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CREDIT OPINION
29 February 2024

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

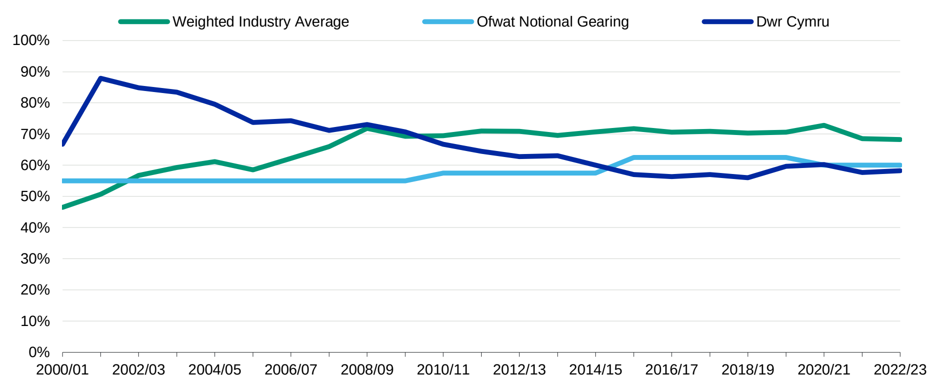
Update to credit analysis

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 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 flow generated from the monopoly provision of 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 take into account the evolution of the regulatory and business risks

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 a change in corporate strategy towards higher-risk non-regulated activities, or a significant increase in 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 not offset by credit enhancing measures. Finally, unforeseen funding difficulties could also lead to a rating downgrade.

Key indicators

Exhibit 2
Dwr Cymru Cyfyngedig

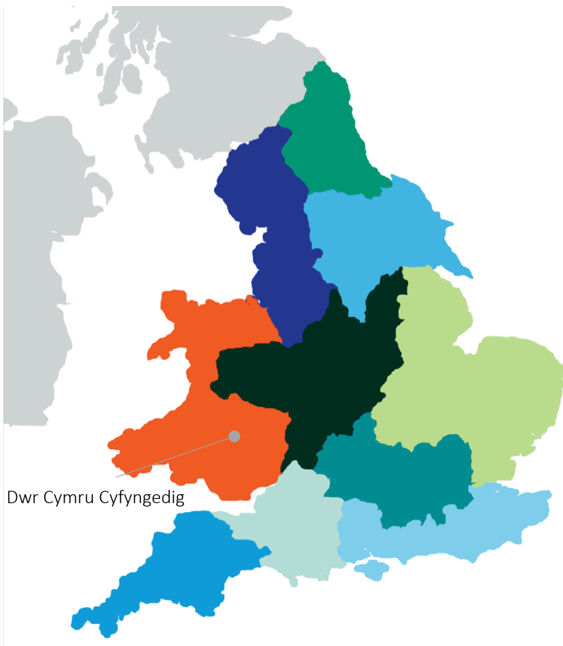
	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	12-18 months forward view
Adjusted Interest Coverage Ratio	1.5x	1.5x	0.6x	0.8x	0.4x	0.6x - 0.8x
Net Debt / Regulated Asset Base	58.3%	60.0%	61.4%	58.7%	58.0%	56% - 59%
FFO / Net Debt	9.4%	6.4%	6.2%	6.5%	4.0%	4% - 6%
RCF / Net Debt	9.4%	6.4%	6.2%	6.5%	4.0%	4% - 6%

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 £7.2 billion as of March 2023, 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.

Exhibit 3
Dwr Cymru Cyfyngedig area



Source: Ofwat, Moody's Investors Service

Exhibit 4
Price control overview

	GB Water
Regulator/Price Control	Ofwat / AMP7
Term of price control	April 2020 - March 2025
Allowed return (appointee, vanilla CPIH-real)	2.92%
Regulatory Capital Value	£7.2 billion (March 2023)

Source: Ofwat, Moody's Investors Service

Welsh Water's ultimate parent company is Glas Cymru Holdings Cyfyngedig (Glas Cymru), a not-for-shareholder-return company limited by guarantee. In the year ending March 2023 (financial year 2023), 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 but price review increases risks

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).

In December 2022, Ofwat published its final methodology for the 2024 price review, outlining its approach to setting allowed returns, incentivising operational performance and establishing cost targets for AMP8, which will run from 1 April 2025 to 31 March 2030 (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, was 3.23% for the wholesale activities, an increase from 2.92% in the current AMP7 period on an equivalent basis (i.e., inflating revenue and RCV by the consumer prices index adjusted for housing costs [CPIH]) as a result of higher market interest rates. In cash terms, the early view cost of capital is 30% higher than in AMP7, when around half of the RCV was linked to the higher retail prices index (RPI) and a larger part of the returns were therefore deferred. Ofwat has committed to consider the latest market evidence when it sets the allowed return in its final determinations, expected in December 2024, and based on current market data we estimate that the allowed return could rise to 3.6%-3.9% if Ofwat maintains the same methodology.

In addition to higher financing costs, the industry faces higher risks as a result of large investment programmes, higher potential operational penalties and public concern about companies' performance that are likely to be exacerbated by large tariff increases.

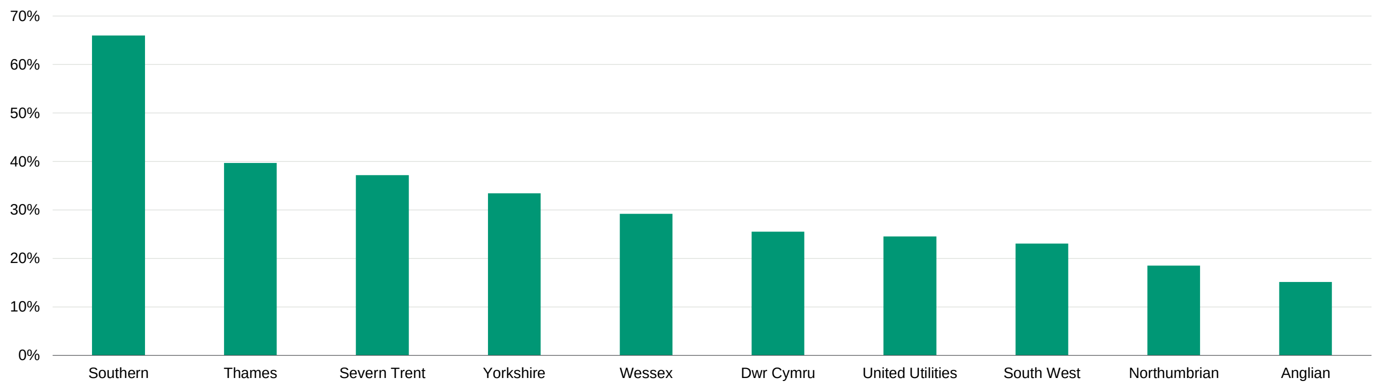
In AMP8 business plans, the industry has proposed a near doubling of total expenditure (totex) compared with the current period, and indicated that investment will remain high for 25 years in response to tighter environmental regulation and pressure on water resources from climate change and population growth (see Regulated Water Utilities – UK: Enhancement expenditure set to rise materially over the next 25 years, 16 October 2023). Dwr Cymru's business plan proposed totex of £5.1 billion (in 2022-23 prices) in AMP8, an increase of 43% from AMP7. Proposed enhancement expenditure, which aims to improve services and is largely driven by new statutory requirements to reduce pollution and the environmental impact of water abstraction, is £1.9 billion, about three times the AMP7 level. If confirmed by Ofwat in its 2024 determination, this would lead to a 18% real growth in Dwr Cymru's RCV over the period compared with less than 2% in AMP7.

High investment and a higher cost of capital, as well as true-ups for inflation, interest rates and operational performance in AMP7, will contribute to significant tariff increases for the whole industry, and Dwr Cymru has proposed to increase tariffs by 26% in real terms by the end of AMP8.

Exhibit 5

Companies have proposed significant real tariff increases

Increase in average household tariff from 2024-25 to 2029-30, before inflation



Source: Companies' business plans and Moody's Investors Service

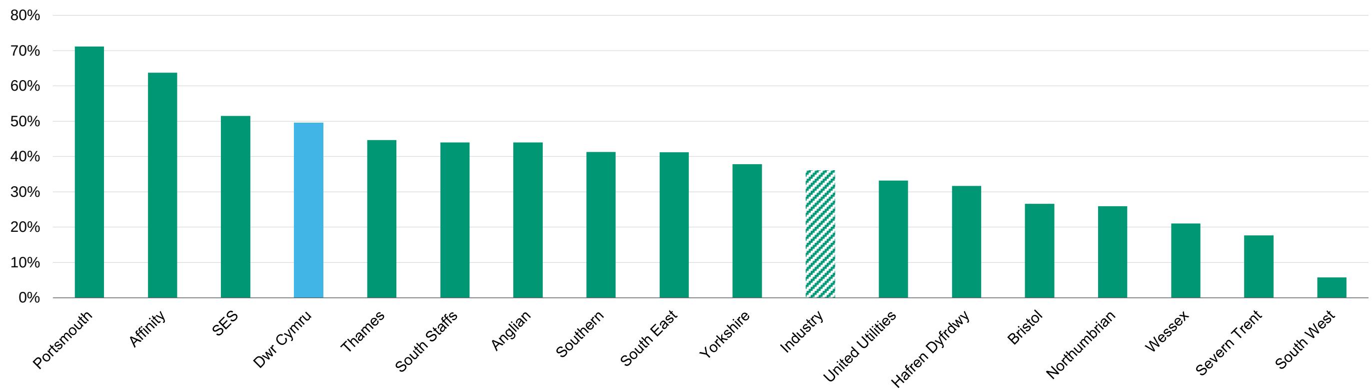
The planned large increases in investment across the water sector will challenge supply chains and potentially companies' ability to raise debt and equity financing in line with regulatory assumptions. Given its unique structure, Welsh Water does not have the ability to raise equity and its business plan acknowledges that higher investment will tend to push up gearing and tighten interest coverage ratios. Although leverage remains in the range of 60-62% across the AMP8 period in the company's published business plan, a reduction in allowed revenue or underperformance on costs or Outcome Delivery Incentives (ODIs) would result in higher leverage.

High inflation has led to very weak credit metrics in AMP7

Welsh Water's average borrowing costs have historically been above the sector average, but were reduced by the issuance of senior and junior bonds in 2020 and 2021 that were swapped to negative RPI-linked coupons. The company also entered into an inflation-linked derivative contract to swap £350 million bonds of existing bonds due in 2028 from a 6% fixed rate to an RPI-linked exposure.

Although these transactions initially reduced the company's borrowing costs, they increased the share of the company's debt linked to inflation to 83% – around 50% of RCV – which is above the sector average of 53%.

Exhibit 6
Index-linked debt as a percentage of RCV
March 2023



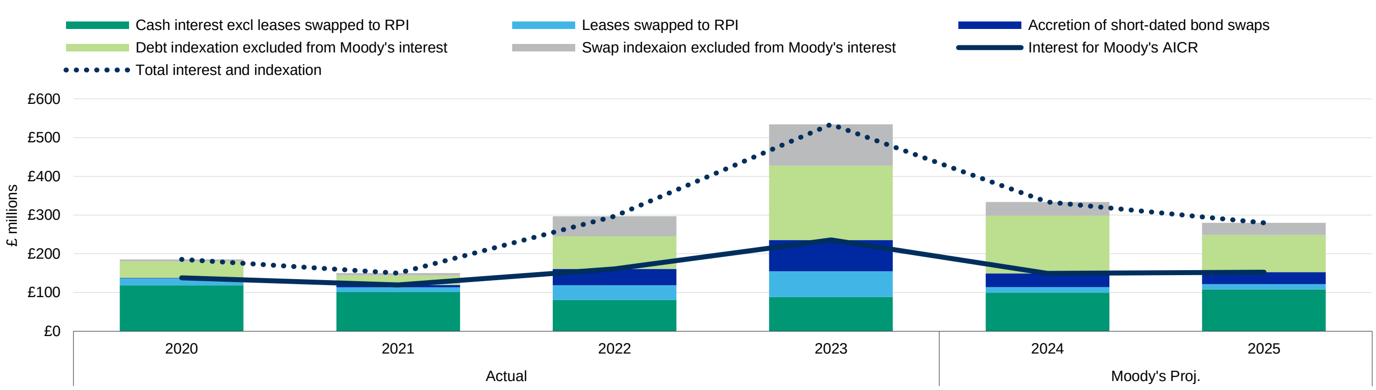
Source: Companies' annual performance reports

Inflation in the UK has risen sharply since the start of 2021, increasing accretion payable under index-linked debt and swaps for most water companies. The effect on cash flow has been particularly significant 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 £236 million in financial year 2023, compared to £120-140 million over 2019-22, despite the refinancings. As well as increasing financing costs, high inflation has caused Welsh Water's operating costs to rise faster than its revenue.

As a result, Welsh Water's AICR has fallen below 1.0x in each of the last three years. We expect it to remain below 1.0x in financial year 2024 before recovering in AMP8.

Exhibit 7
High inflation has increased Welsh Water's interest expense



Source: Company investor reports, Moody's Investors Service estimates

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.

Ofwat investigation into reported leakage will lead to revenue reduction in financial year 2024

In May 2023, Ofwat announced that it had opened an enforcement case into the accuracy of leakage and PCC performance figures reported by Welsh Water as part of its annual regulatory reporting in financial years 2021 and 2022.[1] This came after Welsh Water notified Ofwat that it had identified issues with its leakage and per capita consumption performance calculations for those periods.

In an effort to preempt Ofwat penalties, Welsh Water announced that it would provide a £10/customer refund for financial year 2024, at total cost of £15 million, and to forgo £14 million of RCV uplift at the end of AMP7. The total concession is in line with typical penalties levied by Ofwat.

In addition, Welsh Water is likely to receive the maximum penalty under the leakage ODI over the remainder of AMP7, £5 million/year. £10 million will be taken in financial year 2025 and £5 million thereafter.

Track record of modest operational underperformance

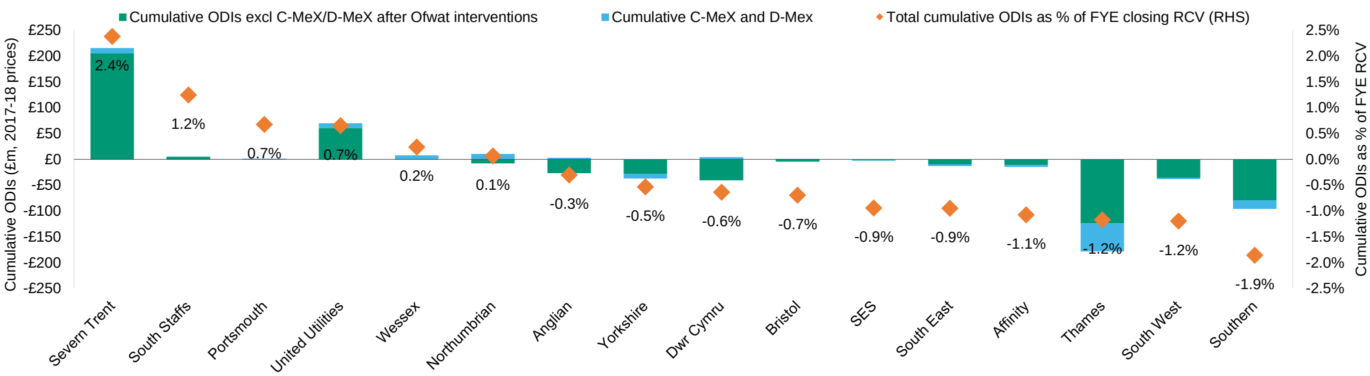
Welsh Water has incurred modest financial penalties for operational performance. In AMP6, the company suffered a small cumulative net penalty of £3.1 million (in 2012-13 prices) on ODIs, which was reflected in lower allowed revenue during AMP7.

Stringent performance targets set by the regulator for AMP7 on common ODIs, which apply to the industry as a whole, has led to larger performance penalties. Since the start of AMP7, Welsh Water incurred net ODI penalties of £36.6 million (in 2017-18 prices), equivalent to ca. 0.6% of its RCV. The company estimates that it will incur total penalties of £64 million over the period

Exhibit 8

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

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



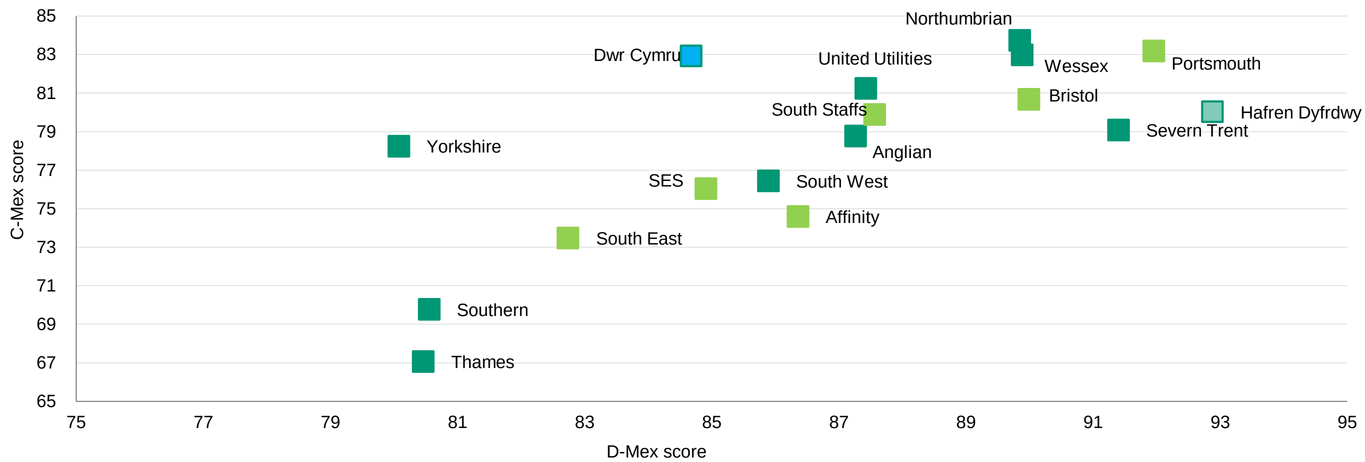
Source: Companies' annual performance reports

Welsh Water has performed well under Ofwat's C-Mex measure of customer experience, accumulating £4.2 million of rewards since the start of AMP7, but remains broadly mid-field for the D-Mex measure of developer service experience.

Exhibit 9

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

Companies' C-Mex and D-Mex scores



Dark green squares are WaSCs and light green squares are WoCs.
Source: Companies' annual performance reports

Welsh Water's wholesale total expenditure (totex) has been broadly in line with allowances over the first three years of the period. However, Retail costs continue to be a source of modest underperformance, with Welsh Water's average cost to serve above the industry average because of the sparsely populated rural areas it covers and relatively high levels of social deprivation, which increases the cost of bad debt management.

ESG considerations

Dwr Cymru Cyfyngedig's ESG credit impact score is CIS-1

Exhibit 10

ESG credit impact score

ESG considerations have a positive impact on the current rating which is higher than it would have been in the absence of ESG considerations.

Source: Moody's Investors Service

Welsh Water's **CIS-1** indicates that ESG considerations have a positive impact on the rating. This reflects positive governance characteristics, with moderate environmental and social risks mitigated by the regulated nature of water companies' activities and their investment requirements, including a forward-looking allowance for efficient cost.

Exhibit 11
ESG issuer profile scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-1

Source: Moody's Investors Service

Environmental
Welsh Water's **E-3** 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 has been a strong performer on environmental measures, although Natural Resources Wales reduced its rating to two stars in 2022 ("requires improvement") from three stars in 2021 and four stars in 2020. This lower score reflects five serious pollution incidents recorded in 2022, significantly below target, as well as a higher number of total pollution incidents. 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
Welsh Water's **S-3** score reflects increasing risk that public concern over environmental, social or affordability issues could lead to adverse regulatory or political intervention. While the risk is common to all regulated utilities, it is particularly acute for UK water companies, which suffer from public perception at an all-time low and heightened scrutiny over operational performance and dividend payments. Welsh Water's strong operational performance, not-for-profit structure and regulation by the Welsh government mean this risk is lower than for the English water companies, but it could nonetheless be adversely affected by regulatory and political interventions to address wider concerns about the industry.

Governance
Welsh Water is **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.

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.

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 2023, the Glas group had available total liquidity of £508 million including (1) cash balances of £308 million and (2) undrawn revolving credit facilities for £200 million. The facilities are available until November 2024.

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.

The next major debt maturities relate to the £270 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

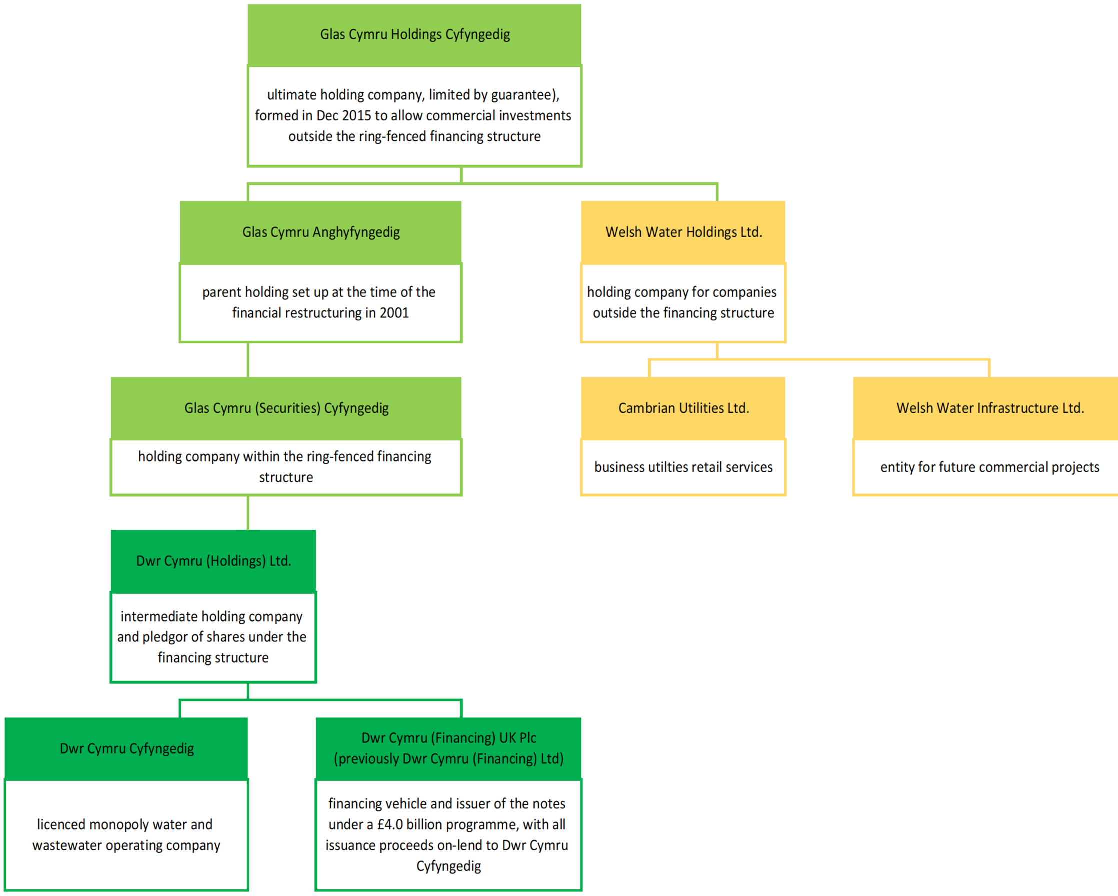
Welsh Water has a covenanted financing structure which provides for (1) a standby liquidity facility of £135 million covering 12 months of debt service; (2) a first-ranking fixed charge over the shares in the company; and (3) agreement by financial creditors to give up their individual rights to petition for insolvency proceedings (which could modestly improve recovery in a default scenario). There are financial covenants, particularly limitations on additional indebtedness and permitted distributions (including customer dividends and distributions to the holding company).

Welsh Water's financing 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.

As Welsh Water maintains significant headroom against the financial covenant levels, we do not consider that the structure is effective in protecting credit quality at the current rating level. For this reason, 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 jeopardise 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 12
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.

Rating methodology and scorecard factors

Welsh Water is rated in accordance with our rating methodology for Regulated Water Utilities, published in August 2023. 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 13

Rating Methodology Scorecard — Dwr Cymru Cyfyngedig

Financial metrics based on Glas Cymru consolidated accounts

Regulated Water Utilities Industry [1][2]	Current FY 3/31/2023		Moody's 12-18 Month Forward View [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)	0.6x	Caa	0.6x - 0.8x	Caa
b) Net Debt / Regulated Asset Base (3 Year Avg)	59.2%	Baa	56% - 59%	Baa
c) FFO / Net Debt (3 Year Avg)	5.5%	B	4% - 6%	B
d) RCF / Net Debt (3 Year Avg)	5.5%	Ba	4% - 6%	Ba
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Ba2		Ba2
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 03/31/2023. (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

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

Ratings

Exhibit 14

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

Source: Moody's Investors Service

Appendix

Exhibit 15
Welsh Water
Selected peer comparison

	Dwr Cymru Cyfyngedig A3 Stable			Northumbrian Water Ltd. Baa1 Stable			Yorkshire Water Services Limited Baa2 Stable			Anglian Water Services Ltd. A3 Stable		
(in GBP million)	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-21	FYE Mar-22	FYE Mar-23
Revenue	778	810	844	758	780	850	1,101	1,119	1,145	1,352	1,400	1,495
EBITDA	361	518	585	330	313	335	636	606	611	706	790	819
Regulated Asset Base (RAB)	6,010	6,460	7,161	4,264	4,613	5,161	7,024	7,746	8,715	7,993	8,780	9,959
Total Debt	3,909	4,305	4,530	3,095	3,233	3,629	5,727	5,738	6,571	6,981	6,534	6,914
Net Debt	3,688	3,790	4,151	3,067	3,173	3,483	5,529	5,709	6,278	6,695	5,663	6,281
Adjusted Interest Coverage Ratio	0.6x	0.8x	0.4x	1.2x	1.2x	0.8x	0.9x	1.0x	0.7x	1.4x	1.4x	1.4x
FFO / Net Debt	6.2%	6.5%	4.0%	7.3%	7.3%	6.7%	6.2%	6.3%	5.8%	6.5%	8.4%	8.4%
RCF / Net Debt	6.2%	6.5%	4.0%	7.3%	-3.4%	3.5%	6.2%	6.1%	5.1%	6.5%	6.7%	5.7%
Net Debt / Regulated Asset Base	61.4%	58.7%	58.0%	71.9%	68.8%	67.5%	78.7%	73.7%	72.0%	83.8%	64.5%	63.1%

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.
Ratings for Yorkshire Water Services Limited is assigned at the level of the finance subsidiary.
Source: Moody's Financial Metrics™

Exhibit 16
Welsh Water
Moody's adjusted debt breakdown

(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23
As Reported Total Debt	3,766	4,119	3,755	4,067	4,186
Pensions	96	87	90	81	0
Non-Standard Adjustments	(51)	3	64	157	345
Moody's Adjusted Total Debt	3,811	4,209	3,909	4,305	4,530
Cash & Cash Equivalents	(501)	(667)	(221)	(515)	(379)
Moody's Adjusted Net Debt	3,310	3,542	3,688	3,790	4,151

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 17
Welsh Water
Moody's adjusted FFO breakdown

(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23
As Reported Funds from Operations (FFO)	221	208	233	288	236
Pensions	7	12	0	0	0
Capitalized Interest	(16)	(14)	(11)	(16)	(28)
Alignment FFO	(35)	(25)	(16)	(71)	(166)
Unusual Items - Cash Flow	46	0	0	0	0
Cash Flow Presentation	0	6	5	4	13
Non-Standard Adjustments	87	39	18	43	111
Moody's Adjusted Funds from Operations (FFO)	310	225	228	248	166

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 18

Welsh Water

Selected historical financial data, Moody's-adjusted

(in GBP million)	FYE Mar-19	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23
INCOME STATEMENT					
Revenue	782	779	778	810	844
EBITDA	427	318	361	518	585
EBITDA margin %	54.7%	40.8%	46.4%	64.0%	69.4%
EBIT	45	(5)	18	179	226
EBIT margin %	5.7%	-0.7%	2.3%	22.1%	26.8%
Interest Expense	184	186	150	298	534
BALANCE SHEET					
Cash & Cash Equivalents	501	667	221	515	379
Total Assets	6,784	7,225	6,847	8,005	8,536
Total Liabilities	5,563	6,093	5,788	6,905	7,032
CASH FLOW					
Funds from Operations (FFO)	310	225	228	248	166
Cash Flow From Operations (CFO)	307	208	234	303	217
Dividends					
Retained Cash Flow (RCF)	310	225	228	248	166
Capital Expenditures	(452)	(356)	(306)	(251)	(294)
Free Cash Flow (FCF)	(145)	(148)	(72)	52	(77)
INTEREST COVERAGE					
EBITDA / Interest Expense	2.3x	1.7x	2.4x	1.7x	1.1x
Adjusted Interest Coverage Ratio	1.5x	1.5x	0.6x	0.8x	0.4x
LEVERAGE					
Debt / EBITDA	8.9x	13.2x	10.8x	8.3x	7.7x
Net Debt / EBITDA	7.7x	11.1x	10.2x	7.3x	7.1x
Debt / Book Capitalization	69.7%	72.3%	71.9%	70.9%	66.1%
Regulated Asset Base (RAB)	5,673	5,907	6,010	6,460	7,161
Net Debt / Regulated Asset Base	58.3%	60.0%	61.4%	58.7%	58.0%
FFO / Net Debt	9.4%	6.4%	6.2%	6.5%	4.0%
RCF / Net Debt	9.4%	6.4%	6.2%	6.5%	4.0%

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

Endnotes

1 Ofwat, Ofwat launches investigation into Welsh Water leakage performance, 25 May 2023

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