

**Issuer Comment: Moody's: Proposed repayment of Welsh Water's Class C Notes has no rating impact**

---

**Global Credit Research - 25 May 2010**

Moody's Investors Service said today that the A3 corporate family rating of Dwr Cymru Cyfyngedig (Welsh Water) and the A3 ratings of the Class A and B Notes issued by its funding vehicle Dwr Cymru (Financing) Limited (DCF) are not affected by the announced tender offer to purchase the remaining GBP125 million outstanding Class C1 Notes issued by DCF, which are rated Baa2. The outlook on all ratings is stable.

Welsh Water's A3 rating reflects the ongoing strengthening of the company's financial metrics since it adopted a highly leveraged structure in May 2001, resulting in Net Debt to Regulatory Capital Value ("RCV") around 70% (down from over 90%) and an Adjusted Interest Coverage Ratio of around 1.7x post-customer rebates and 1.9x pre-customer rebates. Moody's expects that any early redemption of all or part of the existing Class C Notes will have no impact on the company's overall leverage, and Welsh Water will continue to exhibit leverage at the current level over the medium term, in line with its publicly communicated target.

Welsh Water's A3 corporate family rating consolidates the legal and financial obligations of the company, its funding vehicle Dwr Cymru (Financing) Limited and the three holding companies that are in the ring-fenced group. In line with our approach towards similar structured transactions (such as Anglian Water Services), Moody's rating assessment of Welsh Water is the result of the evaluation of (i) the company's low business risk profile, (ii) its financial leverage and (iii) the structural enhancements of the bond covenant and security package. Moody's also takes into account the not-for-profit status of Welsh Water's ultimate parent company, Glas Cymru, which has allowed Welsh Water to retain excess cash within the business and improve its financial flexibility.

On 25 May 2010, DCF announced an invitation to holders of Class C1 Notes to tender any or all of their Notes for purchase by DCF for cash. The tender offer will expire on 2 June 2010, unless extended, re-opened or terminated. DCF expects settlement to occur on 7 June 2010.

Dwr Cymru Cyfyngedig ("Welsh Water") is the sixth-largest UK water utility by RCV, providing water and sewerage services to approximately 1.2 million households and over 100,000 business customers in a region that covers most of Wales and certain adjoining areas of England. Welsh Water's ultimate parent company is Glas Cymru Cyfyngedig, a not-for-profit organisation. In fiscal year 2008/09, Welsh Water had an RCV of GBP3,574 million and reported revenues of GBP657 million and operating profits of GBP155 million.

**Contacts**

Stefanie Voelz/London  
Neil Griffiths-Lambeth/London  
Thomas J. Keller/New York  
Monica Merli/London

**Phone**

4420-7772-5555  
4420-7772-5543  
212-553-7210  
4420-7772-5433

**CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of MOODY'S Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Any publication into Australia of this Document is by MOODY'S affiliate MOODY'S Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to wholesale clients (within the meaning of section 761G of the Corporations Act 2001). By continuing to access this Document from within Australia, you represent to MOODY'S and its affiliates that you are, or are accessing the Document as a representative of, a wholesale client and that neither you nor the entity you represent will directly or indirectly disseminate this Document or its contents to retail clients (within the meaning of section 761G of the Corporations Act 2001).