CREDIT OPINION
20 February 2025

Update

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RATINGS

Dwr Cymru Cyfyngedig

Domicile	Cardiff, United Kingdom
Long Term Rating	Baa1
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 following PR24 final determinations

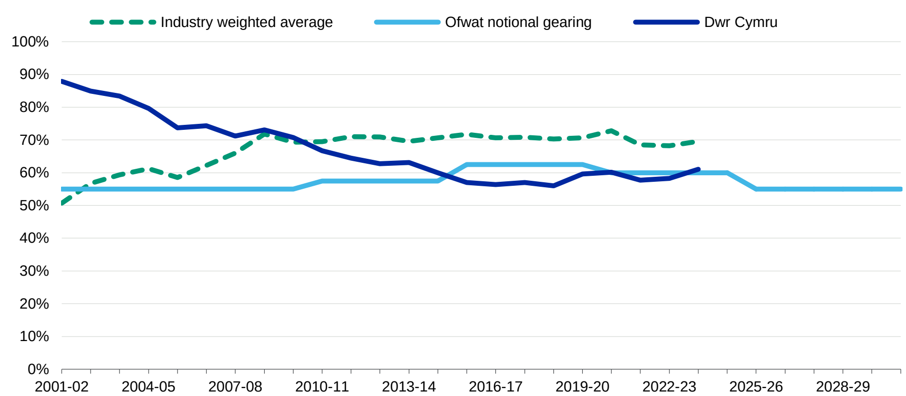
Summary

Dwr Cymru Cyfyngedig's (Welsh Water, Baa1 stable) credit quality is supported by: (1) its low business risk profile as the monopoly provider of essential water and sewerage services in Wales, with a transparent and well-established regulatory regime; (2) current low levels of gearing, at 60.4% Net Debt to Regulatory Capital Value (RCV) as of March 2024; (3) the not-for-dividend status of Welsh Water's ultimate parent company, Glas Cymru Holdings Cyfyngedig; and (4) the more cautious approach to market reform by the Welsh Government.

However, credit quality is constrained by: (1) the risk that gearing will increase if Welsh Water significantly overspends or incurs net Outcome Delivery Incentive (ODI) penalties, absent measures to bolster balance sheet strength and noting the inability to raise equity given the nature of its ultimate parent; and (2) a deterioration in our view of the sector's business risk profile.

On 19 December 2024, the regulator Ofwat announced its final determinations for the PR24 price review[1]. On 22 January 2025, Welsh Water became the first company to formally accept its determination[2]. On 18 February, we downgraded Welsh Water's ratings to Baa1 from A3, concluding the review for downgrade initiated in November 2024.

Exhibit 1
Welsh Water's gearing is the second-lowest in the industry
Regulatory gearing ratios as reported



Gearing as reported using regulatory definition, which excludes Moody's standard adjustments for pension obligations and operating leases.
Sources: Companies' performance reports, Ofwat, Moody's Ratings

Credit strengths

» Stable cash flow generated from the monopoly provision of water and wastewater services

» Well established and transparent 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

» Deterioration in the sector's business risk profile amid growing public, political and regulatory scrutiny

» Likelihood of penalties under certain incentives and exposure to severe weather events

» Challenges to maintain gearing levels in the case of overspends or net ODI penalties

» Ongoing investigation by Ofwat into the sector's performance with respect to wastewater assets may result in penalties or detrimental policy/regulatory interventions while increased public scrutiny heightens social risks

Rating outlook

The stable outlook reflects our expectation that Welsh Water will perform in line with its final determination and achieve key ratios commensurate with the current rating levels.

Factors that could lead to an upgrade

The ratings could be upgraded if we expect Moody's Adjusted Interest Coverage Ratio (AICR) to be above 1.6x on average across the regulatory period and Net Debt to RCV to be under 60%. This AICR guidance is specific to Welsh Water and reflects its unique characteristics.

Factors that could lead to a downgrade

The ratings could be downgraded if: (1) we forecast that Welsh Water will be unable to achieve an AICR above 1.4x on average and Net Debt to RCV under 68%; (2) there is a significant increase in business risk for the sector as a result of legal and/or regulatory changes leading to a further reduction in the stability and predictability of regulatory earnings; (3); a change in corporate strategy towards higher-risk non-regulated activities; or (4) unforeseen funding difficulties.

Key indicators

Exhibit 2

Dwr Cymru Cyfyngedig

	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	2025-proj.	AMP8 Avg.
Adjusted Interest Coverage Ratio	1.5x	0.6x	0.8x	0.4x	0.8x	1.0x	1.5x-1.7x
Net Debt / Regulated Asset Base	60.0%	61.4%	58.7%	58.0%	60.4%	63.0%	61-64%
FFO / Net Debt	6.4%	6.2%	6.5%	4.0%	6.2%	7.0%	8-10%
RCF / Net Debt	6.4%	6.2%	6.5%	4.0%	6.2%	7.0%	8-10%

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, Moody's Ratings

Profile

With an RCV of around £7.5 billion as of March 2024, 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 in England.

Welsh Water's ultimate parent company is Glas Cymru Holdings Cyfyngedig, a not-for-shareholder-return company limited by guarantee. In the year ending March 2024, the Glas Cymru group reported revenue of £928 million and operating profit of £47 million. 99% of the groups revenue is from regulated activities at Welsh Water.

Exhibit 3
Dwr Cymru Cyfyngedig area

Sources: Ofwat, Moody's Ratings

Exhibit 4
Price control overview

Regulatory regime	Water
Regulator	Ofwat
Current price control	AMP7
Term	April 2020 - March 2025
Allowed return (appointee, vanilla CPIH-real)	2.96%
Next price control	AMP8
Term	April 2025 - March 2030
Allowed return (appointee, vanilla CPIH-real)	4.03%

Sources: Ofwat, Moody's Ratings

Detailed credit considerations

Deterioration in the sector's business risk profile amid growing public, political and regulatory scrutiny

There has been a material and sustained weakening of credit quality for nearly all UK water companies amid continued public scrutiny and heightened political and regulatory focus. Across the sector, previous decisions, such as prioritising affordability and shareholder distributions (albeit to a much lesser extent for Welsh Water given the non-for-dividend status of Glas Cymru Holdings Cyfyngedig), have contributed to underinvestment and exacerbated the sector's exposure to changing weather patterns, population growth and shifting expectations. Regulatory targets have become more demanding and penalties for those that fall short have continued to rise. With widespread investigations ongoing, fines for UK water companies breaching environmental legislation are likely to increase further.

In addition, the perception that the water sector is "broken" has prompted a government-initiated strategic review[3], which aims to improve the regulatory environment and create a stable backdrop to attract investment. However, the review results in greater short-term uncertainty for the sector until it is completed and any potentially credit positive recommendations are successfully implemented.

Given the above considerations, we changed our assessment of the stability and predictability of the regulatory environment for the UK water sector under our rating methodology to A from Aa in November 2024.

We believe that the predictability and supportiveness of the regime has reduced despite the final determination for the next regulatory period resulting in a more positive outcome for the sector than the draft determination. This assessment reflects a continuing trend of negative public perception resulting in more regulatory powers, an increased focus on enforcement action, demanding targets, greater penalties for operational underperformance and growing regulatory complexity that, in turn, result in higher cash flow volatility and leaner returns. All of these factors are leading to an environment that is less supportive of the water utilities' operations and, therefore, credit negative.

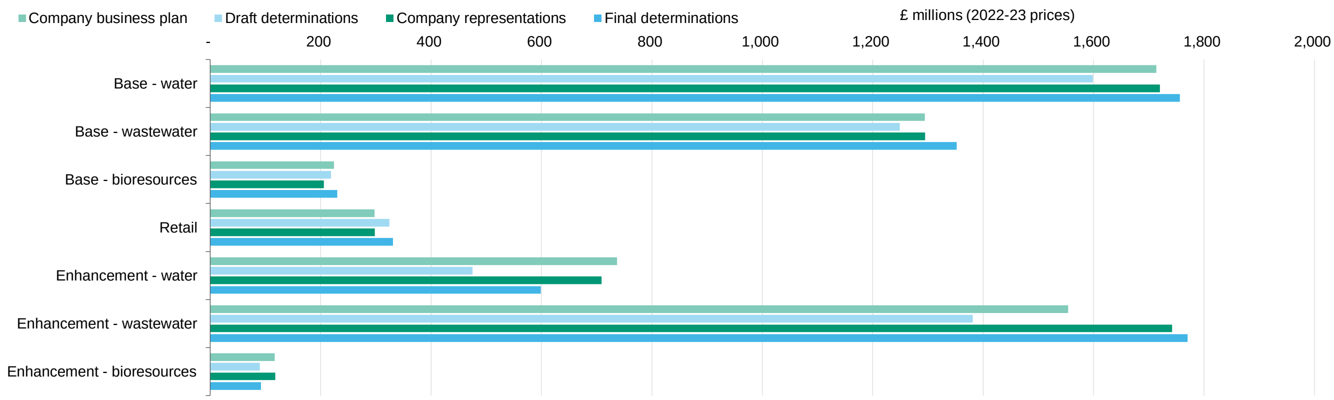
PR24 final determination is a significant improvement from the draft

Expenditure gap between allowances and request has closed

In its final determination, Ofwat granted expenditure allowances of £5,997 million over the five years of AMP8 (in 2022-23 prices, post adjustments for frontier shift and real price effects). This was a cut of 0.4% when compared to Welsh Water's revised request as part of its representations, a significant improvement from the 12.2% cut seen at the draft determination. Welsh Water compares favourably to the sector average, which we estimate had a 7.5% cut following final determinations.

Exhibit 5

Final determinations allowed only 0.4% less than Welsh Water's revised request



Expenditure shown prior to adjustments for frontier shift efficiency, real price effects, and the deduction of developer services revenue. Amounts shown for the company's representations are taken from Ofwat's calculations.
Sources: Ofwat, Moody's Ratings

Welsh Water received more than its request for base expenditure - covering day-to-day operations and maintenance - but less than its request for enhancement to the water network. We understand from management that the company expects to deliver its programme of work within the total totex allowance.

Across the sector, the use of Price Control Deliverables (PCDs) - where specific allowances can be clawed back if associated outputs are not delivered within the AMP, prior to the existing totex sharing mechanism - has greatly expanded in AMP8. For Welsh Water, around £2.2 billion of allowances are subject to non-delivery PCDs, with a subset of £1.6 billion also subject to the clawback of time value of money (represented by the Weighted Average Cost of Capital (WACC)) if the programme is delivered later than the Ofwat determined schedule. The largest programme of works subject to PCDs is the storm overflow spill reduction programme, where Welsh Water was allowed £938 million to deliver additional storage equivalent to 656,778m^3 by the end of the AMP.

PCDs with the timing component have been calibrated so that the company is neutral if 75% of the programme is delivered on time. We estimate that if Welsh Water was a year late on its entire £1.6 billion programme (but still delivered the all outputs), it would incur a £64 million timing penalty.

Welsh Water is now expected to earn a reward on leakage performance

Ofwat investigation concluded in March 2024

In April 2022, Welsh Water informed Ofwat of a potential issue with its implementation of the PR19 revised leakage methodology, in particular for the losses associated with upstream trunk mains and service reservoirs. In March 2023, Welsh Water notified Ofwat that it would need to formally restate all reported Leakage and Per Capita Consumption reporting, including the baseline targets set using shadow reporting between 2017-18 to 2019-20. In May 2023[4], Ofwat opened a formal investigation into Welsh Water for potential licence condition breaches over misreporting.

As part of the investigation, Welsh Water announced that it would: (1) provide a £10 rebate to every customer[5] in 2023-24, equating to £15 million; (2) exclude £32 million of leakage expenditure over 2020-21 to 2021-22 from the totex sharing mechanism, saving customers £14 million (both in 2021-22 prices); (3) invest an additional £54 million (forecast outturn prices) into tackling leakage over the final two years of AMP7, albeit subject to normal totex sharing rules; and (4) address governance failings identified by Ofwat and adopt industry best practice in calculating water balance.

In March 2024[6], Ofwat concluded its investigation, finding Welsh Water in breach of Licence Conditions B, F, and M due to misreporting (treated as a single collective breach) and Condition P due to insufficient management resources and internal controls. The maximum potential penalty Ofwat could have levied was 10% of Welsh Waters turnover applicable to the water side of the business, at around £34 million. Ultimately, Ofwat accepted Welsh Water's redress measures and imposed only a nominal £1 penalty.

Ofwat has previously taken enforcement action against Southern Water Services Limited (SW (Finance) I PLC) in 2019 and Thames Water Utilities Limited (Caa3 stable) in 2018 for breaches of Condition P. Ofwat has also taken enforcement action against Southern Water, Thames Water, Severn Trent Water Limited (Baa1 stable), Veolia Water East and Veolia Water Central (both now part of Affinity Water) in 2008 for misreporting, as well as Thames Water in a separate case in 2014.

AMP7 ODI is hitting the maximum penalty collar

Following restatement, Welsh Water's baseline leakage level is 217.1Ml/day (based on a three year average of revised performance between 2017-18 and 2019-20), with a regulatory target to reduce this by 13.3% to 188.2Ml/day by the end of AMP7.

However, Welsh Water's outturn performance is showing rising levels of leakage, at 251.6Ml/day for the three year average ending 2023-24. This has resulted in Welsh Water incurring penalties of £16 million (2017-18 prices) over the first four years of AMP7, including hitting the maximum penalty collar for the latter three years.

The company reported three year average leakage of 251.8Ml/day in its September 2024 interims.

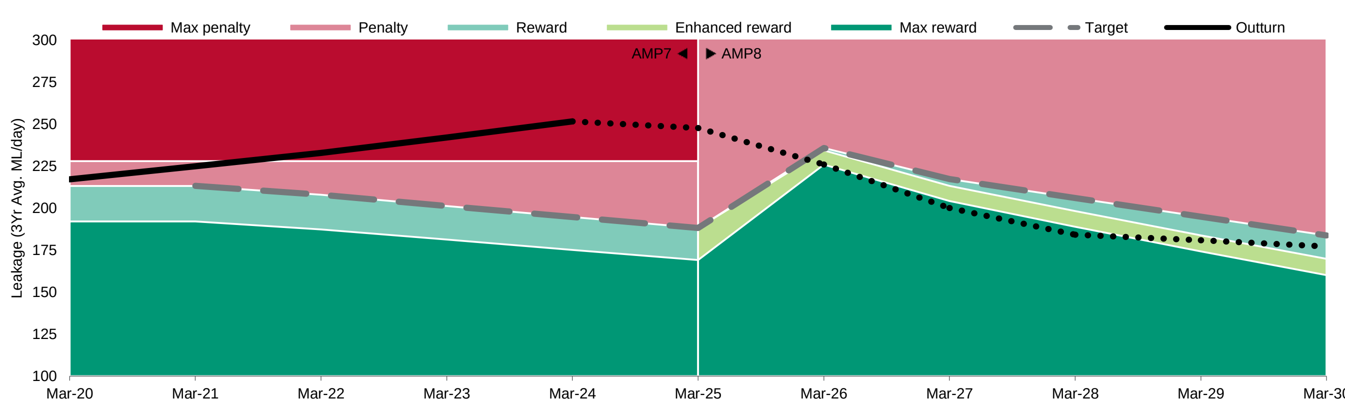
AMP8 target is less challenging than draft determinations proposal

In its PR24 final determination, Ofwat acknowledged the original profile of leakage reduction targets for AMP7 was not deliverable given outturn performance, and rebased the AMP8 reductions to apply from the company's outturn levels. If Welsh Water is able to deliver its representations performance forecast, it will now accrue a reward of £62 million (2022-23 prices) over AMP8 (impacting revenue with a two year lag), including earning the maximum potential reward in two years. At the draft determination, the same level of performance would have incurred a £112 million penalty.

Exhibit 6

AMP8 leakage target was rebased to take account of outturn delivery

Evolution of ODI between AMP7 and AMP8



Dotted line represents Welsh Water's latest forecast of leakage performance taken from its representation.
Sources: Ofwat, Welsh Water, Moody's Ratings

However, Ofwat has confirmed its draft determination proposal to remove the maximum penalty collar, meaning significant penalties could be incurred if Welsh Water is unable to deliver on its forecast performance.

Other ODIs are expected to result in penalties, reducing overall net reward

In response to heightened concern over discharges of untreated sewerage from storm overflows across the industry, Ofwat is to introduce a new storm overflows ODI. Ofwat has set a common ODI measured on the average number of spills per overflow using the 12/24 measure - the first 12 hours of a spill counts as one, with each additional 24 hour period counting as an additional one.

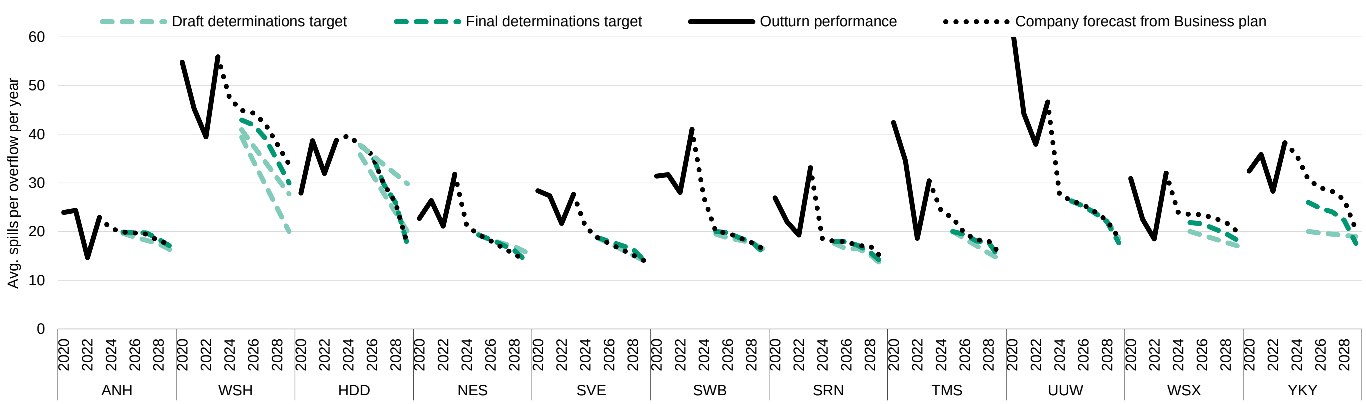
The Wales PR24 Forum had given Welsh Water a strategic steer to prioritise storm overflows on the level of harm reduction. In both its business plan and representation, Welsh Water proposed a bespoke incentive focusing on the harm measure, but this proposal has been rejected by Ofwat, who applied the common ODI measure instead.

Because of the layout of the network and less historic focus on storm overflows in Wales, average spills per overflow are generally higher for Welsh Water and Hafren Dyfrywy (part of the Severn Trent Group operating in Wales). Ofwat has acknowledged this and has set less challenging targets for the Welsh companies than for English peers. Despite this, we expect the company to incur a £16 million penalty on this measure, which could worsen towards the maximum £60 million penalty if performance does not improve from 2023-24 levels. We note positively that the maximum penalty has been reduced to 0.5% of wastewater Return on Regulated Equity (RoRE) and is now in line with peers, whereas at the draft determination it was set at the higher level of 0.75% for Welsh Water only.

Exhibit 7

Companies in Wales will have to deliver more stretching reductions

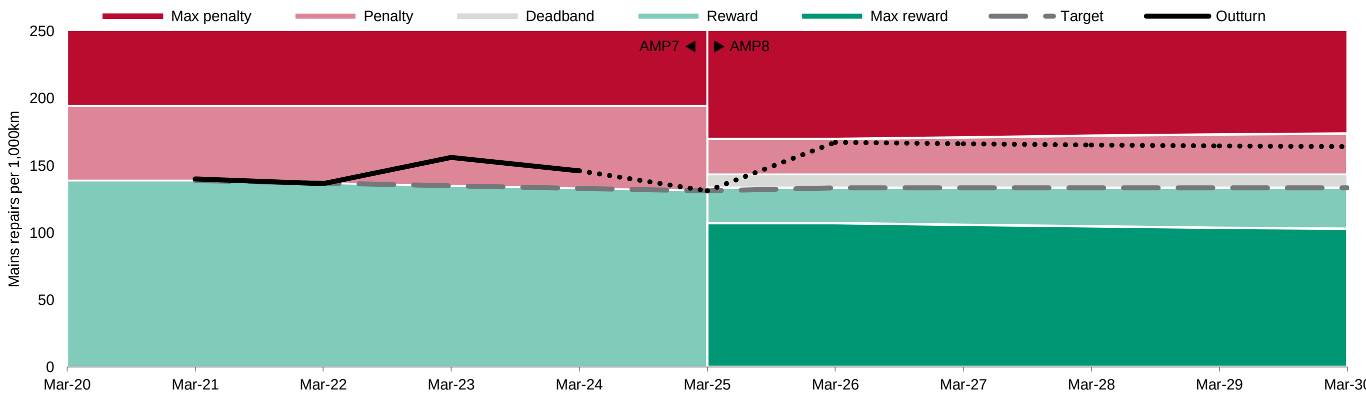
Storm overflows ODI across the wastewater sector



Performance is measured over calendar years. Targets for the two Welsh companies were not explicitly set at draft determinations, with the two lines showing the indicative range.
Sources: Ofwat, companies representations, Moody's Ratings

In addition, Welsh Water's expected performance under the mains bursts ODI (used as a proxy for asset health) has deteriorated since the draft determination, with the company now expecting to complete more work to achieve its leakage performance. We expect Welsh Water to incur a penalty of around £25 million on this incentive, with limited additional downside as this is close to the maximum penalty of £32 million.

Exhibit 8
Mains bursts are expected to incur a penalty
Evolution of ODI between AMP7 and AMP8



Sources: Ofwat, companies representations, Moody's Ratings

Maintaining current gearing levels could prove challenging

While overall we expect the company to achieve ODI rewards of approximately £10 million per annum, penalties from some of the ODIs may be higher than we expect, in particular if Welsh Water's service area is hit by severe weather events.

Moody's adjusted Net Debt to RCV was 60.4% as of March 2024, and we expect this to increase to 62-64% in March 2025. These levels, which we forecast will be maintained during AMP8, are above the 60% guidance for the A3 rating level, as revised in November 2024.

If Welsh Water significantly overspends or incurs net ODI penalties, gearing will increase further absent measures to bolster balance sheet strength. In this regard, and given the nature of its ultimate parent, Welsh Water is unable to raise equity.

Ofwat's wastewater treatment enforcement case has widened to include the entire sector

On 18 November 2021, Ofwat and the Environment Agency (EA) announced[7] investigations into all wastewater companies into compliance with sewage treatment works permits and use of storm overflows. In March 2022, Ofwat opened enforcement cases against five wastewater companies, with a further case opened into South West Water Limited in June 2022. On 16 July 2024, Ofwat opened[8] enforcement cases against four more wastewater companies, including Welsh Water. Including an earlier 2019 enforcement case into Southern Water, Ofwat now has open enforcement activities against all 11 wastewater companies in England and Wales. The cases cover more than 2,200 individual sewage treatment sites.

Ofwat's enforcement cases can result in fines of up to 10% of annual turnover of the relevant business segment. On 6 August 2024, Ofwat announced it's first three provisional outcomes, proposing fines for Thames Water of £104 million (9% of wastewater turnover), Yorkshire Water (Yorkshire Water Services Finance Limited Baa2 stable) of £47 million (7% of wastewater turnover), and Northumbrian Water Ltd. of £14 million (5% of wastewater turnover).

The EA's investigation is a criminal investigation, which carries a higher standard of proof but potentially unlimited fines. However, the EA's remit is limited to England and therefore covers a small minority of Welsh Water's operations.

As part of devolution, environmental matters in Wales fall under Cyfoeth Naturiol Cymru (Natural Resources Wales, NRW). NRW has stated[9] that they "do not plan to undertake a similar investigation [to the EA investigation] at present, as [NRW] already have a compliance response in place" and that they "have worked with Dŵr Cymru to ensure [non-compliant] sites return to compliance with their permit at the earliest opportunity". However, NRW have also stated they will monitor the investigations by Ofwat and the EA and "will review [NRW's] regulatory approach in Wales, if necessary".

NRW assesses Welsh Water's environmental performance using the same Standardised Environmental Performance Assessment (EPA) as the EA uses to assess English companies. Welsh Water's 2023 performance was assessed as '2-star requires improvement' Welsh

Water's performance has been 2-star for two consecutive years, a deterioration from '3-star good' in 2021 and '4-star industry leading' in 2020. In England, five of the nine wastewater companies were scored 2-star in 2023.

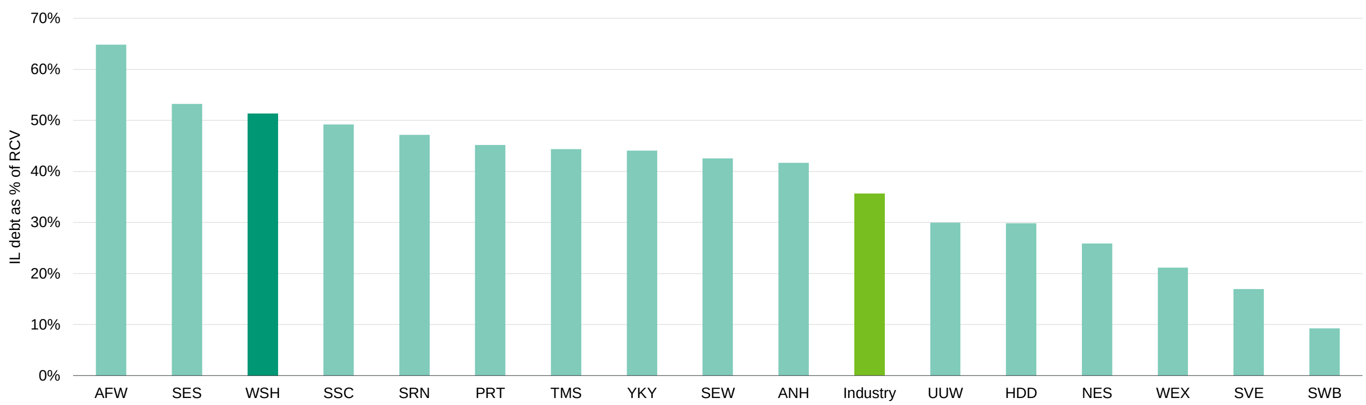
On 21 November 2024, citing enforcement over leakage reporting, the 2-star assessment, and overall performance, Ofwat announced[10] it would not allow Welsh Water to recover £163k of executive bonuses from customers for the 2023-24 year. Ofwat determined executive bonuses did not meet its performance criteria for nine out of the ten applicable wastewater companies, although only made adjustments when bonuses were funded from the regulated company rather than the wider group.

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 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%. As of March 2024, Welsh Water's index-linked percentage is 51%, above the industry average of 36%.

Exhibit 9
Index-linked debt as a percentage of RCV
As of March 2024



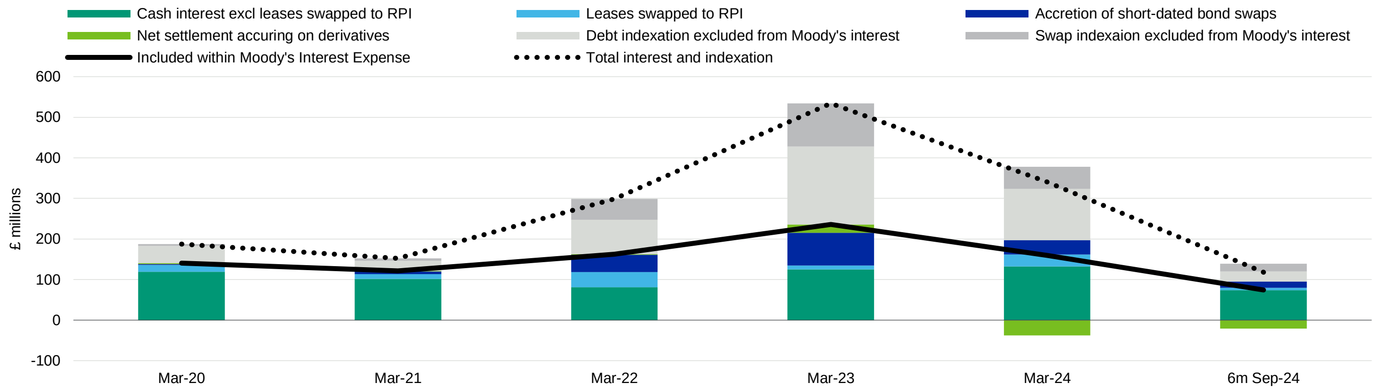
Sources: Companies performance reports, Moody's Ratings

Inflation in the UK rose sharply over the last two years, with RPI inflation peaking at 14.2% in October 2022. The inflationary period resulted in 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 2022-23, 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 four years of AMP7. As inflation has returned towards target levels, we expect AICRs to recover to more normalised levels during AMP8.

Exhibit 10
High inflation has increased Welsh Water's interest expense



Source: Company investor reports, Moody's Ratings estimates

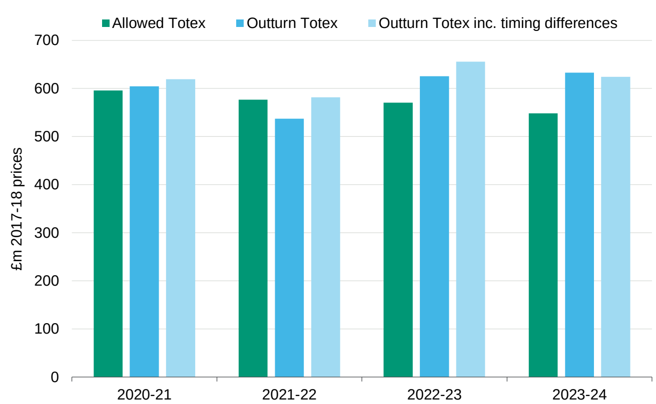
Periods of high inflation will tend to reduce water companies' leverage, because the RCV will rise in line with inflation while many liabilities are fixed. However, this benefit was more limited for Welsh Water than peers because index-linked debt and swaps are large relative to RCV and because these are entirely linked to RPI, which has risen more quickly than CPI or CPIH measures.

Track record of modest operational underperformance in the current AMP7

Over the first four years of AMP7, Welsh Water has spend £2.4 billion (2017-18 prices) of totex, an overspend of £108 million and increasing to £190 million once the company's view of timing differences is included.

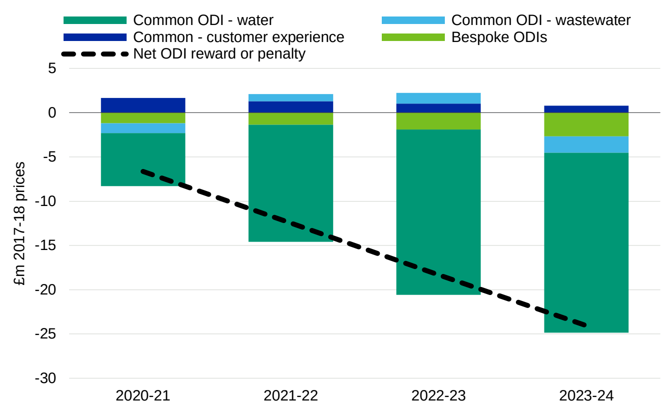
Welsh Water has incurred modest financial penalties for operational performance. In AMP6, the company suffered a small cumulative net penalty of £3.1 million (in 2012-13 prices) on ODIs, which was reflected in lower allowed revenue during AMP7. Stringent performance targets set by the regulator for AMP7 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 £61.5 million (in 2017-18 prices), equivalent to 1.1% of its RCV. Welsh Water has incurred the largest penalty - £30 million cumulative - from Water Supply Interruptions, followed by Leakage. It has earnt the highest reward - £7 million - from C-Mex.

Exhibit 11
Like most of the industry, Welsh Water is currently overspending in preparation for AMP8



Sources: Company's regulatory reporting, Moody's Ratings

Exhibit 12
Welsh Water is suffering modest ODI penalties in AMP7

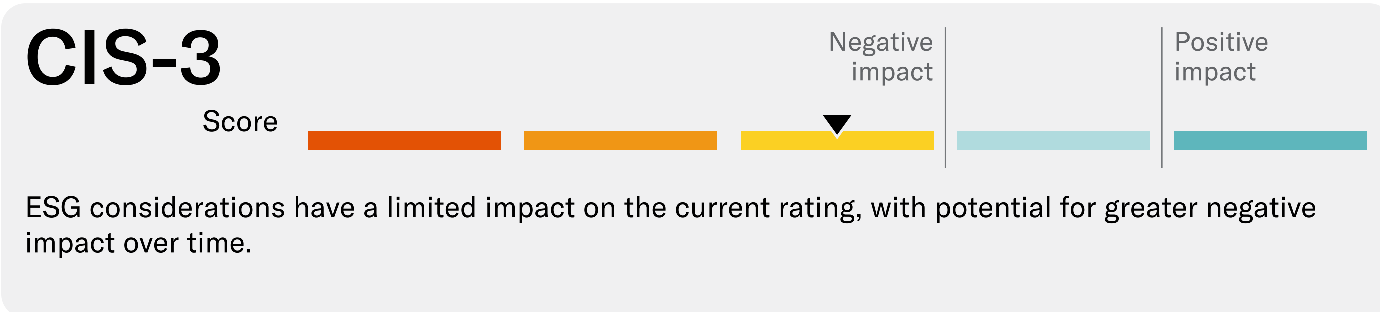


Includes restated leakage and PCC performance levels.
Sources: Company's regulatory reporting, Moody's Ratings

ESG considerations

Dwr Cymru Cyfyngedig's ESG credit impact score is CIS-3

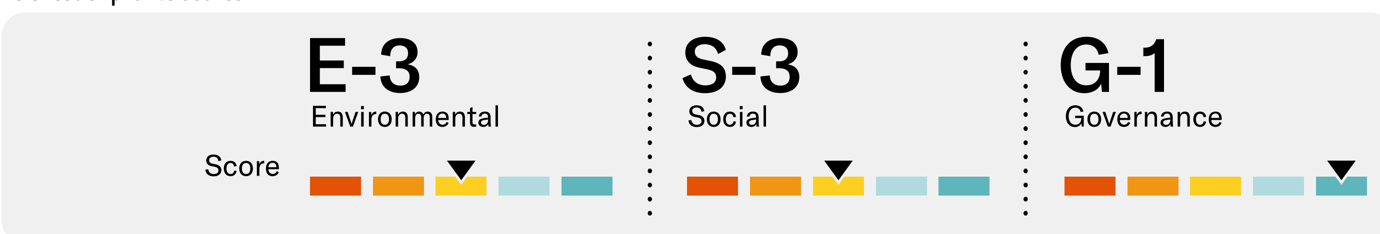
Exhibit 13
ESG credit impact score



Source: Moody's Ratings

Welsh Water's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time, reflecting the balance of risks shifting further towards environmental and social considerations in the upcoming AMP8 price control period. Welsh Water's positive governance considerations provide only partial mitigation to these risks.

Exhibit 14
ESG issuer profile scores



Source: Moody's Ratings

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 has scored Welsh Water 2-star 'requires improvement' for the last two years. 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's **G-1**, reflects 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 solid. As of 30 September 2024, the Glas Cymru group had available total liquidity of £1,092 million including: (1) cash balances of £692 million which includes the proceeds of a £125 million bank loan raised in May 2024 and £600 million of senior "Class B" bonds issued in September 2024; and (2) undrawn revolving credit facilities for £400 million (upsized from £200 million during 2023-24). The facilities are available until February 2027 with a one year extension option.

As required by the financing agreements, Dwr Cymru (Financing) UK PLC has an additional special purpose liquidity facility of £135 million, sized to cover up to 12 months of the group's debt service payments following a default and standstill at Dwr Cymru Cyfyngedig. The special facility is on a rolling five-year evergreen basis.

Welsh Water's next major debt maturities are the B3 £129 million notional RPI-linked bond and the C3 £200 million junior bond, both maturing in March 2026.

Structural considerations

Limited benefits from structural protections at current rating level

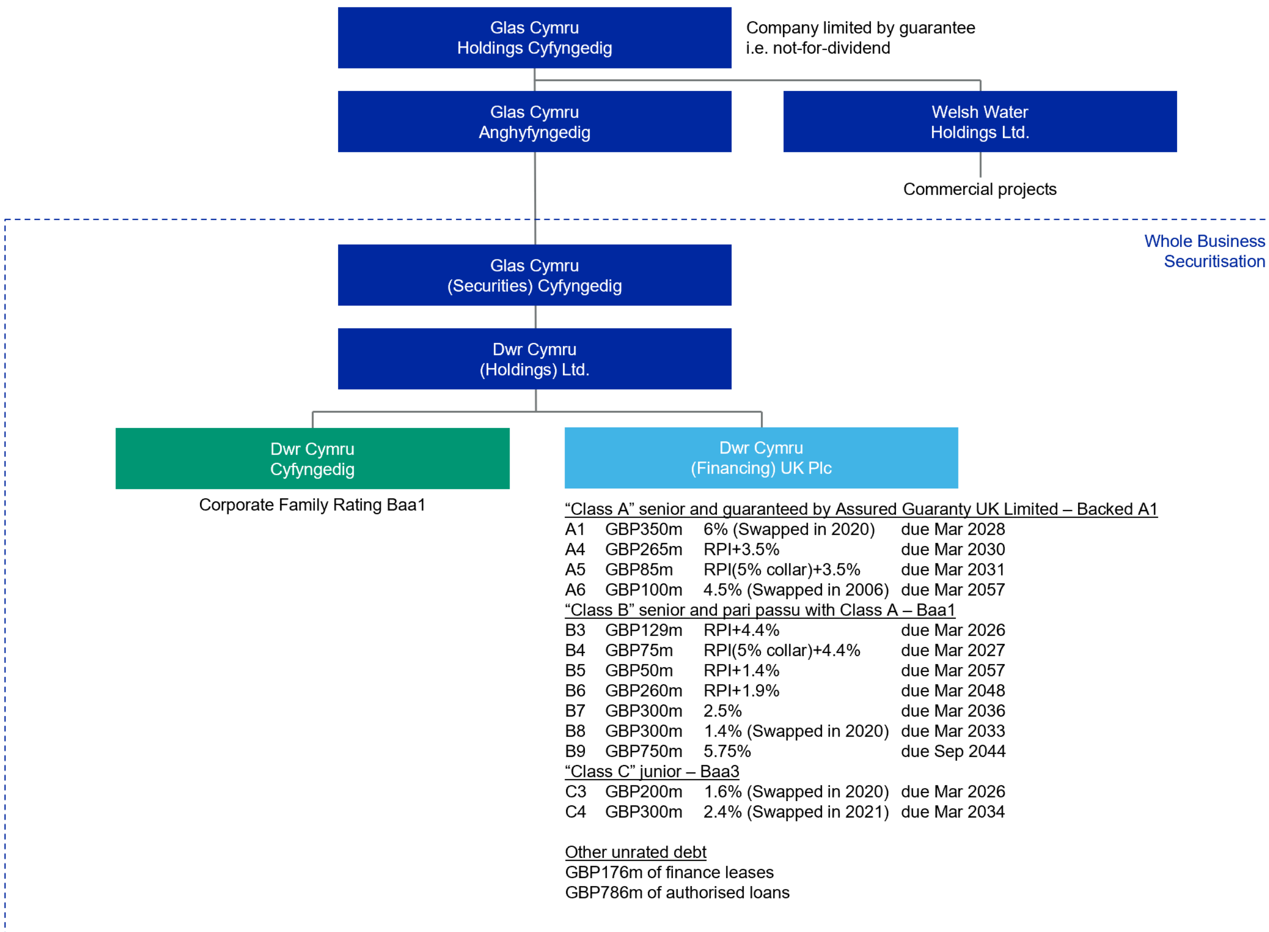
Welsh Water has a covenanted financing structure which provides for: (1) the aforementioned standby liquidity facility; (2) a first-ranking fixed charge over the shares in the company; and (3) agreement by financial creditors to give up their individual rights to petition for insolvency proceedings (which 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 Glas Cymru Holdings Cyfyngedig as 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 current comprise anaerobic digestion, composting, and waste disposal services. They 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 15
Group structure and outstanding debt



Debt balance as of 30 September 2024, apart from B9 which has been updated following December 2024 sub-class issuance. Ratings current as of date of publication.
Sources: Company's investor reports, Moody's Ratings

Junior notes add additional layer to the company's capital structure

Between February 2020 and March 2021, Dwr Cymru (Financing) UK Plc issued £500 million of subordinated "Class C" notes, which rank junior to the "Class A" and "Class B" notes.

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 Baa3 rating of the junior notes, two notches below Welsh Water's Baa1 CFR, reflects: (1) their subordinated position relative to the senior debt 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 our 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 forward looking scorecard includes our view of the deterioration of stability and predictability, as well as a rescoring of scale and complexity of capital programme based on AMP8 expenditure. Welsh Water benefits from 0.5 notches of uplift from regulatory ring-fencing provisions embedded in its licence.

Exhibit 16

Rating Methodology Scorecard — Dwr Cymru Cyfyngedig

Financial metrics based on Glas Cymru consolidated accounts

Regulated Water Utilities Industry [1][2]	Current FY 31/03/2024		Moody's AMP8 Forward View As of Feb 2025 [3]	
Factor 1 : Business Profile(50%)	**Measure**	**Score**	**Measure**	**Score**
a) Stability and Predictability of Regulatory Environment	Aa	Aa	A	A
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	Baa	Baa
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)	0.7x	Caa	1.5x - 1.7x	Baa
b) Net Debt / Regulated Asset Base (3 Year Avg)	59.0%	Baa	61% - 64%	Baa
c) FFO / Net Debt (3 Year Avg)	5.6%	B	8% - 10%	Ba
d) RCF / Net Debt (3 Year Avg)	5.6%	Ba	8% - 10%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notch Lift		Ba2		Baa1
Notch Lift	0.5	0.5	0.5	0.5
a) Scorecard-Indicated Outcome		Ba1		Baa1
b) Actual Rating Assigned				Baa1

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. (2) At at 31/03/2024. (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 Ratings

Ratings

Exhibit 17

Category	Moody's Rating
DWR CYMRU CYFYNGEDIG	
Outlook	Stable
Corporate Family Rating	Baa1

Source: Moody's Ratings

Appendix

Exhibit 18
Welsh Water
Selected peer comparison

	Dwr Cymru Cyfyngedig			Northumbrian Water Ltd.			Yorkshire Water Services Limited			Anglian Water Services Ltd.		
	Baa1 stable						Baa2 stable			Baa1 negative		
(in GBP million)	FYE Mar-22	FYE Mar-23	FYE Mar-24	FYE Mar-22	FYE Mar-23	FYE Mar-24	FYE Mar-22	FYE Mar-23	FYE Mar-24	FYE Mar-22	FYE Mar-23	FYE Mar-24
Revenue	810	844	928	780	861	919	1,119	1,145	1,227	1,400	1,495	1,627
EBITDA	518	585	521	302	345	385	606	611	649	790	819	862
Regulated Asset Base (RAB)	6,460	7,161	7,476	4,613	5,161	5,509	7,746	8,715	9,132	8,780	9,959	10,676
Total Debt	4,305	4,530	4,680	3,233	3,857	4,098	5,738	6,571	6,379	6,534	7,254	8,366
Net Debt	3,790	4,151	4,513	3,173	3,701	4,048	5,709	6,278	6,329	5,663	6,621	7,361
Adjusted Interest Coverage Ratio	0.8x	0.4x	0.8x	1.4x	0.8x	0.7x	1.0x	0.7x	0.7x	1.4x	1.4x	1.1x
FFO / Net Debt	6.5%	4.0%	6.2%	7.7%	5.9%	5.7%	6.4%	5.8%	6.2%	8.4%	7.9%	7.5%
RCF / Net Debt	6.5%	4.0%	6.2%	-3.0%	2.9%	4.1%	6.1%	5.2%	5.3%	6.7%	5.4%	6.4%
Net Debt / Regulated Asset Base	58.7%	58.0%	60.4%	68.8%	71.7%	73.5%	73.7%	72.0%	69.3%	64.5%	66.5%	69.0%

All figures & ratios calculated using Moody's estimates & standard adjustments. Ratings for Yorkshire Water are assigned at the level of the relevant finance subsidiaries.
Source: Moody's Financial Metrics™

Exhibit 19
Welsh Water
Moody's adjusted debt breakdown

(in GBP million)	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-24
As Reported Total Debt	**4,119**	**3,755**	**4,067**	**4,186**	**4,246**
Pensions	87	90	81	0	0
Non-Standard Adjustments	3	64	157	345	434
Moody's Adjusted Total Debt	**4,209**	**3,909**	**4,305**	**4,530**	**4,680**
Cash & Cash Equivalents	(667)	(221)	(515)	(379)	(167)
Moody's Adjusted Net Debt	**3,542**	**3,688**	**3,790**	**4,151**	**4,513**

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

Exhibit 20
Welsh Water
Moody's adjusted FFO breakdown

(in GBP million)	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-24
As Reported Funds from Operations (FFO)	**208**	**233**	**288**	**386**	**421**
Pensions	12	0	0	0	0
Capitalized Interest	(14)	(11)	(16)	(28)	(19)
Alignment FFO	(25)	(16)	(71)	(166)	(37)
Cash Flow Presentation	6	5	4	(136)	(175)
Non-Standard Adjustments	39	18	43	111	92
Moody's Adjusted Funds from Operations (FFO)	**225**	**228**	**248**	**166**	**282**

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

Exhibit 21
Welsh Water
Selected historical financial data, Moody's-adjusted

(in GBP million)	FYE Mar-20	FYE Mar-21	FYE Mar-22	FYE Mar-23	FYE Mar-24
INCOME STATEMENT					
Revenue	779	778	810	844	928
EBITDA	318	361	518	585	521
EBITDA margin %	40.8%	46.4%	64.0%	69.3%	56.1%
EBIT	(5)	18	179	226	149
EBIT margin %	-0.7%	2.3%	22.1%	26.8%	16.0%
Interest Expense	186	150	298	534	340
BALANCE SHEET					
Cash & Cash Equivalents	667	221	515	379	167
Total Assets	7,225	6,847	8,005	8,200	8,342
Total Liabilities	6,093	5,788	6,905	6,697	6,834
CASH FLOW					
Funds from Operations (FFO)	225	228	248	166	282
Cash Flow From Operations (CFO)	208	234	303	217	188
Dividends					
Retained Cash Flow (RCF)	225	228	248	166	282
Capital Expenditures	(356)	(306)	(251)	(294)	(563)
Free Cash Flow (FCF)	(148)	(72)	52	(77)	(375)
INTEREST COVERAGE					
EBITDA / Interest Expense	1.7x	2.4x	1.7x	1.1x	1.5x
Adjusted Interest Coverage Ratio	1.5x	0.6x	0.8x	0.4x	0.8x
LEVERAGE					
Debt / EBITDA	13.2x	10.8x	8.3x	7.7x	9.0x
Net Debt / EBITDA	11.1x	10.2x	7.3x	7.1x	8.7x
Debt / Book Capitalization	72.3%	71.9%	70.9%	66.1%	66.9%
Regulated Asset Base (RAB)	5,907	6,010	6,460	7,161	7,476
Net Debt / Regulated Asset Base	60.0%	61.4%	58.7%	58.0%	60.4%
FFO / Net Debt	6.4%	6.2%	6.5%	4.0%	6.2%
RCF / Net Debt	6.4%	6.2%	6.5%	4.0%	6.2%

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

Endnotes

1 Ofwat Final determinations in the 2024 price review, 19 December 2024
2 Dwr Cymru Welsh Water Dŵr Cymru confirms acceptance of £6bn Business Plan for 2025-30, 22 January 2025
3 UK and Welsh Government Governments launch largest review of sector since privatisation, 22 October 2024
4 Ofwat Ofwat launches investigation into Welsh Water leakage performance, 25 May 2023
5 Dwr Cymru Welsh Water Welsh Water Customers to receive £10 rebate as company apologises for incorrect regulatory reporting in 2020 and 2021, 25 May 2023
6 Ofwat Notice of Ofwat's proposal to impose a financial penalty on Dŵr Cymru Cyfyngedig, 14 March 2024. Implemented in May 2024 following notice via Ofwat Ofwat's final decision to impose a financial penalty on Dŵr Cymru Cyfyngedig, 28 May 2024
7 Ofwat Water companies could face legal action after investigation launched into sewage treatment works, 18 November 2021
8 Ofwat Ofwat announces enforcement cases against four more companies in wastewater treatment investigation, 16 July 2024
9 Cyfoeth Naturiol Cymru Annual environmental performance report for Dŵr Cymru Welsh Water 2023, 23 July 2024
10 Ofwat Protecting customer interests on performance-related executive pay: 2023-24 assessment, 21 November 2024

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