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CREDIT OPINION
5 November 2021

Update

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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.

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Dwr Cymru Cyfyngedig

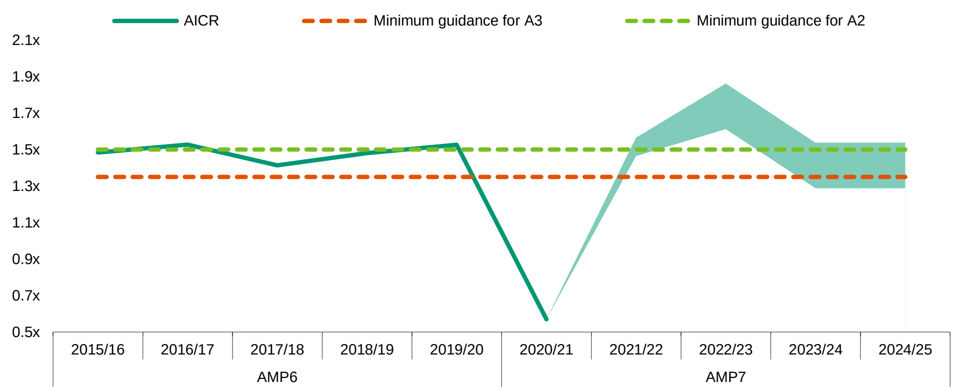
Update to credit analysis

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 around 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.

Despite strong fundamentals, Welsh Water's credit quality is constrained by a challenging regulatory determination for the 2020-25 period, which included (1) a significant cut in allowed wholesale returns to ca. 2.42% real in cash terms, compared with 3.6% previously, and (2) stringent performance targets, which will likely lead to financial penalties for Welsh Water.

Exhibit 1
We expect Welsh Water's AICR to recover quickly and remain in line with guidance over AMP7
Adjusted Interest Coverage Ratio



Consolidated statutory accounts for historical ratios, Ofwat for regulatory building blocks and Moody's Investors Service's forecast
Source: 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

» Material cut in allowed returns for the 2020-25 regulatory period (AMP7)

» 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

The stable outlook reflects our expectation that the company will be able to maintain financial metrics in line with guidance for its A3 corporate family rating.

Factors that could lead to an upgrade

» Net debt to RCV consistently below 55% and Adjusted Interest Coverage Ratio (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 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

Welsh Water's financial profile expected to be in line with the A3 rating guidance

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	AMP7 forward view
Adjusted Interest Coverage Ratio	1.5x	1.4x	1.5x	1.5x	0.6x	1.3x-1.4x
Net Debt / Regulated Asset Base	56.0%	56.7%	58.3%	59.1%	60.3%	58%-60%
FFO / Net Debt	10.6%	9.9%	9.4%	9.3%	8.5%	10%-11%
RCF / Net Debt	10.6%	9.9%	9.4%	9.3%	8.5%	10%-11%

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

Dwr Cymru Cyfyngedig (Welsh Water) is the sixth-largest UK water utility by RCV, providing water and sewerage services to approximately 3.1 million 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 31 March 2021, Welsh Water had an RCV of around £6.0 billion, and the Glas Cymru group reported revenue of £778 million and operating profit of £7.2 million, primarily attributable to Welsh Water.

Detailed credit considerations

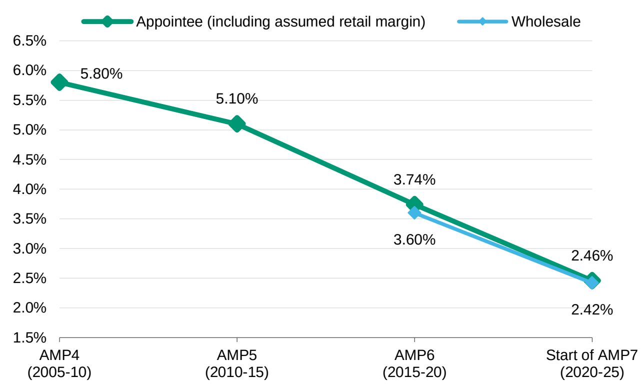
Transparent regulatory regime, but falling returns will put pressure on interest coverage

The UK water sector benefits from a transparent, stable and predictable regulatory regime based on clearly defined risk allocation principles and their consistent application in setting water tariffs by Ofwat. Ofwat resets price limits every five years and published its final determination for 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, which incorporates the regulator's decision to only link half the existing regulatory assets as at March 2020 to the Retail Prices Index (RPI), with the remainder and any new additions 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 will fall 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 (2015-20).

Exhibit 3

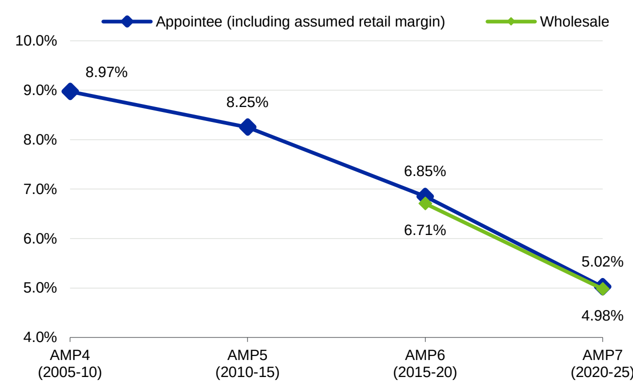
Significant cut in allowed returns, despite lower inflation index
Real (cash) allowed returns



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

In addition to the cut in allowed return, the final determination incorporated 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 negatively affected, putting a further strain on companies' cash flow.

The final determination also confirmed companies' commitment to accept the regulator's proposals under the 'Putting the Sector Back in Balance' consultation, which included a "gearing outperformance sharing mechanism" to reduce returns for highly leveraged companies.[1] Welsh Water's regulatory gearing is likely to remain below the 70% gearing threshold throughout the AMP7 period, so we do not expect the company to be affected by this mechanism.

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 struck down the gearing outperformance sharing mechanism, saying that it was "not well-designed to increase the financial resilience of the Disputing Companies and might even reduce it" (see Regulated Water Utilities – UK: CMA final decision is credit positive for appellants, 18 March 2021). The CMA also allowed a 30 bps higher allowed return and a lower benchmark cost of new debt, which means that these companies will return a smaller amount to customers after 2025. These decisions will not directly benefit Welsh Water, although they may influence Ofwat's decisions in future periods. Ofwat continues to consider potential future mechanisms to incentivize lower gearing in its early thinking towards the 2024 price review.

Weak cash flow in 2020-21 will not persist

Welsh Water's adjusted interest coverage ratio (AICR) has historically been comfortably above our minimum guidance for the A3 rating of 1.35x. However, cash flow weakened sharply in 2020-21, reducing the AICR to 0.6x. We believe this is attributable largely to nonrecurring factors associated with the coronavirus pandemic. Revenues were £33 million below regulatory allowances because of lower consumption, which will be recoverable through higher bills in 2022-23. In addition, the company identified £30 million of exceptional coronavirus-related costs, including £13 million of additional bad debt, £8 million for personal protective equipment and £6 million for additional hygiene measures, which while not recoverable are unlikely to recur. Without these effects, we estimate that the company's AICR would have been around 1.2x.

Under our base case scenario, we expect Welsh Water's AICR to average 1.3-1.4x in AMP7 (see Exhibit 1).

Moody's AICR excludes the impact of revenue profiling, which is used to smooth bills within a regulatory period. Revenue profiling increased Welsh Water's allowed revenue by £23 million in 2020-21, which will be offset by lower allowed revenue in 2023-25, but does not affect the AICR.

History of solid operational performance, but pressures in AMP7

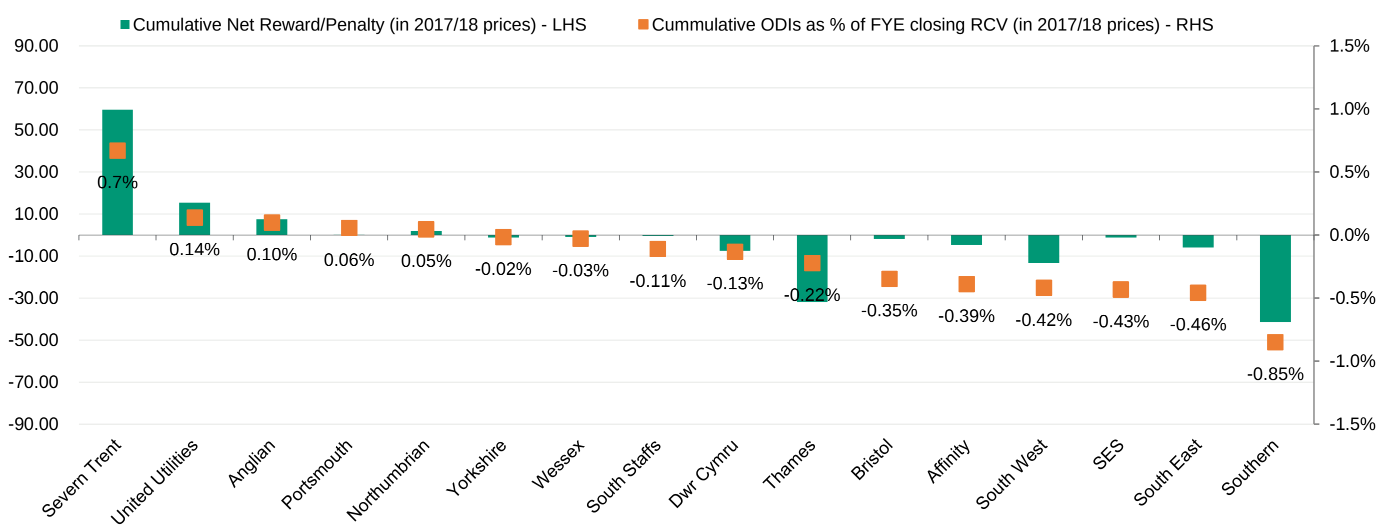
Welsh Water exhibited solid performance over AMP6, broadly in line with its targeted objectives. The company suffered a small cumulative net penalty of £3.1 million (in 2012/13 prices) on outcome delivery incentives (ODIs) in aggregate for the five years, which is carried over into AMP7 revenue.

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 performance penalties for Welsh Water in AMP7. In 2020-21, Welsh Water incurred net ODI penalties for £7.5 million, equivalent to ca. 0.1% of the RCV.

Exhibit 5

Welsh Water received a penalty equivalent to ca. 0.1% of its RCV in 2020/21

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



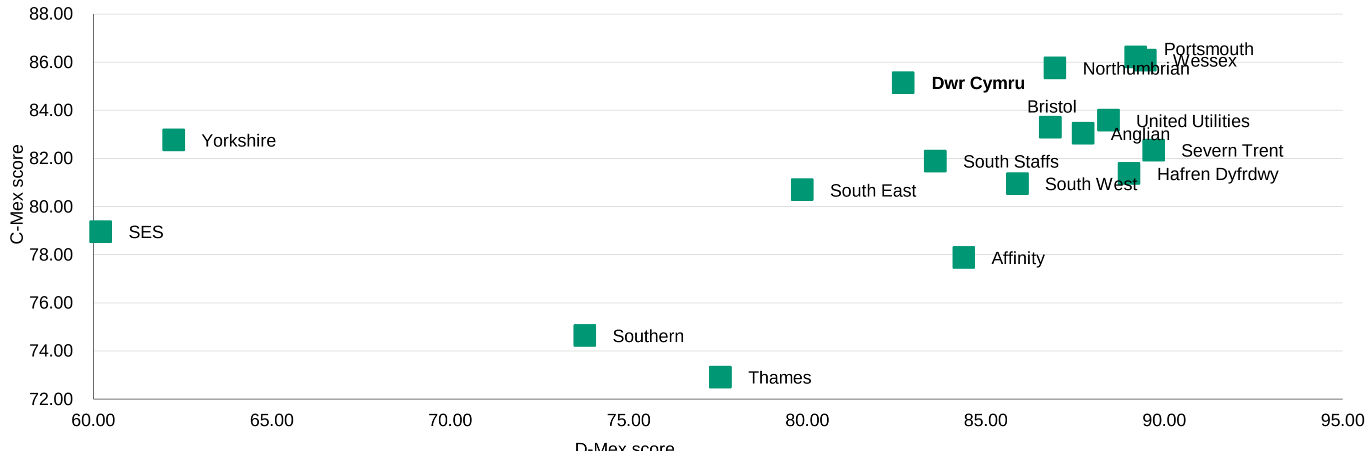
Source: Companies' annual performance reports

Welsh Water's performance on the service incentive mechanism (SIM) has historically been broadly in line with the industry average, although it achieved the third-best score in the industry in 2019-20 as peers' performance deteriorated. 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 in 2020-21, resulting in a £2.0 million rewards, but remains broadly in the mid-field for developer service experience.

Exhibit 6

Welsh Water achieved strong customer service performance in the first 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.

Ofwat's totex allowance for the company at the final determination included £10 million more than Welsh Water requested for base operating and maintenance expenditure. However, the company faced a significant efficiency challenge of £171 million (or 22.5%) on enhancement and £25 million (or 10.9%) on household retail expenditure.

The efficiency gap on enhancement expenditure mainly relates to investments in long-term resilience and network water quality. While the company may decide not to invest into enhancement projects that it has not received funding for, individual performance commitments linked to such expenditure could have negative implications for ODI performance if the investment is not made. Management expects to be able to offset the remaining efficiency challenge on enhancement and retail expenditure through additional savings on base costs.

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.

Debt refinanced at lower rates, but increasing inflation-linked liabilities will reduce benefit of higher inflation

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, refinancing a £325 million 6.907% bond with maturity in March 2021 and funding ongoing investment requirements. Following these refinancings, the cost of Welsh Water's embedded debt was 3.10% in 2020-21, in line with the sector average.

In April 2021, Welsh Water issued a further £300 million of subordinated (junior) bonds at a fixed rate of 2.375%.

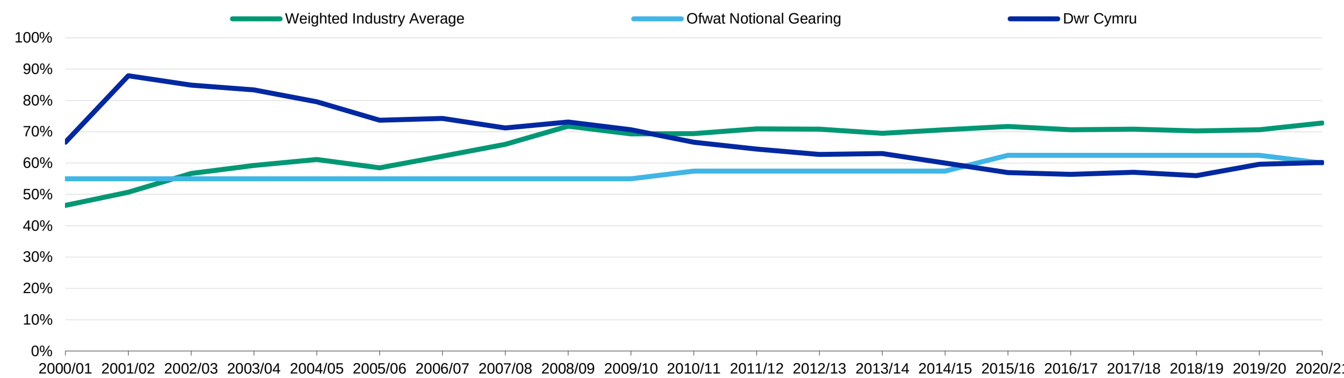
Alongside these debt issuances, the company has entered into a number of inflation-linked swaps. The February 2020 notes were swapped to a negative RPI-linked coupon of -1.6%, on average, and the April 2021 notes to an RPI-linked coupon of -1.1%. The company also entered into an inflation-linked derivative contract to swap £350 million bonds due in 2028 from a 6% fixed rate to a RPI-linked exposure. Following these transactions, 80% of the company's debt is linked to RPI, above the sector average of 50%. However, because of the short-dated nature of these swaps we do not exclude accretion from interest, as we do for inflation-linked bonds.

While the company's increasing use of RPI-linked debt and swaps reduces cash interest costs, it will result in higher total borrowing costs during periods of high inflation. Market expectations for inflation have increased significantly in recent months, in particular because of higher energy costs. Because swap indexation is included in Moody's definition of interest, “cash” interest will also rise in this scenario, and leverage will decline more slowly than if the company was financed largely by nominal debt. However, Welsh Water will remain a significant beneficiary of higher inflation because its RCV and revenues will grow more quickly.

Exhibit 7

Welsh Water's gearing is significantly below the sector average

Net debt/RCV



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

We expect Welsh Water's net debt/RCV to remain just below 60% for a majority of AMP7. Gearing could, however, fall closer to the 55% mark in the later years of the period if performance was better than our base case assumptions and excess cash was kept within the business rather than returned to customers, through a reduction in revenue or additional investments over and above the current plan.

Structural considerations

Limited benefits from structural protections at current rating level

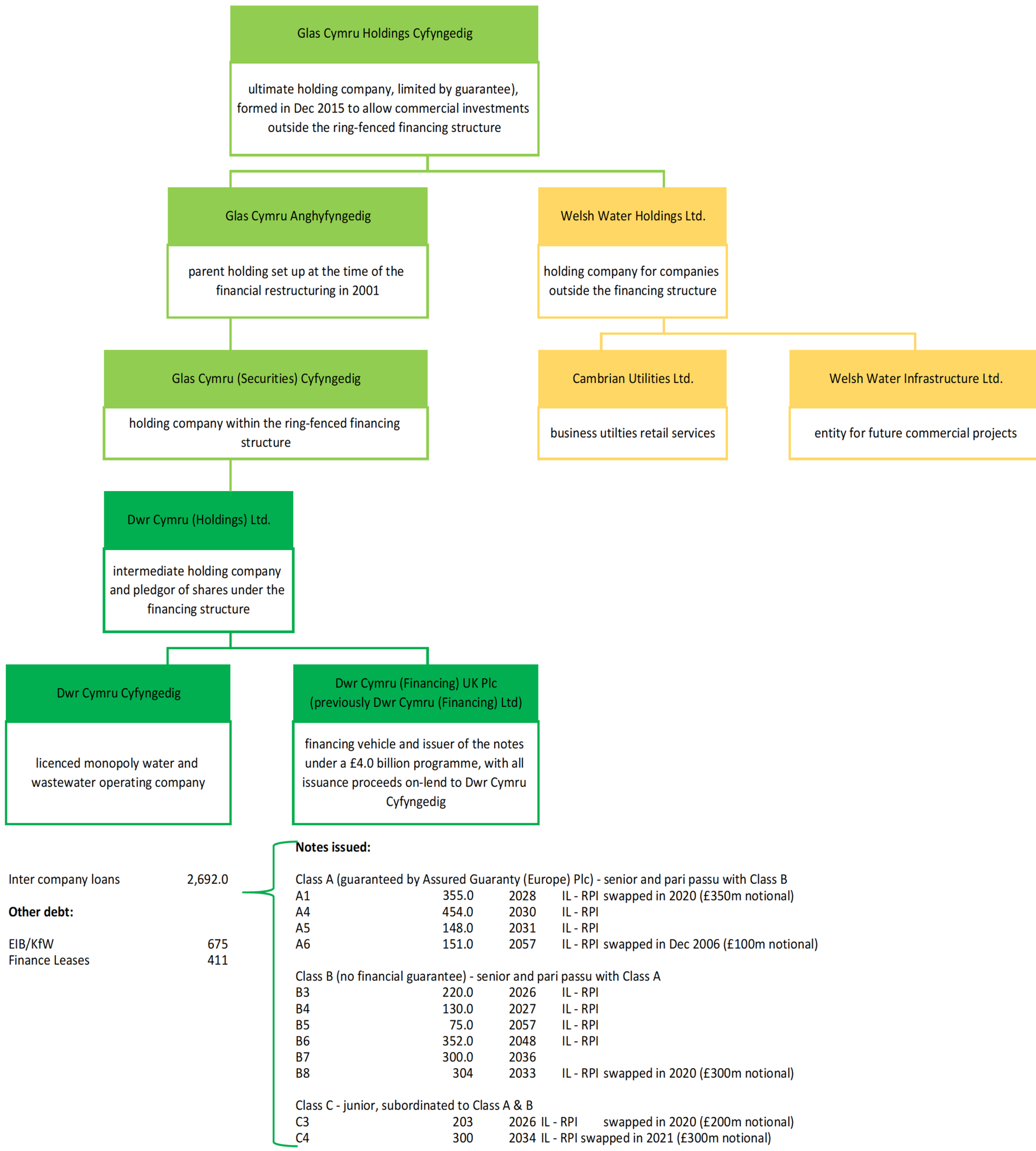
Welsh Water's debt structure includes a set of financial covenants, particularly limitations on additional indebtedness and permitted distributions (including customer dividends and distributions to the holding company), but the company currently maintains significant headroom against these. At the current 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 8
Simplified group and debt structure



Source: Company's investor report

New 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

Our credit analysis for Welsh Water takes into account social and governance considerations associated with the wider group's organisational structure, which is a key determinant of its financial policy. Social considerations primarily relate to responsible production and demographic and societal trends, while governance considerations are linked to organisation structure and board structure, policies and procedures.

Given its ownership structure and resulting conservative financial policy, as well as the Welsh Government's more cautious stance towards competition, our guidance for Welsh Water's AICR is currently materially less demanding than for its English peers.

Not-for-dividend ownership structure supports credit quality

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 distributions. 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.

Significant investment required to address water shortages

The regulated nature of water companies' activities and their investment requirements, including a forward-looking allowance for efficient cost, mitigate the effect of environmental considerations on credit quality. However, there is an inevitable and high risk of exposure to water shortages, which is likely to grow with climate change. Therefore, investment needs will continue to rise over the next 30 years and 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.

According to an analysis by the UK government's Environment Agency (EA), overall water supply in England will need to increase by around 25% between 2025 and 2050. This exposure is most acute in southeast England, which will require additional public water supply of 1,765 million litres a day (Ml/d) by 2050 to offset additional challenges from population growth and climate change as well as increase drought resilience. The west of the country, with Welsh Water part of the Water Resources West region[2], may need around 640Ml/d over the same time frame, but also 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.

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. However, Welsh Water is a strong performer on environmental measures, receiving the highest four-star rating in the Environment Agency's 2020 environmental performance report on the water companies.[3] The company exceeded the Environment Agency's targets on all measures.

Social risks are evident and could grow

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.

Liquidity analysis

Welsh Water's liquidity is strong, underpinned by the stable and predictable cash flow generated by its regulated utility activity. As of 31 March 2021, the Glas group had available total liquidity of £421 million including (1) cash balances of £221 million and (2) undrawn revolving credit facilities for £200 million. During the year, the group renewed all four of its revolving credit facilities and increased three of these by £10 million. The facilities are available for two years with a one-year extension option. In addition, in April 2021, the group increased its liquidity by £300 million following the drawdown of the recent junior debt issue.

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.

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 Baa1 on a historical basis, reflecting the weak cash flow in 2020-21, and A3 on a forward-looking basis.

Exhibit 9

Rating Methodology Scorecard — Dwr Cymru Cyfyngedig

Financial metrics based on Glas Cymru consolidated accounts

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2021		Moody's 12-18 Month Forward View As of March 2021 [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	A	A	Aa	Aa
e) Scale and Complexity of Capital Programme & Asset Condition Risk	A	A	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)	1.2x	Ba	1.3x - 1.4x	Ba
b) Net Debt / Regulated Asset Base (3 Year Avg)	59.3%	Baa	58% - 60%	Baa
c) FFO / Net Debt (3 Year Avg)	9.0%	Ba	10% - 11%	Baa
d) RCF / Net Debt (3 Year Avg)	9.0%	Baa	10% - 11%	A
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Baa1		A3
Notch Lift	0.5	0.5	0.5	0.5
a) Scorecard-Indicated Outcome		Baa1		A3
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 03/31/2021. (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 10

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

Source: Moody's Investors Service

Appendix

Exhibit 11
Welsh Water
Selected peer comparison

	Dwr Cymru Cyfyngedig A3 Stable			Wessex Water Services Limited Baa1 Stable			United Utilities Water Limited A3 Stable			Severn Trent Water Limited Baa1 Stable		
(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-19	FYE Mar-20	FYE Mar-21
Revenue	782	779	778	548	552	515	1,798	1,850	1,798	1,673	1,715	1,700
EBITDA	427	408	423	341	330	297	1,175	1,167	1,228	1,146	1,118	1,047
Regulated Asset Base (RAB)	5,673	5,907	6,010	3,264	3,206	3,324	11,465	11,791	11,681	9,349	9,412	9,514
Total Debt	3,811	4,158	3,845	2,243	2,352	2,766	7,803	8,411	8,309	6,378	6,447	6,647
Net Debt	3,310	3,490	3,624	2,243	2,310	2,407	7,477	7,910	7,660	6,365	6,432	6,634
Adjusted Interest Coverage Ratio	1.5x	1.5x	0.6x	1.8x	1.6x	1.4x	2.9x	2.5x	2.0x	2.2x	1.9x	1.4x
FFO / Net Debt	9.4%	9.3%	8.5%	11.2%	10.3%	8.6%	13.1%	12.9%	12.6%	13.5%	13.3%	11.6%
RCF / Net Debt	9.4%	9.3%	8.5%	7.2%	6.5%	6.2%	8.1%	6.4%	12.6%	10.0%	9.5%	10.6%
Net Debt / Regulated Asset Base	58.3%	59.1%	60.3%	68.7%	72.1%	72.4%	65.2%	67.1%	65.6%	68.1%	68.3%	69.7%

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 12
Welsh Water
Moody's adjusted debt breakdown

(in GBP million)	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21
As Reported Total Debt	2,978	3,359	3,766	4,119	3,755
Pensions	95	80	96	87	90
Non-Standard Public Adjustments	(49)	(51)	(51)	(49)	0
Moody's Adjusted Total Debt	3,024	3,388	3,811	4,158	3,845
Cash & Cash Equivalents	(101)	(289)	(501)	(667)	(221)
Moody's Adjusted Net Debt	2,924	3,100	3,310	3,490	3,624

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 13
Welsh Water
Moody's adjusted FFO breakdown

(in GBP million)	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21
As Reported Funds from Operations (FFO)	228	212	221	208	233
Pensions	8	7	7	12	0
Capitalized Interest	(10)	(16)	(16)	(14)	(11)
Alignment FFO	(18)	(40)	(35)	(25)	(16)
Unusual Items - Cash Flow	31	55	46	42	24
Non-Standard Public Adjustments	72	89	87	95	74
Moody's Adjusted Funds from Operations (FFO)	311	307	310	323	309

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 14

Welsh Water

Selected historical financial data, Moody's-adjusted

(in GBP million)	FYE Mar-17	FYE Mar-18	FYE Mar-19	FYE Mar-20	FYE Mar-21
INCOME STATEMENT					
Revenue	744	757	782	779	778
EBITDA	377	527	427	408	423
EBITDA margin %	50.6%	69.6%	54.7%	52.3%	54.3%
Interest Expense	154	193	186	179	137
Net income	(87)	(36)	(125)	(189)	(108)
BALANCE SHEET					
Cash & Cash Equivalents	101	289	501	667	221
Net Property Plant and Equipment	5,056	5,296	5,521	5,748	5,810
Total Assets	5,848	6,321	6,784	7,225	6,847
Total Liabilities	4,740	5,090	5,563	6,093	5,788
Total Debt	3,024	3,388	3,811	4,158	3,845
Net Debt	2,924	3,100	3,310	3,490	3,624
Total Equity	1,108	1,231	1,221	1,132	1,058
CASH FLOW					
Funds from Operations (FFO)	311	307	310	323	309
Cash Flow From Operations (CFO)	284	294	307	305	308
Dividends					
Retained Cash Flow (RCF)	311	307	310	323	309
Capital Expenditures	(315)	(409)	(452)	(453)	(380)
Free Cash Flow (FCF)	(32)	(116)	(145)	(148)	(72)
INTEREST COVERAGE					
(FFO + Interest Expense) / Interest Expense	3.0x	2.6x	2.7x	2.8x	3.3x
Adjusted Interest Coverage Ratio	1.5x	1.4x	1.5x	1.5x	0.6x
LEVERAGE					
Regulated Asset Base (RAB)	5,222	5,471	5,673	5,907	6,010
Net Debt / Regulated Asset Base	56.0%	56.7%	58.3%	59.1%	60.3%
FFO / Net Debt	10.6%	9.9%	9.4%	9.3%	8.5%
RCF / Net Debt	10.6%	9.9%	9.4%	9.3%	8.5%

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

Endnotes

1 The 'Putting the sector back in balance' measures marked a change in direction for the regulator, in our view, in response to political and public pressure and evidenced a modest deterioration in the stability and predictability of the regime. The regulator had long maintained that capital structure is a matter for shareholders but, with the new measures, will exert greater influence. Accordingly, in May 2018, we revised the scoring for the stability and predictability of the regulatory regime under our rating methodology for Regulated Water Utilities to Aa from Aaa. At the same time we modestly tightened our ratio guidance (please see 'Regulated Water Utilities — UK: Regulator's proposals undermine the stability and predictability of the regime', May 2018).

2 Water Resources West (WRW) includes Severn Trent Water, United Utilities Water, South Staffs Water as well as Dwr Cymru/Welsh Water.

3 Environment Agency, Water and sewerage companies in England: environmental performance for 2020, 23 July 2021

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