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CREDIT OPINION
13 September 2018

Update

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RATINGS

Dwr Cymru Cyfyngedig

Domicile	United Kingdom
Long Term Rating	A2
Type	LT Corporate Family Ratings - Fgn Curr
Outlook	Negative

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.

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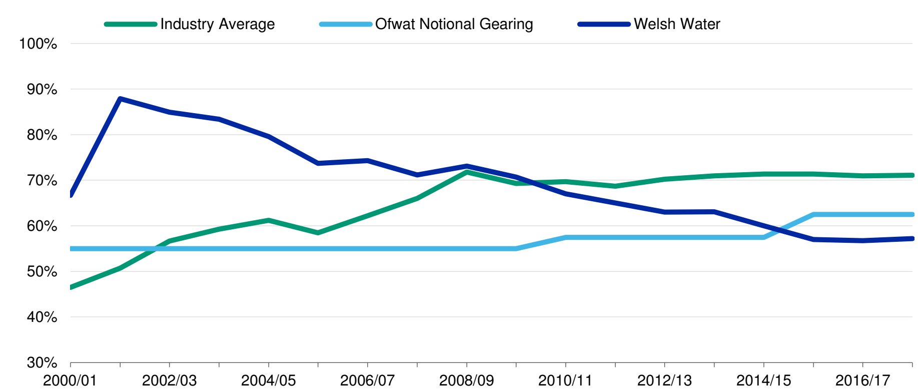
Dwr Cymru Cyfyngedig

Update following outlook change to negative

Summary

The credit quality of Dwr Cymru Cyfyngedig (Welsh Water, A2 negative) 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 flows generated under a transparent and well-established regulatory regime; (2) a low level of gearing at or below 60%, calculated as the group's consolidated net debt to regulatory capital value (RCV); (3) the not-for-profit status of Welsh Water's ultimate parent company, Glas Cymru, which allows Welsh Water to manage the distribution of its profits in order to maintain the company's publically stated gearing target of 60% net debt to RCV; and (4) the decision by the Welsh Government not to implement retail competition for incumbent water companies operating wholly or mainly in Wales in April 2017, which evidenced a cautious approach to market reform.

Exhibit 1
Welsh Water's regulated gearing has fallen below both the sector average and the regulator's assumption for a notionally geared company



Note: Regulated gearing ratios as reported by companies to Ofwat and not reflective of Moody's standard adjustments.
Source: Companies' annual performance reports, Ofwat, Moody's Investors Service

In September 2018, we changed the outlook on Welsh Water to negative, reflecting (1) the company's exposure to a likely significant cut in allowed returns from 2020 and more challenging performance targets, as guided by the regulator in its final PR19 methodology published in December 2017; (2) our revised and slightly more demanding financial ratio guidance for the sector, which has been recalibrated to reflect our perception of increased regulatory risk; and (3) Welsh Water's financial policy as indicated in its business plan submission of 3 September 2018.

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-profit status of parent company provide significant financial flexibility.

» Welsh government's cautious approach to market reform reduces risk compared with English peers.

Credit Challenges

» Significant cut in allowed returns from April 2020 will weaken interest coverage ratios, with additional pressure due to the company's comparably high cost of embedded debt.

» Changes to regulation, aimed at increasing competition in certain parts of the value chain, may reduce cash flow stability and create financial pressure for the sector.

» More demanding efficiency and performance targets will likely increase cash flow volatility in the next price control period.

Rating Outlook

The negative outlook reflects a potential deterioration in the company's credit quality, post-2020, beyond our previous assumptions. According to the company's business plan submission, Welsh Water's adjusted interest coverage ratio (AICR) will likely be around 1.3-1.4x for the initial years of the next regulatory period and remain below 1.5x on average over 2020-25. In addition, gearing is forecast to average around 59% of RCV. These ratios fall below our previous expectation for Welsh Water's current A2 rating, considering the recent tightening in guidance on the back of modestly increasing business risk for the sector.

Factors that Could Lead to an Upgrade

Given the negative outlook, there is currently no upward rating pressure. The outlook could be stabilised if we concluded that Welsh Water's risk exposure to the lower return environment is adequately mitigated by a combination of a favourable price determination outcome, strong outperformance ability and/or further de-gearing.

Factors that Could Lead to a Downgrade

The rating could be downgraded if, taking into account such measures as management may implement, it appears that Welsh Water will likely have insufficient financial flexibility to accommodate the expected reduction in allowed returns at PR19. In particular, downward pressure could result from (1) net debt to RCV likely to be materially above 55%, and AICR persistently below 1.5x; (2) diversification away from Welsh Water's core regulated water and wastewater business that would result in an increase of the overall business risk, or credit risk implications for Welsh Water from future developments of the wider Glas Cymru group; and/or (3) a significant increase in business risk for the sector as a result of legal and/or regulatory changes leading to a reduction in the stability and predictability of regulatory earnings, which in the case of (2) and (3) are not offset by other credit-strengthening measures.

Key Indicators

Exhibit 2
Welsh Water's key metrics evidences continuing deleveraging

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Adjusted Interest Coverage Ratio	1.6x	1.8x	1.5x	1.5x	1.4x
Net Debt/ Regulated Asset Base	61.9%	58.9%	56.5%	56.0%	56.7%
FFO/ Net Debt	11.4%	11.7%	12.1%	10.6%	9.9%
RCF/ Net Debt	11.4%	11.7%	12.1%	10.6%	9.9%

Note: 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. The calculation of the adjusted interest coverage ratio treats customer rebates as a reduction in revenue. Treating these rebates as dividends instead (given their discretionary nature) would increase the ratio to 1.55x (from 1.49x) in FY16.
Source: Moody's Financial Metrics TM

Corporate Profile

Dwr Cymru Cyfyngedig (Welsh Water) is the sixth-largest UK water utility by RCV, providing water and sewerage services to approximately 3 million people in a region that covers most of Wales and certain adjoining areas of England.

Welsh Water's ultimate parent company is Glas Cymru Holdings Cyfyngedig (Glas Cymru), a not-for-profit organisation. In the fiscal year 2017/18, Welsh Water had a RCV of just under £5.5 billion, reported revenues of £757 million and operating profit of £75 million.

Detailed Credit Considerations

Transparent regulatory regime with certainty around cash flows through March 2020 but additional challenges thereafter

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 the price determination for the current five-year period in December 2014. Welsh Water's final determination includes (1) an allowed return of 3.6% per annum on the wholesale RCV; (2) a net retail margin of 1% for household retail activities; and (3) a net retail margin of 1.2% for non-household retail activities. The overall allowed return, which for a notional company is around 3.74% per annum (vanilla, real), is significantly lower than the 5.1% p.a. return for the previous period, reflecting the low interest-rate environment.

As part of the last price review, Ofwat changed the way it sets tariffs for the water companies in England and Wales. For the five-year period that commenced on 1 April 2015 (AMP6), tariffs were set to reflect (1) separate price controls for retail and wholesale activities; (2) increased customer involvement in companies' business planning and focus on long-term outcomes rather than short-term outputs; (3) more tailored outcome delivery incentives; and (4) a total expenditure (totex) cost assessment. The introduction of separate price controls for retail and wholesale services was in part to facilitate retail competition for non-household (NHH) customers. Competition, which started in April 2017, was enabled by legislation - the Water Act 2014 - which amongst other measures, also provides for increased upstream competition with changes to the water supply licensing regime to allow new entrants to supply water and wastewater services to NHH customers.

However competition was not extended in Wales, with the Welsh government stating in its most recent policy document: *"We will monitor the costs and benefits of market reform, which will apply to water companies operating wholly or mainly in England from April 2017. This will inform our future policy about services for non-household customers served by water companies located wholly or mainly in Wales."* This cautious approach is likely to protect Welsh Water from the potential (and relatively limited) credit risks we see from non-household competition – at least in the next year or two – and may prove supportive as Ofwat is looking into opening the market to further competition across parts of the water and wastewater value chain.

We view the changes introduced for AMP6 as being largely neutral for the UK water sector as a whole. However, Ofwat continues to develop its regulatory approach for the water sector, and as part of the so-called 'Water2020' programme, further changes will be introduced at the next price review in 2019. These include (1) separate price controls for bio-resources (comprising the treatment and disposal of sewage sludge) and water resource management; and (2) a change in indexing revenues and regulated assets, moving to a measure of consumer prices index (CPIH) from retail prices index (RPI) inflation.

In its final methodology consultation for the 2019 price review, published in December 2017, Ofwat also indicated a significant cut in allowed returns under an assumption that the current low interest-rate environment will continue to persist, albeit this will be partially offset by the switch in indexation measures. Furthermore, efficiency challenges will increase, particularly for average performers, which could put further strain on companies' cash flows.

Exhibit 3
Evolution of regulatory allowed return
All figures expressed in real terms

	PR19 Final Methodology (Nominal)	PR19 Final Methodology (Real, CPIH = 2%)	PR19 Final Methodology (Real, RPI = 3%)	*PR14: 2015-2020 (Real, RPI =3%)*	PR14: 2015-2020 (Real, RPI =2.8%)
Long-term deflator		2.00%	3.00%	*3.00%*	2.80%
Cost of embedded debt	4.64%	2.58%	1.59%	*2.45%*	2.65%
Cost of new debt	3.40%	1.37%	0.38%	*1.80%*	2.00%
Ratio of embedded to total debt	70%	70%	70%	*75%*	75%
Issuance and liquidity costs	0.10%	0.10%	0.10%	*0.10%*	0.10%
Overall cost of debt	**4.36%**	**2.32%**	**1.33%**	***2.39%***	**2.59%**
Risk-free rate	2.10%	0.10%	-0.88%	*1.05%*	1.25%
Equity risk premium	6.50%	6.37%	6.31%	*5.49%*	5.50%
Total market return	8.60%	6.47%	5.44%	*6.54%*	6.75%
Equity beta	0.77	0.77	0.77	*0.80*	0.80
Overall cost of equity	**7.13%**	**5.03%**	**4.01%**	***5.44%***	**5.65%**
Notional Gearing	60%	60%	60%	*63%*	63%
Appointee WACC (vanilla)	**5.47%**	**3.40%**	**2.40%**	***3.53%***	**3.74%**
Retail margin	0.10%	0.10%	0.10%	*0.14%*	0.14%
Wholesale WACC (vanilla)	**5.37%**	**3.30%**	**2.30%**	***3.39%***	**3.60%**

Note: Illustrates the proposed mid-point for a nominal return, derived from its various components and deflated into a real return, using a 2% and 3% deflator for the Consumer Prices Index, adjusted for housing costs (CPIH) and Retail Prices Index (RPI), respectively. The latter is also compared with the current period's RPI-linked real return. The wholesale WACC is the appointee WACC minus the the retail margin.
Source: Ofwat, Moody's Investors Service

We continue to view the overall developments as credit negative for the sector, with increased risk of cash flow volatility likely from 2020.

Moreover, on 26 April 2018, Ofwat published a consultation on proposals for companies' business plan submissions for PR19, which concluded in July 2018. Ofwat's final decision requires companies to share perceived outperformance from gearing that is above a 70% threshold and clearly justify their dividends in the context of operational performance. These new measures primarily penalise highly leveraged firms, curbing their earnings in an already tough regulatory environment. We do not expect Welsh Water to be affected, given the company's ownership structure and lower gearing, which we expect to remain below the regulator's notional gearing level of 60%.

However, in our view, the measures further evidence increasing regulatory risk, and Moody's has revised its scoring for the stability and predictability of the regulatory regime to Aa from Aaa (please see 'Regulated Water Utilities - UK: Regulator's proposals undermine the stability and predictability of the regime', May 2018). In this context of modestly increased business risk, we also tightened our ratio guidance for companies.

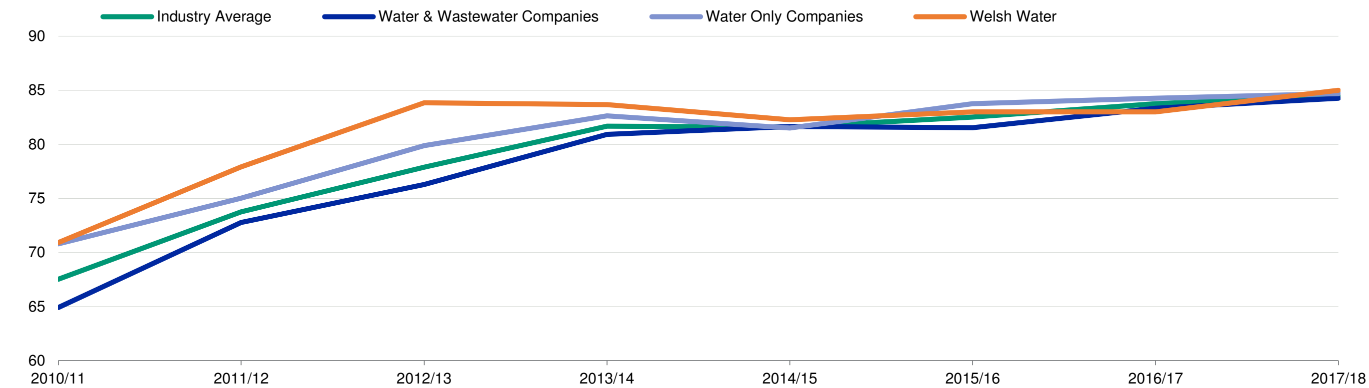
Solid operational performance record in the current regulatory period

Welsh Water has exhibited solid performance in the first three years of AMP6, and is on-track to achieve its objectives.

While operating expenditures have increased, ongoing efficiency and cost saving measures have helped offset the negative impact. The company continues to perform well against the performance commitments agreed with its customers, and maintains a good score under the Service Incentive Mechanism – which measures direct customer service – in line with the industry average.

Exhibit 4

Customer service in line with the sector



Source: Companies' annual performance reports, Moody's Investors Service

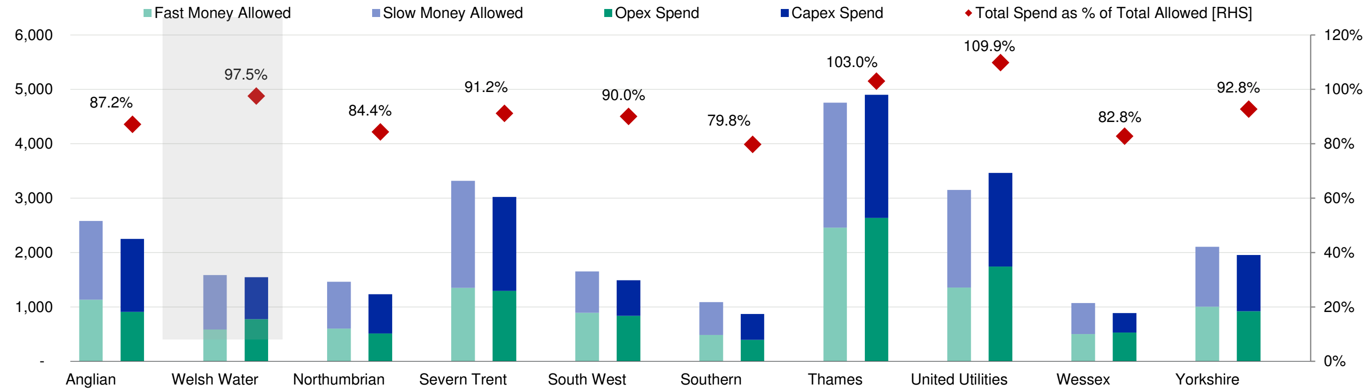
Welsh Water's main challenges remain around water discolouration, which management expect will incur an overall penalty over the period, and a comparably low allowance for retail costs. Welsh Water has a higher than average cost to serve (ACTS) in the industry, due notably to the sparsely populated rural areas it covers, and because of relatively high levels of social deprivation impacting the cost of bad debt. Additionally, challenging weather events in early 2018 resulted in supply disruptions, and a penalty for Welsh Water, although management does not anticipate further penalties for the remainder of AMP6.

Capex programme to reflect additional investments into areas of customer focus

As is typical for the sector, Welsh Water faces some risk in the execution of its significant capital programme and the associated financing and refinancing requirements. For AMP6, Welsh Water has been allowed total expenditure (totex), which includes opex and capex of around £2.6 billion (in 2012/13 prices) for the wholesale part of the business. This will result in the RCV growing by just over 7% in real terms over AMP6, while the average bill will fall by 5% in real terms by the end of the period, in line with the industry average bill decline.

While the company spent less than its allowance in the first two years of the current regulatory period, this was mostly due to re-profiling of capex in the first year of the AMP, which has since been ramped up in 2017/18, and Welsh Water expects to reach its full totex allowance for AMP6.

Exhibit 5
Welsh Water's totex is approaching its allowed returns for AMP6 after a period of underspending



Source: Companies' performance reports (March 2016, 2017 and 2018), Ofwat, Moody's Investors Service

Welsh Water's proposed business plan for PR19, which was submitted to Ofwat on 3 September 2018, proposes an increase in totex to just under £3.5 billion, including £2.3 billion of capex (in 2017/18 prices), but the overall investment allowance may change following Ofwat's review and initial assessment of the company's business plan in January 2019. The company's proposed totex would lead to RCV growing by 13% in real terms over AMP7, with a RCV run-off rate of 3.5%, while the average bill will decrease by 5% in real terms.

The company expects the reduction in bills to be funded through a combination of a lower allowed WACC as determined by the regulator in December 2017, and cost efficiencies of around 12% (in real terms) by the end of AMP7. Gearing is expected to remain roughly in line with Ofwat's notional level of gearing of 60% over the period.

Welsh Water's high cost of embedded debt exposes the company to cut in allowed returns from 2020

A significant reduction in allowed returns for the UK water sector from 2020 poses particular risks for companies with more expensive and longer-term debt relative to regulatory assumptions.

UK economic regulators base their allowed return calculations on a notional company, that is to say, a hypothetical entity with a set gearing (trending towards the average sector gearing, but currently lower) and a certain capital structure. For example, in the water sector the notional gearing is 62.5%, and the notional company would have around 33% of index-linked debt within its capital structure. Ofwat also assumes a split between embedded and new debt, when setting the cost of debt allowance.

Historically, Ofwat has been guided by historical average rates over a ten-year horizon when setting the cost of embedded debt. Continuing with this approach during an extended period of low interest rates, future cost of debt as well as cost of equity (driven by reducing risk-free rates) allowances will invariably decline. Current gilt curves could, for example, support, an overall reduction in the allowed wholesale return from 3.6% in the current period by at least 100 basis points from April 2020. This assumes returns are being set with respect to RPI inflation, which has been the case in the past.

For the 2019 price review, Ofwat is proposing to inflate companies' revenues with the consumer prices index including owner occupiers' housing costs (CPIH, the national statistical office's headline measure for inflation since March 2017). Similarly, the RCV, on which the allowed return is calculated, will be indexed:

1. 50% of the RCV at 31 March 2020 by RPI; and

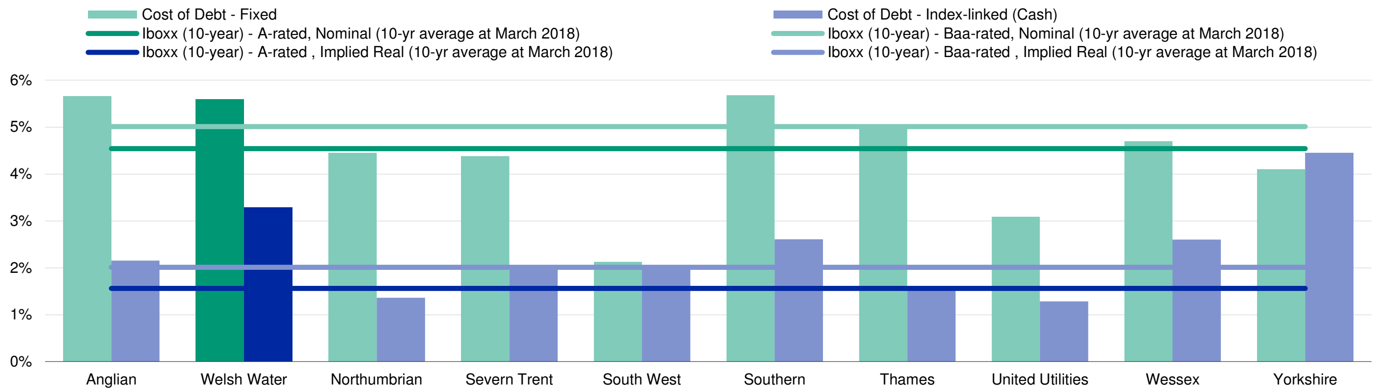
2. 50% of the RCV at 31 March 2020 and all new additions to the RCV from 1 April 2020 by CPIH.

Assuming a differential between RPI and CPIH of around 100bps and an initial 50:50 split of the return on RCV, the blended RPI-CPIH return would be around 2.8-2.9%, based on Ofwat's final methodology decision.

While companies will benefit from the low interest rate environment over time as they raise new debt, those with debt tenors beyond that assumed by the regulator will be exposed as allowed returns will converge to market rates, unless historical funding costs have been below average.

Exhibit 6

Welsh Water exhibits among the highest cost of funding across peers



Source: Companies' performance reports (March 2018), Ofwat, Moody's

Welsh Water's embedded debt cost is among the highest in the sector, which increases pressure on interest coverage ratios in a low return environment. However, the company's modest gearing provides additional financial flexibility and the not-for-profit nature of its parent, with no requirement for dividend distributions, leaves potential for further deleveraging, should this be required.

Nevertheless, the company's September business plan submission for AMP7 suggests a financial policy that would maintain gearing roughly at current levels very close to the 60% mark, and the AICR will likely be around 1.3-1.4x for the initial years of the next regulatory period and remain below 1.5x on average over 2020-25. These ratios fall below our previous expectation for Welsh Water's current A2 rating, considering the recent tightening in guidance on the back of modestly increasing business risk for the sector.

We believe that absent significant outperformance and/or a favourable regulatory settlement, there is an increasing risk that Welsh Water's financial metrics will remain outside of our minimum expectation of a 1.5x AICR and RCV gearing at or below 55% for Welsh Water's A2 ratings. We note that Welsh Water's AICR guidance of 1.5x for the current A2 rating level already considers the benefit of the company's ownership and governance structure, which provide unique flexibility, as well as less competitive pressures on its operations, given the Welsh Assembly's more cautious stance toward retail competition.

Liquidity Analysis

Welsh Water's liquidity is strong, underpinned by the stable and predictable cash flows generated by its regulated utility activity. As at 31 March 2018, the Glas group had a cash position of just under £289 million, and undrawn credit facilities of £420 million, including a £250 million facility from the European Investment Bank (Aaa, stable). Considering its undrawn credit facilities, Welsh Water is substantially pre-funded for the remainder of the AMP6 period.

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

Structural Considerations

Not-for-profit ownership structure provides support, although limited benefits from structural protections at current rating level

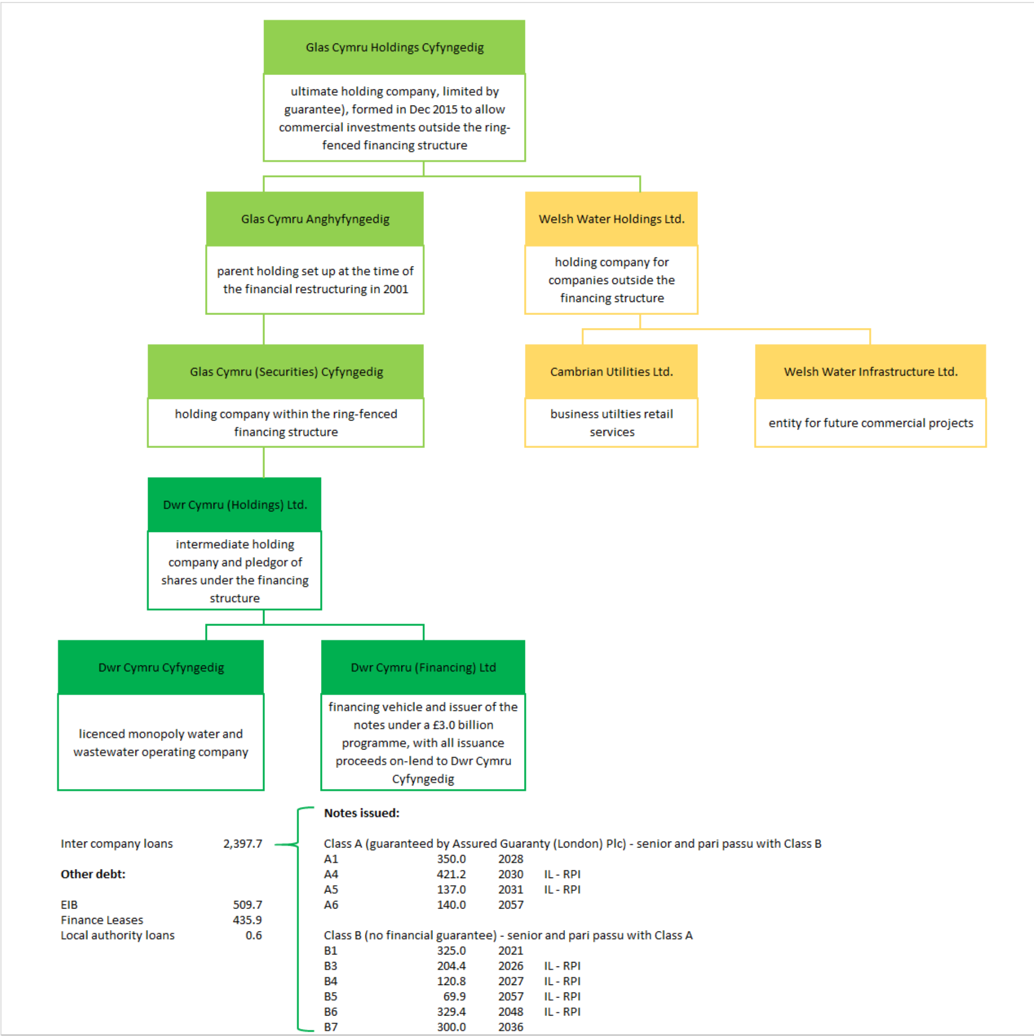
Welsh Water's ultimate parent is a not-for-profit organisation, requiring no dividend distributions. Instead, any profits made by the company have been used to reduce gearing over time and accumulate reserves.

In line with a stable gearing target of around 60% net debt to RCV, management intends to return forecast surpluses to customers, 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.

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 also discretionary and are not intended to jeopardise the financial strengths of the core water and wastewater business.

Exhibit 7 highlights that currently all of the consolidated group's debt sits within the financing structure around the core operating company.

Exhibit 7
Simplified group and debt structure as at March 2018



Source: Company's investor reports

Welsh Water's debt structure includes a set of financial covenants, particularly the limitations for additional indebtedness and permitted distributions (including customer dividends and distributions to the new holding company), but the company currently maintains significant headroom against these. Hence, we 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), at the current A2 rating level.

We also note that 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 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.

Rating Methodology and Scorecard Factors

Welsh Water is rated in accordance with our rating methodology for Regulated Water Utilities 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 grid-implied outcome of A3 is based on a three-year average of historic financial metrics and is one notch lower than the assigned rating of A2, due to the AICR already being affected by comparably high borrowing costs. Beyond the next 12-18 months forward horizon into the new regulatory period we expect the grid-indicated outcome to be impacted by weakening credit metrics as a result of lower allowed returns.

Exhibit 8

Rating Factor Grid for Dwr Cymru Cyfyngedig

Financial metrics based on Glas Cymru consolidated accounts

Regulated Water Utilities Industry Grid [1][2]	Current FY 3/31/2018		Moody's 12-18 Month Forward View As of 8/31/2018 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aaa	Aaa	Aa	Aa
b) Asset Ownership Model	Aa	Aa	Aa	Aa
c) Cost and Investment Recovery (Sufficiency & Timeliness)	A	A	A	A
d) Revenue Risk	A	A	A	A
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	A	A
Factor 2 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 3 : Leverage and Coverage (40%)				
a) Adjusted Interest Coverage Ratio (3 Year Avg)	1.5x	Ba	1.4x - 1.6x	Ba/Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	56.4%	Baa	55% - 60%	Baa
c) FFO / Net Debt (3 Year Avg)	10.8%	Baa	10% - 12%	Baa
d) RCF / Net Debt (3 Year Avg)	10.8%	A	10% - 12%	A
Rating:				
Indicated Rating from Grid Factors 1-3		A3		A3
Rating Lift	**0.5**	**0.5**	**0.5**	**0.5**
a) Indicated Rating from Grid		A3		A2
b) Actual Rating Assigned				A2

Note: (1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 03/31/2018. (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.

Appendix

Exhibit 9

Dwr Cymru Cyfyngedig

Peer Comparisons

(in GBP millions)	Dwr Cymru A2 Negative			Wessex Water A3 Negative			Severn Trent A3 / Baa1 Negative			United Utilities A3 / Baa1 Stable		
	FYE March 2016	FYE March 2017	FYE March 2018	FYE March 2016	FYE March 2017	FYE March 2018	FYE March 2016	FYE March 2017	FYE March 2018	FYE March 2016	FYE March 2017	FYE March 2018
Revenue	743.2	743.6	756.7	520.8	525.3	540.6	1,523.6	1,556.1	1,606.9	1,691.7	1,680.3	1,716.6
Regulated Asset Base	4,988.5	5,221.7	5,471.2	2,843.1	2,978.2	3,142.2	7,932.8	8,422.8	8,920.4	10,332.7	10,664.6	11,089.2
Net Debt	2,817.0	2,923.6	3,099.5	2,002.4	2,104.9	2,147.0	5,135.0	5,723.2	5,955.4	6,414.7	6,373.9	7,195.4
Cash and Cash Equiv.	135.1	100.6	288.5	95.3	103.5	35.8	-	0.2	12.1	204.3	196.9	499.6
Adjusted Interest Coverage Ratio	1.5x	1.5x	1.4x	2.1x	2.0x	2.0x	1.9x	1.8x	1.7x	2.5x	2.7x	2.9x
Net Debt / Regulated Asset Base	56.5%	56.0%	56.7%	70.4%	70.7%	68.3%	64.7%	67.9%	66.8%	62.1%	59.8%	64.9%
FFO / Net Debt	12.1%	10.6%	9.9%	12.2%	11.7%	11.8%	13.9%	13.0%	13.0%	13.7%	14.4%	13.4%
RCF / Net Debt	12.1%	10.6%	9.9%	7.8%	7.4%	7.5%	7.8%	9.6%	9.5%	10.8%	10.4%	9.0%

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: Source: Moody's Financial Metrics™.

Exhibit 10

Dwr Cymru Cyfyngedig

Moody's Adjusted Debt Breakdown

(in GBP Millions)	FYE Mar-13	FYE Mar-14	FYE Mar-15	FYE Mar-16	FYE Mar-17	FYE Mar-18
As Reported Debt	**2,894.9**	**2,909.9**	**3,150.1**	**2,943.2**	**2,978.1**	**3,358.8**
Pensions	32.8	2.8	32.5	56.5	95.2	80.4
Non-Standard Adjustments	-89.8	-50.1	-58.8	-47.6	-49.1	-51.2
Moody's-Adjusted Debt	**2,837.9**	**2,862.6**	**3,123.8**	**2,952.1**	**3,024.2**	**3,388.0**

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™.

Exhibit 11

Dwr Cymru Cyfyngedig

Moody's Adjusted EBITDA Breakdown

(in GBP Millions)	FYE Mar-13	FYE Mar-14	FYE Mar-15	FYE Mar-16	FYE Mar-17	FYE Mar-18
As Reported EBITDA	**305.4**	**471.9**	**229.0**	**456.3**	**306.4**	**442.6**
Pensions	0.0	-9.9	0.2	0.5	0.4	0.0
Unusual	-20.1	-0.7	19.5	-20.0	0.0	-1.8
Non-Standard Adjustment:	79.4	71.8	57.7	58.0	69.7	86.0
Moody's-Adjusted EBITDA	**364.7**	**533.1**	**306.4**	**494.8**	**376.5**	**526.8**

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™.

Exhibit 12

Dwr Cymru Cyfyngedig

Selected Historic Moody's Adjusted Financial Data

in GBP millions	FYE March 2015	FYE March 2016	FYE March 2017	FYE March 2018
INCOME STATEMENT				
Revenue	753	743	744	757
EBITDA	306	495	377	527
EBITDA Margin %	40.7%	66.6%	50.6%	69.6%
EBIT	68	186	46	159
EBIT Margin %	9.0%	25.1%	6.1%	21.1%
Interest Expense	154	133	154	193
BALANCE SHEET				
Cash & Cash Equivalents	271	135	101	289
Total Assets	4,483	5,628	5,848	6,321
Total Debt	3,124	2,952	3,024	3,388
CASH FLOW				
Funds From Operations (FFO)	333	340	311	307
FFO / Debt	10.7%	11.5%	10.3%	9.0%
Capital Expenditures	327	257	315	409
Retain Cash Flow (RCF)	333	340	311	307
RCF / Capex	1.0x	1.3x	1.0x	0.7x
Free Cash Flow (FCF)	-11	43	-32	-116
INTEREST COVERAGE				
EBITDA / Interest Expense	2.0x	3.7x	2.4x	2.7x
Cash Interest Coverage	1.8x	1.5x	1.5x	1.4x
LEVERAGE				
Debt / EBITDA	10.2x	6.0x	8.0x	6.4x
Net Debt / EBITDA	9.3x	5.7x	7.8x	5.9x
Debt / Book Capitalization	93.8%	66.2%	66.6%	67.0%

Source: Moody's Financial Metrics™.

Ratings

Exhibit 13

Category	Moody's Rating
DWR CYMRU CYFYNGEDIG	
Outlook	Negative
Corporate Family Rating	A2

Source: Moody's Investors Service

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