

Announcement: Moody's Disclosures on Credit Ratings of Dwr Cymru Cyfyngedig

Global Credit Research - 21 Mar 2012

London, 21 March 2012 -- The following release represents Moody's Investors Service's summary credit opinion on Dwr Cymru Cyfyngedig and includes certain regulatory disclosures regarding its ratings. This release does not constitute any change in Moody's ratings or rating rationale for Dwr Cymru Cyfyngedig and its affiliates.

Moody's current ratings on Dwr Cymru Cyfyngedig ("Welsh Water") and its affiliates are:

Long-Term Corporate Family Ratings (foreign currency) of A3

Dwr Cymru (Financing) Limited

Senior Secured (domestic currency) ratings of A3

BACKED Senior Secured (domestic currency) ratings of A3

RATINGS RATIONALE

Welsh Water's A3 corporate family rating (CFR) 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, Southern Water or Thames Water), 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 significantly reduce leverage since the initial financing structure was put in place in May 2001, and the company's stated policy to maintain current leverage at around 70%. Moody's rating assessment is based on the application of the global Rating Methodology for Regulated Water Utilities, published in December 2009. The methodology grid results in an indicative factor outcome of A3, in line with the assigned A3 CFR, based on a three-year historical average.

Welsh Water's A3 CFR factors in some degree of uplift (albeit not a full notch) stemming from the structural enhancements of Welsh Water's financing structure, including (i) the presence of a standby liquidity facility of GBP135 million covering 12 months of debt service, (ii) a first ranking fixed charge over the shares in the company, and (iii) 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. Moody's notes that the degree of uplift is lower than for comparable transactions (such as Anglian or Southern Water) given that the protection provided by the financial covenants, particularly the limitations for additional indebtedness and permitted distributions (including customer dividends), is limited at Welsh Water's A3 rating level. We also add that Welsh Water's covenant structure is slightly different from the other transactions as the protection offered by certain financial covenants is less critical for a not-for-profit company without equity shareholders.

Furthermore, 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.

The grid-indicated outcome of A3 achieves no further rating uplift from structural considerations or creditor protection, as Welsh Water would have significant headroom under the existing covenants to increase leverage before additional creditor oversight would be triggered.

The stable outlook reflects Moody's expectation that the company will continue to exhibit leverage around 70% of Net Debt to RCV over the medium term, in line with its publicly communicated target. Ongoing deleveraging, resulting in a further reduction of the ratio of Net Debt to RCV below 65% could result in positive rating pressure.

Negative pressure on the ratings could derive from (i) serious underperformance in operating or capital expenditure; (ii) significant increases in the sums rebated to customers resulting in the company failing to maintain its leverage at around 70%; and/or (iii) a materially unfavourable change in the regulatory framework for the UK water sector, leading to a significant increase in Welsh Water's business risk.

The principal methodology used in this rating was Global Regulated Water Utilities published in December 2009. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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