STANDARD & POOR'S
INFRASTRUCTURE FINANCE

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Summary: Dwr Cymru (Financing) Ltd.

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Rationale

The 'AAA' ratings on Dwr Cymru (Financing) Ltd.'s guaranteed senior (class A) bonds are based on the financial guarantee provided by MBIA Assurance S.A. (MBIA; AAA/Stable/--). The 'A-' ratings on the senior (class B) bonds, the 'BBB' ratings on the junior (class C) bonds, and the 'A-' underlying rating on the class A bonds reflect a combination of the underlying credit quality of the Dwr Cymru Cyfyngedig (Welsh Water) regulated water and wastewater business in Wales, and various structural features designed to enhance cash flow certainty for bondholders. Dwr Cymru Financing is a special-purpose financing vehicle for Welsh Water, which is owned by Glas Cymru Cyfyngedig, a Welsh not-for-profit company, limited by guarantee.

Rating strengths include the liquidity mandated within the group's financial structure, a strong overall covenant package, strict limitations on business activities, a competitively priced long-term outsourcing plan, and the stability provided by Welsh Water's monopoly water and wastewater business. The senior debt further benefits from the existence of junior debt, which is subordinated and cannot force a default of the senior debt. These strengths are offset at the rating level by the risk entailed in a very aggressive, albeit strengthening, capital structure, moderate debt-protection measures, an ongoing need to raise debt to finance the capital expenditure program, periodic tariff resets, and a relatively new procurement policy and ownership incentive structure.

The group has outperformed its financial and operational objectives and, as a result, is in a stronger overall position than originally forecast by the company when the £1.9 billion ($3.3 billion) refinancing of Welsh Water by Dwr Cymru Financing was completed in May, 2001. Moreover, the regulatory environment for U.K. water utilities remains generally supportive following sector regulator OFWAT's recent tariff review. Welsh Water's tariff review is characterized by relatively modest price increases, a capital spending program similar in size to that of the previous regulatory period, and manageable efficiency targets.

Glas Cymru's aggressive leverage results in moderate debt protection measures, although these are increasingly stronger than the levels expected at the time of the refinancing. Net debt to regulated asset value at Sept. 30, 2005, was about 80%, compared with 93% at refinancing in May 2001. Funds from operations (FFO) interest coverage of senior debt of about 2.5x is forecast to remain at about this level in the medium term. FFO to total debt is low at about 7%, with the likelihood that this will increase only moderately in the next few years.

Liquidity

Strong liquidity, as mandated by the company's borrowing documents, is a central feature of Glas Cymru's financial structure, and consequently that of Dwr Cymru Financing. Covenants relating to liquidity include a requirement to have sufficient cash and bank lines for the next 12 months' enhancement capital expenditure. Actual liquidity, in the form of cash and cash equivalents, was nearly £60 million at Sept. 30, 2005. Undrawn, unconditionally available bank and lease facilities totaled an additional £282 million.

Additional Infrastructure Finance Ratings Europe;

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