MOODY'S
INVESTORS SERVICE

CREDIT OPINION
14 February 2023

Update

Send Your Feedback

RATINGS

Dwr Cymru Cyfyngedig

Domicile	Cardiff, United Kingdom
Long Term Rating	A3
Type	LT Corporate Family Ratings - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Graham W Taylor +44.20.7772.5206
Senior Vice President
graham.taylor@moodys.com

Stefanie Voelz +44.20.7772.5555
VP-Sr Credit Officer
stefanie.voelz@moodys.com

Joseph Guerin +44.20.7772.5281
Associate Analyst
joseph.guerin@moodys.com

Paul Marty +33.1.5330.3371
Senior Vice President/Manager
paul.marty@moodys.com

Dwr Cymru Cyfyngedig

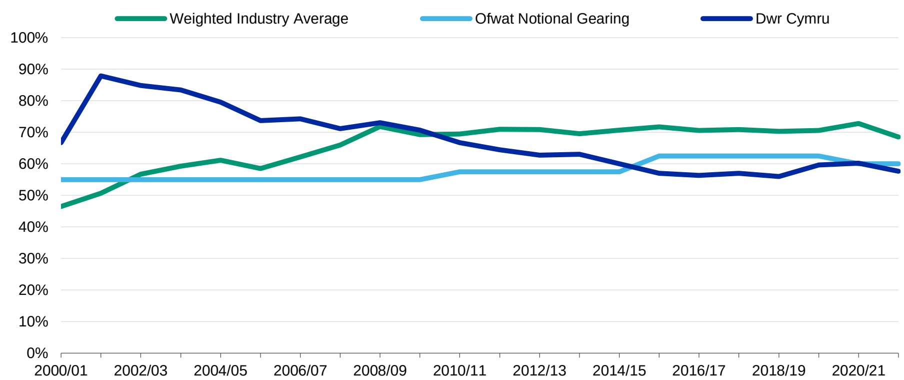
Update to credit analysis

Summary

The credit quality of Dwr Cymru Cyfyngedig (Welsh Water, A3 stable) is supported by (1) its low business risk profile as the monopoly provider of essential water and sewerage services in Wales, with stable and predictable cash flow generated under a transparent and well-established regulatory regime; (2) a low level of gearing below 60%, calculated as the group's consolidated net debt to regulatory capital value (RCV); (3) the not-for-dividend status of Welsh Water's ultimate parent company, Glas Cymru Holdings Cyfyngedig, which allows Welsh Water to manage the distribution of its profit to maintain the company's stated gearing target of around 60% net debt to RCV; and (4) the more cautious approach to market reform by the Welsh Government.

However, credit quality is constrained by high cash interest costs as a result of inflation-linked derivatives, and interest coverage ratios that will consequently be very weak during the 2020-25 regulatory period (AMP7).

Exhibit 1
Welsh Water's gearing is the second-lowest in the industry
Regulatory gearing ratios as reported by companies to Ofwat



Gearing reflects regulatory measure, which excludes Moody's standard adjustments for pension obligations or operating leases
Source: Companies' performance reports, Ofwat, Moody's Investors Service

Credit strengths

» Stable cash flows generated from the provision of monopoly water and wastewater services

» Well established, transparent and predictable regulatory regime

» Moderate financial leverage and not-for-dividend status of parent company provide significant financial flexibility

» Welsh government's more cautious approach to market reform than in England

Credit challenges

» Very weak near-term interest coverage because of inflation-linked derivatives

» More demanding efficiency and performance targets that could increase cash volatility

» Further changes to regulation, aimed at increasing competition in certain parts of the value chain, which may create additional financial pressure for the sector, although Welsh companies are less exposed

Rating outlook

Although Welsh Water's Adjusted Interest Coverage Ratio (AICR) will fall well below our guidance for the current rating over the remainder of AMP7, the stable outlook reflects our expectation that AICR will recover as inflation moderates, supported in AMP8 by regulatory true-up mechanisms and updated cost allowances. The stable outlook also reflects our expectation that Welsh Water will maintain net debt below 60% of RCV.

Factors that could lead to an upgrade

» Net debt to RCV consistently below 55% and AICR comfortably above 1.5x.

» Any upgrade would also have to take into account the evolution of the regulatory and business risks at that time.

Factors that could lead to a downgrade

» Net debt to RCV persistently above 65% or AICR persistently below 1.35x.

» In addition, downward rating pressure could result from (1) diversification away from Welsh Water's core regulated water and wastewater business leading to an increase of the overall business risk, or credit risk implications for Welsh Water from future developments of the wider Glas Cymru group; (2) higher business risk for the sector as a result of legal or regulatory changes leading to a reduction in the stability and predictability of regulatory earnings, which in each case are not offset by other credit-strengthening measures; or (3) unforeseen funding difficulties.

Key indicators

Exhibit 2

Dwr Cymru Cyfyngedig

	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	2023-proj.	2024-proj.
Adjusted Interest Coverage Ratio	1.4x	1.5x	1.5x	0.5x	0.8x	0.8x	0.8x
Net Debt / Regulated Asset Base	57.4%	58.3%	60.0%	61.4%	58.7%	58%	59%
FFO / Net Debt	9.9%	9.4%	6.4%	6.2%	6.5%	9.1%	7.9%
RCF / Net Debt	9.9%	9.4%	6.4%	6.2%	6.5%	9.1%	7.9%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Source: Moody's Financial Metrics TM

Profile

With an RCV of around £6.5 billion as of March 2022, Dwr Cymru Cyfyngedig (Welsh Water) is the sixth-largest of the ten original water and sewerage companies in England and Wales. It serves a population of approximately 3.1 million domestic customers and 110,000 business customer sites in a region that covers most of Wales and parts of Herefordshire and Cheshire.

Welsh Water's ultimate parent company is Glas Cymru Holdings Cyfyngedig (Glas Cymru), a not-for-shareholder-return company limited by guarantee. In the financial year ending March 2022, the Glas Cymru group reported revenue of £810 million and operating profit of £80.7 million, primarily attributable to Welsh Water.

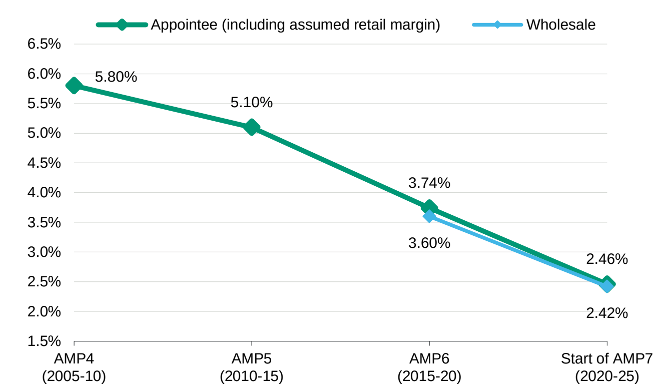
Detailed credit considerations

Stable and transparent regulatory regime

The UK water sector benefits from a transparent, stable and predictable regulatory regime, which is based on clearly defined risk allocation principles and their consistent application in setting water tariffs by an independent regulatory body, the Water Services Regulation Authority (Ofwat).

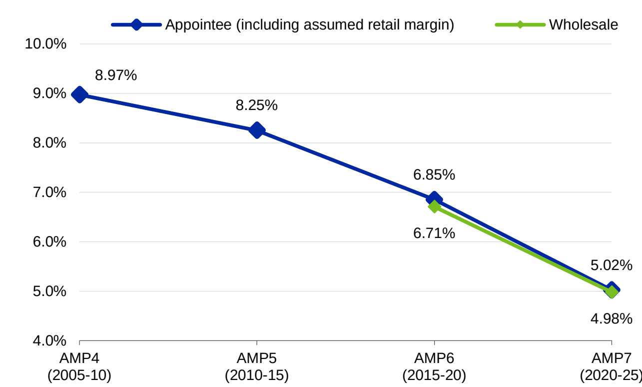
Ofwat published its final determination for the current 2020-25 period, known as AMP7, in December 2019. The determination included a significant cut in allowed cash returns to ca. 2.42% for the wholesale activities at the start of the new period, with half of the regulatory assets as of March 2020 linked to the Retail Prices Index (RPI) and the remainder, as well as all additions during the period, linked to the Consumer Prices Index adjusted for housing costs (CPIH). As the share of regulatory assets linked to CPIH grows over time, we estimate that most companies will have an average allowed cash return of around 2.5% over AMP7. For comparison and on a like-for-like RPI-stripped basis, allowed returns fell by close to 50% to 1.92% (1.96% including retail margin) in AMP7 from 3.6% (3.74% including the retail margin) in AMP6 (April 2015 - March 2020).

Exhibit 3
Significant cut in allowed returns, despite lower inflation index
Real (cash) allowed returns



Since PR14, Ofwat has separated retail activities from the wholesale services.
Source: Ofwat

Exhibit 4
Unprecedented cut in nominal allowed returns
Nominal (total) returns including forecast inflation of RCV



Assuming ex ante expectation of 3% RPI inflation and 2% CPI inflation
Source: Ofwat, Moody's Investors Service estimates

The final determination introduced increasing efficiency challenges for companies, including (1) totex efficiency, with a frontier shift of 1.1%, set at the upper quartile level as opposed to the sector average level; and (2) an outcome delivery incentives mechanism calibrated so that only the top quartile performers can achieve a reward. Consequently, average as well as below average performers could be weakened, putting a further strain on companies' cash flow.

Welsh Water did not appeal its determination to the Competition and Markets Authority (CMA). In its final decision for the four water companies that chose to appeal their determinations, the CMA allowed a 30 bps higher allowed return and a lower benchmark cost of new debt, which means that these companies will receive a larger positive adjustment to cash flow after 2025 if interest rates remain above the benchmark. These decisions will not directly benefit Welsh Water, although they may influence Ofwat's decisions in future periods.

Ofwat published its final methodology for the 2025-30 period (AMP8) in December 2022, outlining its approach to setting allowed returns, incentivising operational performance and establishing cost targets for the five-year regulatory period commencing on 1 April 2025 (see Regulated Water Utilities – UK: PR24 methodology increases risk for weak performers, 16 December 2022). The regulator's early view of the cost of capital, based on average market conditions during September 2022, is 3.29% at the appointee level, an increase from the current period. Ofwat also confirmed that it will transition to full CPIH indexation of companies' RCV in PR24; because CPIH is structurally lower than RPI, the "early view" of the cost of capital implies an approximately 30% higher return in cash terms, compared to the current period. The best performers will enjoy higher incentive payments, but others will face greater penalties where they fall short of Ofwat's targets.

In July 2022, Ofwat also published a consultation on proposed licence changes to "strengthen the regulatory ring-fencing provisions". These include a change in the rating trigger for a cash lock-up under companies' licences to Baa2/BBB negative from Baa3/BBB negative, based on the lowest "issuer credit rating" assigned by any Credit Rating Agency (see Regulated Water Utilities – UK: Ofwat's strengthening of ring-fence positive for OpCos, but negative for HoldCos, 29 July 2022).

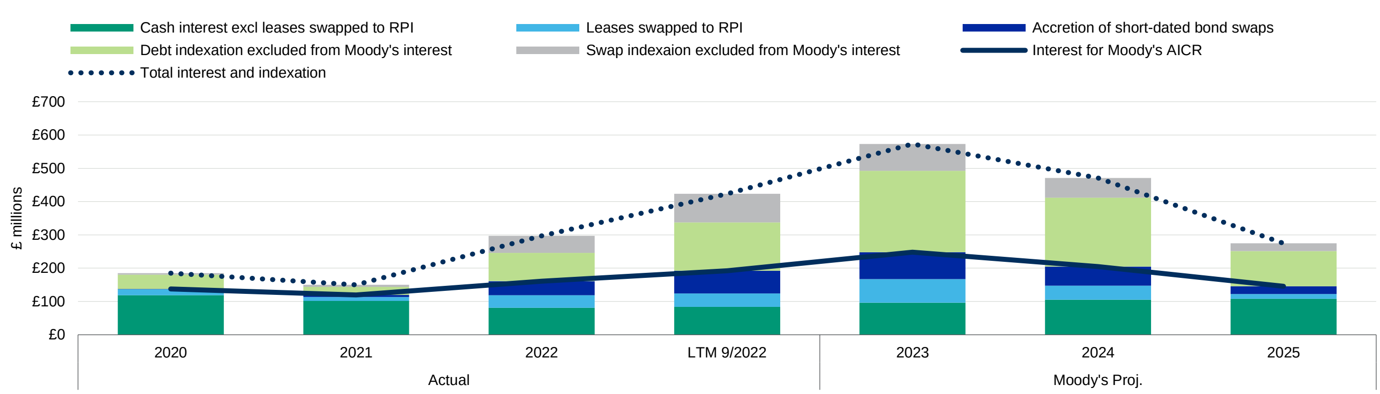
Higher inflation will lead to weaker and more volatile credit metrics in AMP7

Welsh Water's average borrowing costs have historically been above the sector average. To reduce its funding costs, Welsh Water raised £300 million senior bonds and £200 million subordinated (junior) bonds in February 2020 at fixed rates of 1.375% and 1.625%, respectively. In April 2021, Welsh Water issued a further £300 million of subordinated (junior) bonds at a fixed rate of 2.375%. Alongside these debt issuances, the company entered into a number of inflation-linked swaps. The February 2020 notes were swapped to a negative RPI-linked coupon of -1.6%, on average, and the April 2021 notes to an RPI-linked coupon of -1.1%. The company also entered into an inflation-linked derivative contract to swap £350 million bonds due in 2028 from a 6% fixed rate to a RPI-linked exposure. These transactions initially reduced the company's borrowing costs, but increased the share of the company's debt linked to inflation to 83%, above the sector average of 53%.

Inflation in the UK has risen sharply since the start of 2021, reaching 9.2% under the CPIH measure and 13.4% under the RPI measure in December 2022. Prolonged high inflation tends to be positive for UK water companies, but timing issues can affect cash flow generation and high inflation increases accretion payable under index-linked debt and swap. This is particularly true for Welsh Water because many of its inflation-linked derivatives, linked to finance leases, make annual payments based on actual inflation. In addition, two of the company's recent swaps are short-dated, with maturities falling during AMP8. This differs from other water companies, and Welsh Water's earlier bond swaps, where accretion is usually deferred for at least ten years. We treat the RPI-linked payments on the finance lease and short-dated swaps as part of interest expense when calculating Welsh Water's AICR.

As a result of rising inflation, the adjusted gross interest we use in calculating Welsh Water's AICR rose to £161 million in 2021-22 from £120 million in 2020-21, despite the benefit of refinancing, and we estimate that it will rise to around £250 million in 2022-23 before declining if inflation moderates in line with our forecasts. Primarily because of this, we expect Welsh Water's AICR to remain very weak over the next two years, even as revenue under-recoveries reverse and social tariff contributions moderate.

Exhibit 5
We expect higher inflation to drive higher interest expense for several years



Source: Moody's Investors Service

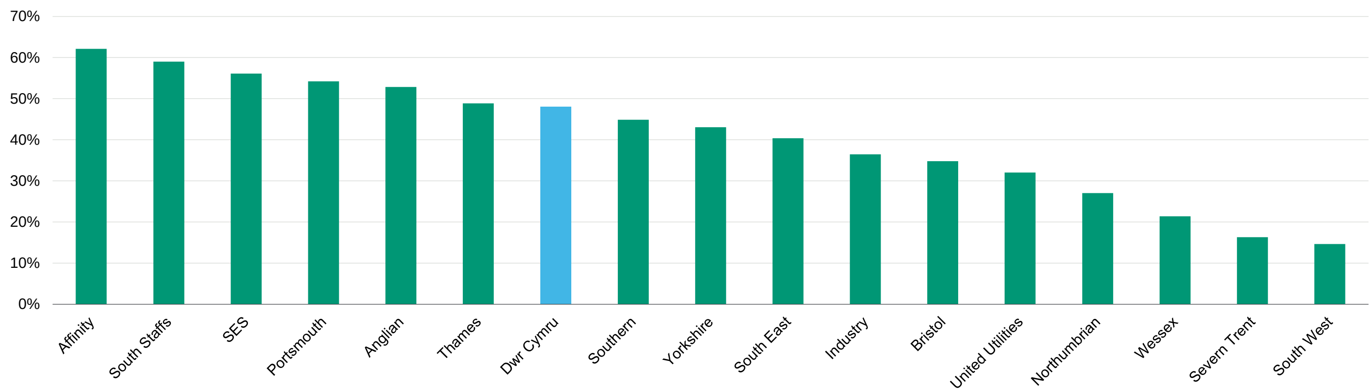
As well as increasing financing costs, high inflation will also cause Welsh Water's operating costs to rise faster than its revenue. For example, customer bills for 2022-23 were based on CPIH inflation in November 2021, which was just 4.6%, whereas elements of Welsh Water's cost base, particularly on energy, materials and chemicals, reflect the significantly higher rate of inflation experienced since then. Energy is a major cost for water companies and particularly for Welsh Water; energy made up 23% of its operating costs in 2021-22, compared to an industry average of 16%, because of the topography of its region. Customer bills for 2023-24 will rise based on November 2022 CPIH of 9.6%, which will alleviate margin pressure.

A period of high inflation will tend to reduce water companies' leverage, because the RCV will rise in line with inflation while many liabilities are fixed. However, this benefit will be more limited for Welsh Water than peers because index-linked debt and swaps are large relative to RCV, and because these are entirely linked to RPI, which has risen more quickly than CPIH.

Exhibit 6

Index-linked debt as a percentage of RCV

March 2022



Source: Companies' annual performance reports

History of reasonable operational performance

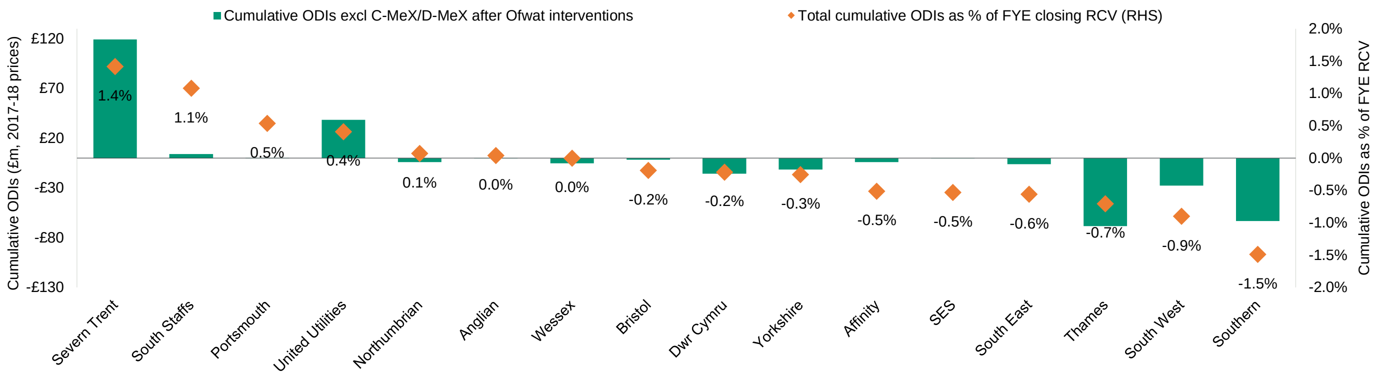
Welsh Water has a history of reasonably strong operational performance, with measures broadly in line with expectations in AMP6 and the first two years of AMP7.

In AMP6, the company suffered a small cumulative net penalty of £3.1 million (in 2012/13 prices) on outcome delivery incentives (ODIs) in aggregate for the five years, which is carried over into AMP7 revenue. The stringent performance targets set by the regulator for the current period on common ODIs, which apply to the industry as a whole, could lead to slightly larger performance penalties for Welsh Water in AMP7. Since the start of AMP7, Welsh Water incurred net ODI penalties for £15.6 million, equivalent to ca. 0.2% of its RCV.

Exhibit 7

Welsh Water received incurred modest ODI penalties in the first two years of AMP7

Net reward/penalty in 2017/18 prices in £ millions (LHS) and as a percentage of RCV (RHS)



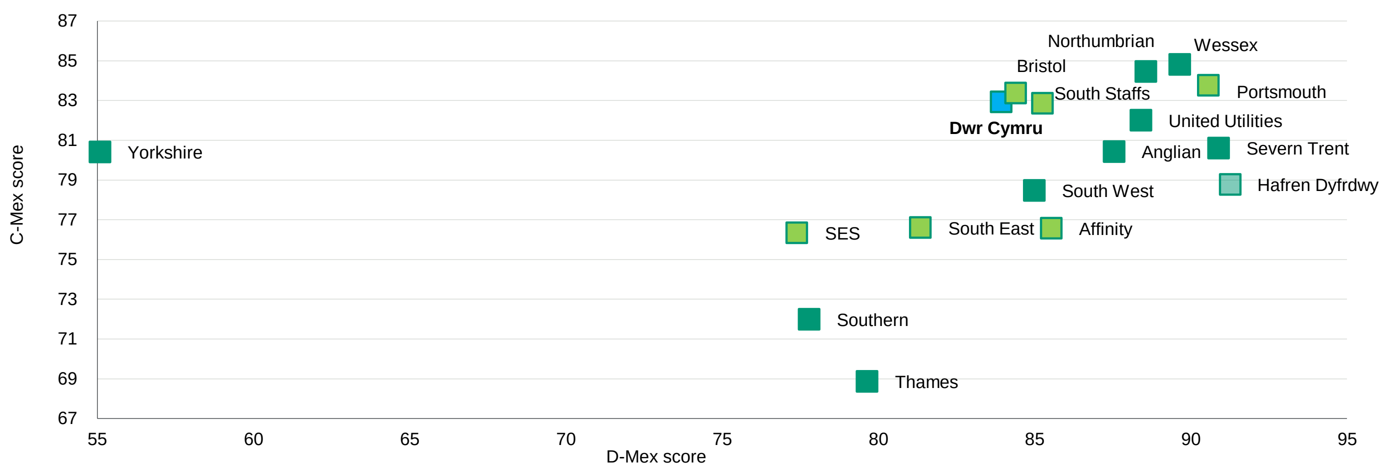
Source: Companies' annual performance reports

Welsh Water's performance on the service incentive mechanism (SIM) has historically been broadly in line with the industry average. Under the new performance measures, which distinguish between customer (C-MeX) and developer experience (D-MeX), Welsh Water achieved a strong position for customer services since the start of AMP7, resulting in a £3.1 million cumulated rewards, but remains broadly in the mid-field for developer service experience.

Exhibit 8

Welsh Water maintained a strong customer service performance in the second year of AMP7

Companies' C-Mex and D-Mex scores



Source: Companies' annual performance reports

While we expect the company to achieve rewards on some performance measures over AMP7, particularly around customer service, we estimate that Welsh Water will incur net performance penalties in the range of £30-40 million over the period. We expect most these penalties to be linked to stretching common targets on water supply interruptions and internal sewer flooding, as well as tightened bespoke targets on external sewer flooding.

Retail costs continue to be a source of modest underperformance, with Welsh Water's average cost to serve above the industry average due to the sparsely populated rural areas it covers and relatively high levels of social deprivation, which increases the cost of bad debt management.

Liquidity analysis

Welsh Water's liquidity is strong, underpinned by the stable and predictable cash flow generated by its regulated utility activity. As of 30 September 2022, the Glas group had available total liquidity of £685 million including (1) cash balances of £485 million and (2) undrawn revolving credit facilities for £200 million. The facilities are available until 2023 considering the one-year extension option is exercised.

As required by Welsh Water's financing agreements, the company has £135 million of additional facilities to cover up to 12 months of debt service payments.

Following the refinancing of the 2021 bond, which is fully funded, the next major debt maturities relate to the £211 million 4.377% RPI-linked bond, due in March 2026, and the £200 million junior bond issued in February 2020, maturing in the same year.

Structural considerations

Limited benefits from structural protections at current rating level

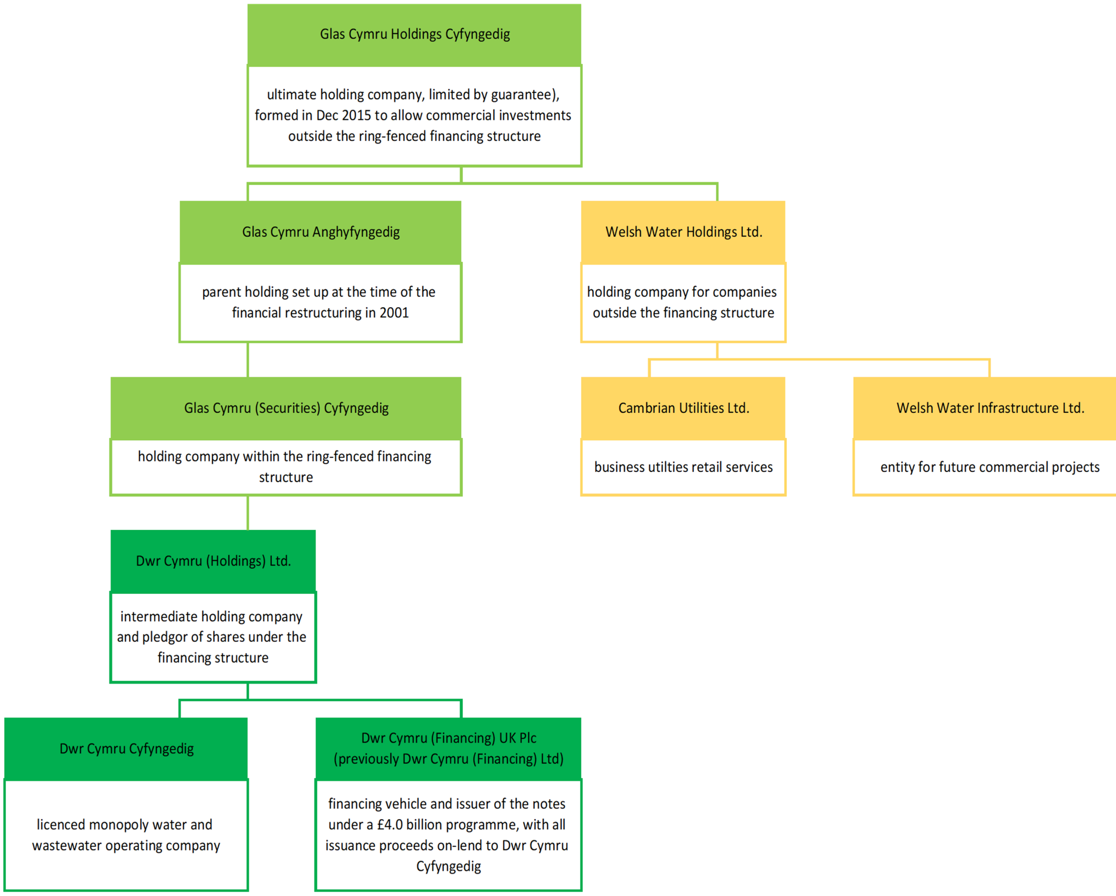
Welsh Water's debt structure includes a set of financial covenants, particularly limitations on additional indebtedness and permitted distributions (including customer dividends and distributions to the holding company), but the company currently maintains significant headroom against these. At the current A3 rating level, we therefore see limited value of credit structural features, which also include (1) the presence of a standby liquidity facility of £135 million covering 12 months of debt service; (2) a first-ranking fixed charge over the shares in the company; and (3) the agreement by financial creditors to give up their individual rights to petition for insolvency proceedings (which could modestly improve recovery in a default scenario).

Welsh Water's covenant structure is slightly different from other highly covenanted transactions in the UK water sector, as the protection offered by certain financial covenants is less critical for a company without equity shareholders. The benefit of the security provided to bondholders remains limited by the regulated and essential nature of the services provided by Welsh Water as governed by its licence and the Water Industry Act 1991.

Because the covenants provide limited protection at current rating levels, we also consider developments within the wider group that could have credit implications. In December 2015, the group set up a new holding company to allow investments outside of the existing financing structure, and management is permitted to invest up to £100 million in unregulated commercial activities. These small investments are discretionary and are not expected to jeopardize the financial strength of the core water and wastewater business.

Currently, all of the consolidated group's debt sits within the financing structure around the core operating company.

Exhibit 9
Simplified group and debt structure



Inter company loans	2,692.0
Other debt:	
EIB/KfW	675
Finance Leases	411

Notes issued:

Class A (guaranteed by Assured Guaranty (Europe) Plc) - senior and pari passu with Class B

A1	355.0	2028	IL - RPI	swapped in 2020 (£350m notional)
A4	454.0	2030	IL - RPI	
A5	148.0	2031	IL - RPI	
A6	151.0	2057	IL - RPI	swapped in Dec 2006 (£100m notional)

Class B (no financial guarantee) - senior and pari passu with Class A

B3	220.0	2026	IL - RPI	
B4	130.0	2027	IL - RPI	
B5	75.0	2057	IL - RPI	
B6	352.0	2048	IL - RPI	
B7	300.0	2036		
B8	304	2033	IL - RPI	swapped in 2020 (£300m notional)

Class C - junior, subordinated to Class A & B

C3	203	2026	IL - RPI	swapped in 2020 (£200m notional)
C4	300	2034	IL - RPI	swapped in 2021 (£300m notional)

Source: Company's investor report

Junior notes add additional layer to the company's capital structure

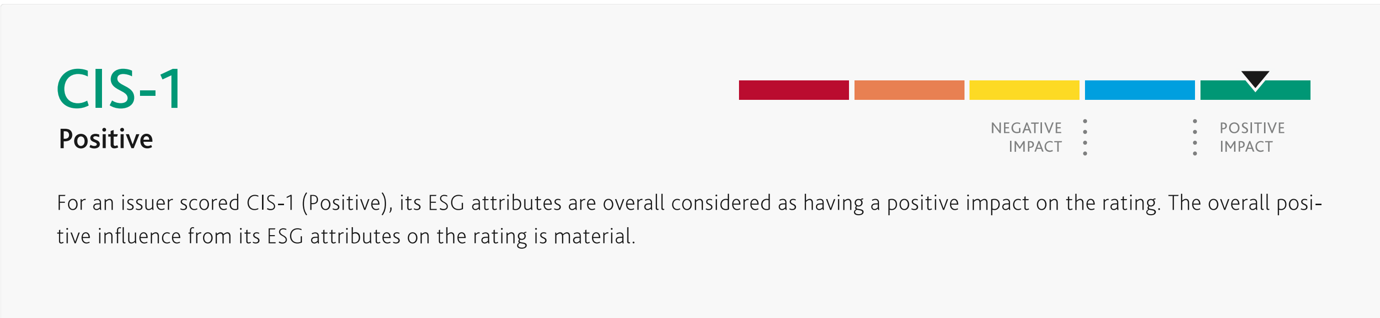
Since February 2020, Welsh Water has issued £500 million of subordinated (Class C) notes, which rank junior to Class A and B notes issued by Dwr Cymru (Financing) UK Plc. At inception of its current financing arrangements in 2001, Welsh Water issued £250 million Class C notes, equivalent to around 12-13% of total debt at that time, but these were repaid between 2005 and 2010, and Welsh Water did not have any Class C outstanding between 2010 and 2020.

The Baa2 rating of the junior notes, two notches below Welsh Water's A3 CFR, reflects (1) their subordinated position relative to the senior debt, which ranks ahead in the cash flow waterfall; and (2) the limited decision-making ability of junior noteholders so long as senior debt remains outstanding. The two-notch differential takes into account Moody's view that the senior and junior classes of debt have similar probabilities of default but the loss severity for the junior tranche will be significantly greater, post any default.

ESG considerations

Dwr Cymru Cyfyngedig's ESG Credit Impact Score is Positive CIS-1

Exhibit 10
ESG Credit Impact Score



Source: Moody's Investors Service

The ESG Credit Impact Score for Welsh Water is positive (**CIS-1**), reflecting positive governance risk characteristics balanced by moderate environmental and social risks. The overall credit impact score also recognises mitigating factors, in particular the regulated nature of water companies' activities and their investment requirements, including a forward-looking allowance for efficient cost. However, as investment needs grow to tackle climate change and population growth, the resulting increase in regulated assets and their remuneration will have to continue to be supported by the regulatory tariff framework in order to avoid negative credit implications in the future.

Exhibit 11
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

Moderate environmental risk (**E-3** issuer profile score) is largely associated with the company's sewerage operations. Treatment of sewage carries environmental risk, and failures can result in fines and reputational damage. In particular, discharges from combined sewers can affect beaches and bathing waters. Welsh Water is a strong performer on environmental measures, receiving a three-star rating in Natural Resources Wales's 2021 environmental performance report on the water companies.

According to an analysis by England's Environment Agency, overall water supply in England will need to increase by around 25% between 2025 and 2050. Although this exposure is most critical in southeast England, the Water Resources West region, including Welsh Water's service area, may need around 640Ml/d over the same time frame and faces pressure from other water users, including agriculture and industry. The region has some excess water supply sources available and – with further efficiency measures – could free up more water for cross-regional transfer.

Social

Social risks are moderately negative (**S-3**). Social risks for UK water companies are associated with public concern over operational performance, bills and dividend payments. Although Welsh Water has strong operational performance and a not-for-profit structure, it could be adversely affected by regulatory and political interventions to address wider concerns about the industry.

Governance

Welsh Water has positive governance characteristics (**G-1**), reflecting its not-for-dividend ownership structure and conservative financial strategy. Welsh Water's ultimate parent, Glas Cymru Holdings Cyfyngedig, is a company limited by guarantee, owning Welsh Water on behalf of its customers. As such, the group does not require any dividend distribution. Instead, profits made by the company have largely been used to reduce gearing – from around 90% of net debt to RCV in 2001 to 60% today – and accumulate cash reserves. Welsh Water's current target gearing level of around 60%, adopted in 2015, is one of the lowest in the UK water sector. Any future surplus generated in the context of this target may be returned to customers (as has been the case in the past), either by way of additional investments or customer rebates, which reduce the amount billed to consumers. However, these are discretionary items and the company enjoys unusual financial flexibility.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Welsh Water is rated in accordance with our rating methodology for Regulated Water Utilities, last published in June 2018. Under the rating methodology we score the qualitative factors for Welsh Water, the core operating subsidiary of Glas Cymru, which accounts for the vast majority of the group's operating profit. However, leverage and coverage ratios under Factor 3 take into account the consolidated financial profile of the entire Glas Cymru group.

The scorecard-indicated outcome is Ba1 on both a historical and forward-looking basis, reflecting the weak AICR and FFO in AMP7 as a result of high interest expense. The assigned rating is four notches higher, reflecting our expectation that AICR will recover to above 2.0x in AMP8, if inflation moderates in line with our expectations.

Exhibit 12

Rating Methodology Scorecard — Dwr Cymru Cyfyngedig

Financial metrics based on Glas Cymru consolidated accounts

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2022		Moody's 12-18 Month Forward View As of 2/10/2023 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	Aa	Aa	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	Aa	Aa	Aa	Aa
Factor 2 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	0.9x	Caa	0.8x - 0.9x	Caa
b) Net Debt / Regulated Asset Base (3 Year Avg)	60.0%	Baa	57% - 60%	Baa
c) FFO / Net Debt (3 Year Avg)	6.4%	Ba	8% - 9%	Ba
d) RCF / Net Debt (3 Year Avg)	6.4%	Baa	8% - 9%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Ba1		Ba1
Notch Lift	0.5	0.5	0.5	0.5
a) Scorecard-Indicated Outcome		Ba1		Ba1
b) Actual Rating Assigned				A3

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 03/31/2022. (3) This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate any significant acquisitions or divestitures.

Source: Moody's Financial Metrics TM

We note that Welsh Water benefits from 0.5 notches of uplift from regulatory ring-fencing provisions, embedded in its licence.

Ratings

Exhibit 13

Category	Moody's Rating
DWR CYMRU CYFYNGEDIG	
Outlook	Stable
Corporate Family Rating	A3

Source: Moody's Investors Service

Appendix

Exhibit 14
Welsh Water
Selected peer comparison

	Dwr Cymru Cyfyngedig A3 Stable			Wessex Water Services Limited Baa1 Stable			Yorkshire Water Services Limited Baa2 Stable			Anglian Water Services Ltd. A3 Stable		
(in GBP million)	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-20	FYE Mar-21	FYE Mar-22
Revenue	779	778	810	552	515	516	1,063	1,101	1,119	1,420	1,352	1,400
EBITDA	318	361	518	330	294	286	564	568	335	738	706	675
Regulated Asset Base (RAB)	5,907	6,010	6,460	3,206	3,324	3,620	6,960	7,024	7,746	7,966	7,993	8,780
Total Debt	4,209	3,909	4,305	2,352	2,766	2,457	5,665	5,727	5,738	7,506	6,981	6,534
Net Debt	3,542	3,688	3,790	2,310	2,407	2,452	5,416	5,529	5,709	6,458	6,695	5,663
Adjusted Interest Coverage Ratio	1.5x	0.5x	0.8x	1.6x	1.4x	1.3x	1.3x	0.9x	0.8x	1.7x	1.3x	1.3x
FFO / Net Debt	6.4%	6.2%	6.5%	10.3%	8.5%	8.9%	5.8%	6.2%	6.0%	7.7%	6.5%	8.4%
RCF / Net Debt	6.4%	6.2%	6.5%	6.5%	6.1%	6.4%	4.6%	6.2%	5.8%	6.7%	6.5%	6.7%
Net Debt / Regulated Asset Base	60.0%	61.4%	58.7%	72.1%	72.4%	67.7%	77.8%	78.7%	73.7%	81.1%	83.8%	64.5%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 15
Welsh Water
Moody's adjusted debt breakdown

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
As Reported Total Debt	3,359	3,766	4,119	3,755	4,067
Pensions	80	96	87	90	81
Non-Standard Adjustments	(51)	(51)	3	64	157
Moody's Adjusted Total Debt	3,388	3,811	4,209	3,909	4,305
Cash & Cash Equivalents	(289)	(501)	(667)	(221)	(515)
Moody's Adjusted Net Debt	3,100	3,310	3,542	3,688	3,790

All figures are calculated using Moody's estimates and standard adjustments. Non-standard public adjustments relate to the removal of accrued interest from the debt amount.
Source: Moody's Financial Metrics™

Exhibit 16
Welsh Water
Moody's adjusted FFO breakdown

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
As Reported Funds from Operations (FFO)	212	221	208	233	288
Pensions	7	7	12	0	0
Capitalized Interest	(16)	(16)	(14)	(11)	(16)
Alignment FFO	(40)	(35)	(25)	(16)	(71)
Unusual Items - Cash Flow	55	46	42	24	85
Cash Flow Presentation	0	0	6	5	4
Non-Standard Adjustments	0	0	(2)	(7)	(42)
Moody's Adjusted Funds from Operations (FFO)	307	310	225	228	248

All figures are calculated using Moody's estimates and standard adjustments. Unusual items add back indexation to FFO, while the non-standard adjustment adds back expensed infrastructure renewal expenditure, which is treated as capex.
Source: Moody's Financial Metrics™

Exhibit 17

Welsh Water

Selected historical financial data, Moody's-adjusted

(in GBP million)	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22
INCOME STATEMENT					
Revenue	757	782	779	778	810
EBITDA	527	427	318	361	518
EBITDA margin %	69.6%	54.7%	40.8%	46.4%	64.0%
EBIT	159	45	(5)	18	179
EBIT margin %	21.1%	5.7%	-0.7%	2.3%	22.1%
Interest Expense	193	186	186	150	298
BALANCE SHEET					
Cash & Cash Equivalents	289	501	667	221	515
Total Assets	6,321	6,784	7,225	6,847	8,005
Total Liabilities	5,090	5,563	6,093	5,788	6,905
CASH FLOW					
Funds from Operations (FFO)	307	310	225	228	248
Cash Flow From Operations (CFO)	294	307	208	234	303
Dividends					
Retained Cash Flow (RCF)	307	310	225	228	248
Capital Expenditures	(409)	(452)	(356)	(306)	(251)
Free Cash Flow (FCF)	(116)	(145)	(148)	(72)	52
INTEREST COVERAGE					
EBITDA / Interest Expense	2.7x	2.3x	1.7x	2.4x	1.7x
Adjusted Interest Coverage Ratio	1.4x	1.5x	1.5x	0.5x	0.8x
LEVERAGE					
Debt / EBITDA	6.4x	8.9x	13.2x	10.8x	8.3x
Net Debt / EBITDA	5.9x	7.7x	11.1x	10.2x	7.3x
Debt / Book Capitalization	67.0%	69.7%	72.3%	71.9%	70.9%
Regulated Asset Base (RAB)	5,471	5,673	5,907	6,010	6,460
Net Debt / Regulated Asset Base	56.7%	58.3%	60.0%	61.4%	58.7%
FFO / Net Debt	9.9%	9.4%	6.4%	6.2%	6.5%
RCF / Net Debt	9.9%	9.4%	6.4%	6.2%	6.5%

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

REPORT NUMBER 1351220