginally limit cost and investment recovery, w/ith little regulatory lag.
a-	Volume and Price Risk	a	High insulation from price and volume risk, little revenue under-recovery.
bbb+			

Operations

a+	Performance Measures	a	Key performance measures in line w/ith or above sector average and/or regulatory target.
a	Counterparty Risk	bbb	Medium counterparty risk; medium collection rates for w ater suppliers. Some exposure to cyclical industries and/or customers.
a-			
bbb+			
bbb			

Financial Structure

aa-	Lease-Adjusted FFO Gross Leverage	b	8.0x
a+	Lease-Adjusted FFO Net Leverage	b	7.5x
a	Net Debt/Asset Base	a	60%
a-			
bbb+			

Credit-Relevant ESG Derivation

				Overall ESG
Dwr Cymru (Financing) Ltd has 12 ESG potential rating drivers				
key driver	0	issues	5	
Energy and fuel use in operations; entities' financial targets for losses/shrinkage				
driver	0	issues	4	
Water usage in operations; water utilities' financial targets for water quality, leakage and usage				
potential driver	12	issues	3	
Impact of waste including pollution incidents; discharge compliance; sludge disposal				
Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)				
not a rating driver	1	issues	2	
Product affordability and access				
Quality and safety of products and services; data security				
not a rating driver	1	issues	1	

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Dwr Cymru (Financing) Ltd has 12 ESG potential rating drivers

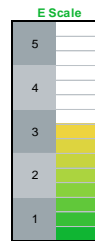
- ➔ Dwr Cymru (Financing) Ltd has exposure to energy regulatory risk but this has very low impact on the rating.
- ➔ Dwr Cymru (Financing) Ltd has exposure to water management risk but this has very low impact on the rating.
- ➔ Dwr Cymru (Financing) Ltd has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Dwr Cymru (Financing) Ltd has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Dwr Cymru (Financing) Ltd has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Dwr Cymru (Financing) Ltd has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

				Overall ESG Scale	
key driver	0	issues	5		
driver	0	issues	4		
potential driver	12	issues	3		
not a rating driver	1	issues	2		
	1	issues	1		

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility
Waste & Hazardous Materials Management, Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility
Exposure to Environmental Impacts	3	Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)	Operations; Profitability and Cash Flow; Financial Flexibility



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

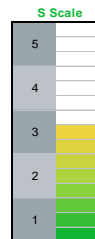
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

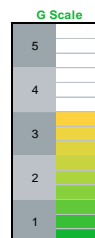
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulatory Environment
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Structure; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Operations; Profitability and Cash Flow



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

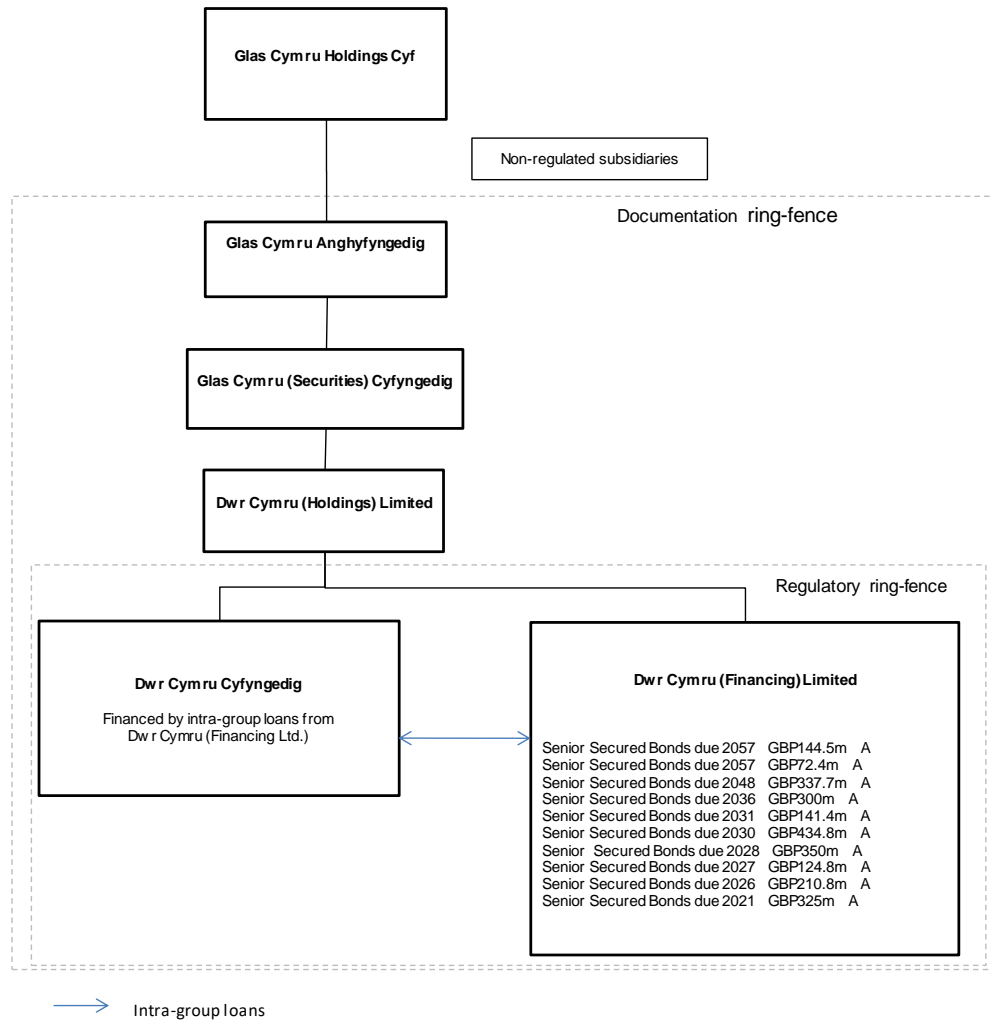


CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low or" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch, Company, As at March 2019

## Peer Financial Summary

Company	Class A Debt	Financial Statement Date	Gross Revenue	Operating EBITDA (Before Income From Associates)	Common Dividends	FFO Fixed Charge Coverage (x)	FFO Adjusted Net Leverage (x)
Dwr Cymru Cyfyngedig	A/ Negative						
		2019	782	446	0	3.3	7.4
		2018	757	444	0	3.2	7.1
		2017	744	434	-30	3.4	6.8
Anglian Water Services Financing Plc	A/ Negative						
		2018	1,249	680	-278	2.6	9.6
		2017	1,227	674	-320	2.7	8.9
		2016	1,185	635	-345	2.6	9.5
Yorkshire Water Services Finance Limited.	A/ Negative						
		2018	1,027	573	-89	2.5	8.4
		2017	1,003	559	-139	2.4	8.2
		2016	976	545	-91	2.3	8.5

Source: Fitch Ratings, Fitch Solutions

## Reconciliation of Key Financial Metrics

(GBP Millions, As reported)	31 Mar 2019
<b>Income Statement Summary</b>	
Operating EBITDA	446
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
<b>= Operating EBITDA After Associates and Minorities (k)</b>	<b>446</b>
<b>+ Operating Lease Expense Treated as Capitalised (h)</b>	<b>0</b>
<b>= Operating EBITDAR after Associates and Minorities (j)</b>	<b>446</b>
<b>Debt &amp; Cash Summary</b>	
<b>Total Debt with Equity Credit (l)</b>	<b>3,715</b>
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
<b>= Total Adjusted Debt with Equity Credit (a)</b>	<b>3,715</b>
Readily Available Cash [Fitch-Defined]	501
+ Readily Available Marketable Securities [Fitch-Defined]	0
<b>= Readily Available Cash &amp; Equivalents (o)</b>	<b>501</b>
<b>Total Adjusted Net Debt (b)</b>	<b>3,214</b>
<b>Cash-Flow Summary</b>	
<b>Preferred Dividends (Paid) (f)</b>	<b>0</b>
Interest Received	5
<b>+ Interest (Paid) (d)</b>	<b>-133</b>
<b>= Net Finance Charge (e)</b>	<b>-128</b>
<b>Funds From Operations [FFO] (c)</b>	<b>309</b>
+ Change in Working Capital [Fitch-Defined]	8
<b>= Cash Flow from Operations [CFO] (n)</b>	<b>318</b>
<b>Capital Expenditures (m)</b>	<b>-468</b>
<b>Multiple applied to Capitalised Leases</b>	<b>0.0</b>
<b>Gross Leverage</b>	
<b>Total Adjusted Debt / Op. EBITDAR* [x] (a/j)</b>	<b>8.3</b>
<b>FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))</b>	<b>8.5</b>
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)</b>	<b>8.3</b>
<b>Net Leverage</b>	
<b>Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)</b>	<b>7.2</b>
<b>FFO Adjusted Net Leverage [x] (b/(c-e+h-f))</b>	<b>7.4</b>
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))</b>	<b>-21.4</b>
<b>Coverage</b>	
<b>Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)</b>	<b>3.4</b>
<b>Op. EBITDA / Interest Paid* [x] (k/(-d))</b>	<b>3.4</b>
<b>FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))</b>	<b>3.3</b>
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
<b>FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))</b>	<b>3.3</b>
<i>(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch, based on information from company reports.	

Source: Fitch Ratings, Fitch Solutions, Company

## Fitch Adjustment Reconciliation

	Reported Values 31 Mar 19	Sum of Fitch Adjustments	- CORP - other	Other Adjustment	Adjusted Values
<b>Income Statement Summary</b>					
Revenue	782	0			782
Operating EBITDAR	362	84	84		446
Operating EBITDAR after Associates and Minorities	362	84	84		446
Operating Lease Expense	0	0			0
Operating EBITDA	362	84	84		446
Operating EBITDA after Associates and Minorities	362	84	84		446
Operating EBIT	69	84	84	-0	153
<b>Debt &amp; Cash Summary</b>					
Total Debt With Equity Credit	3,766	-51	-51		3,715
Total Adjusted Debt With Equity Credit	3,766	-51	-51		3,715
Lease-Equivalent Debt	0	0			0
Other Off-Balance Sheet Debt	0	0			0
Readily Available Cash & Equivalents	501	0			501
Not Readily Available Cash & Equivalents	0	0			0
<b>Cash-Flow Summary</b>					
Preferred Dividends (Paid)	0	0			0
Interest Received	5	0			5
Interest (Paid)	-133	0			-133
Funds From Operations [FFO]	225	84	84		309
Change in Working Capital [Fitch-Defined]	8	0			8
Cash Flow from Operations [CFO]	234	84	84		318
Non-Operating/Non-Recurring Cash Flow	0	0			0
Capital (Expenditures)	-384	-84	-84		-468
Common Dividends (Paid)	0	0			0
Free Cash Flow [FCF]	-150	0			-150
<b>Gross Leverage</b>					
Total Adjusted Debt / Op. EBITDAR* [x]	10.4				8.3
FFO Adjusted Leverage [x]	10.7				8.5
Total Debt With Equity Credit / Op. EBITDA* [x]	10.4				8.3
<b>Net Leverage</b>					
Total Adjusted Net Debt / Op. EBITDAR* [x]	9.0				7.2
FFO Adjusted Net Leverage [x]	9.2				7.4
Total Net Debt / (CFO - Capex) [x]	-21.8				-21.4
<b>Coverage</b>					
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	2.7				3.4
Op. EBITDA / Interest Paid* [x]	2.7				3.4
FFO Fixed Charge Coverage [x]	2.7				3.3
FFO Interest Coverage [x]	2.7				3.3
*EBITDA/R after Dividends to Associates and Minorities					
Source: Fitch, based on information from company reports.					

Source: Fitch Ratings, Fitch Solutions, Company

## Related Research & Criteria

[Fitch Revises Dwr Cymru's Outlook to Negative from Stable, Affirms Ratings \(June 2019\)](#)

[Ofwat's Strengthening of Ring-Fencing Framework Credit-Neutral \(July 2019\)](#)

[What Investors Want to Know: UK Water - Pressure on Credit Quality Persists \(June 2019\)](#)

[Corporate Rating Criteria \(February 2019\)](#)

[Corporates Notching and Recovery Ratings Criteria \(March 2018\)](#)

## Analysts

**Chris Moore**

+44 20 3530 1683

[chris.moore@fitchratings.com](mailto:chris.moore@fitchratings.com)

**Harry Monthen**

+44 20 3530 1247

[harry.monthen@fitchratings.com](mailto:harry.monthen@fitchratings.com)



The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, New York, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.