

## **FITCH AFFIRMS DWR CYMRU (FINANCING) BONDS ON REPURCHASES**

Fitch Ratings-London-27 May 2005: Fitch Ratings, the international rating agency, has affirmed Dwr Cymru (Financing) Ltd's (the "Issuer") various classes of bonds as follows:

- GBP1,000 million Class A wrapped, fixed- and floating-rate and index-linked bonds, at 'AAA'. The Class A bonds' ratings are based on a financial guarantee by MBIA.
- GBP629m Class B unwrapped, fixed-, floating-rate and index-linked bonds, at 'A-' (A minus).
- GBP250m Class C unwrapped, fixed- and floating-rate bonds, at 'BBB'.

The issuer provides funding to Dwr Cymru Cyfyngedig ("DCC"), the regulated water licence holder, whose sole business is to provide water and sewerage services in Wales and certain adjoining parts of England, UK. DCC was acquired by Glas Cymru Cyfyngedig ("Glas"), a private company limited by guarantee.

On 16 May 2005, in accordance with its financing arrangements, the issuer published notices to certain bondholders that it intends to redeem each of the following bond issues on 30 June 2005. As floating-rate bonds, there is little, if no, penalty on buying back the proposed Class A3 USD286m bonds dated 2013; Class B2 GBP100m bonds dated 2016; and the Class C2 GBP125m bonds dated 2036. Fitch was asked to confirm that prepayment of the above bonds would not result in a change to the transaction's ratings. This confirmation was given in April 2005.

DCC has arranged GBP380m of committed bank funding, which will rank pari passu with the unwrapped 'A-' bonds. This, together with YE05 cash of GBP325m, will be used to fund the prepayment of the above bonds and the portion of FY06-10's GBP1,145m capital expenditure programme, which is not funded directly through customer charges.

Normally prepayment of subordinated bonds, the C2s, ahead of senior bonds, particularly prepayment of junior bonds by raising senior debt, is a contentious issue for "securitisation" structures. However, this funding is different in that DCC has a naturally de-leveraging capital structure as the equity return, net of customer dividends, is retained within the business. DCC's asset base, or regulatory asset base, does not diminish as the company is remunerated (capital maintenance) to maintain its assets. The Class A and B tranche of net debt would rise to around 76% debt/regulatory asset value (RAV) from 73% after the proposed C2 prepayment as funded by senior debt. With DCC's naturally de-leveraging balance sheet, existing 'BBB' rated debt could be within the Class A and B leverage envelope of around 75% debt/RAV by FYE10. The company's FY06-10 forecasts continue to show decreasing leverage and maintain headroom within this transaction's 'additional debt' tests for the 'A-' (A minus) tranche of debt. These forecasts are underpinned by a significant amount of certainty arising from DCC's outsourcing contracts. P/L post-maintenance, post-tax, interest coverage ratios are also compatible with maintaining the ratings, but improved coverage ratios are an easier hurdle to achieve when replacing more expensive debt (including the subordinated debt) with cheaper funds.

Between the original closing in May 2001 and March 2005 the issuer has bought back and cancelled the unrated Class D GBP100m of subordinated bonds.

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Fitch's rating definitions are available on the agency's free of charge website, [www.fitchratings.com](http://www.fitchratings.com). Published ratings, criteria and methodologies and relevant policies and procedures are also available from this site, at all times. This document will remain on the free site for seven days.

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