



Investor Report

For the quarter ended 30 September 2002



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General Overview & Business Update

This quarterly investor report covers the 3 month period ending 30 September 2002. The Investor Report is a requirement of the Common Terms Agreement (CTA), which governs the company's obligations to its lenders and investors. The report is directed at existing and potential investors and allows the company's financial performance to be assessed, together with its compliance with the covenants and warranties stipulated by the CTA.

Although the form and content of the report is different to the information presented in the company's statutory accounts, the data is drawn from the same accounting records.

Financial Performance in 2002/03

The underlying retained profit for the six months to 30 September 2002 was £16 million. The derivation of this underlying profit figure is shown below:

	Apr-Sept 2002 £m
Underlying profit	16.4
Add: amortisation of negative goodwill	23.4
Add: release of acquisition fair value provisions	4.2
Retained profit for the period	<u>44.0</u>

Earnings before interest, tax, depreciation and amortisation (EBITDA) in the six months to 30 September 2002 were £133 million.

Performance is in line with published forecasts.

Financial Ratios

As required by the bond documentation, covenanted financial ratios (regulatory asset ratio and interest cover ratios) are reported for the last financial year and for each future year until the end of the current 5 year regulatory period.

Financial Forecasts

This report includes forecasts of financial performance and key financial ratios up to 31 March 2005. These reflect the level of RPI inflation at November 2001 (0.9%), which determined the allowed rate of tariff increases in 2002/03, and an assumed future annual rate of RPI inflation of 2%.

Operational Performance

Overall, measures of customer service and environmental quality have continued to achieve high levels, in most cases ahead of the regulatory targets set out in the Welsh Water Monitoring Plan submitted to Ofwat in December 2000. Further details of performance during the first half of the year are given in the interim statement for Glas Cymru Cyf (which is available from the website (www.glascymru.com) or by request to the Company Secretary).

Outsourcing of Operations

No material contractual issues have occurred during the period. Full details of Welsh Water's procurement strategy and the existing operational outsourcing arrangements are given in the Procurement Plan document which is available on the website (www.glascymru.com).

Capital Investment Programme

Capital expenditure by Welsh Water during the six months was £116 million (before capital contributions). Since 1 April 2000, the start of the 5 year AMP3 period, investment has totalled £530 million.

Financing

There have been no credit rating changes of the bonds issued by Dwr Cymru (Financing) Limited since their issue on 10 May 2001.

As at 30 September 2002, Glas Cymru had cash on deposit and authorised investments totalling £282 million. These funds, together with undrawn finance lease facilities of £69 million and undrawn bank facilities of £150 million, give the company a high level of financial liquidity.

Corporate Governance

Glas Cymru held its second Annual General Meeting on 5 July 2002. All resolutions proposed were approved by members.

Annual Investors Meetings

Glas Cymru held an annual investors meeting on 8 July 2002 to brief its providers of finance on its operational and financial performance during 2001/02 and its plans for the future. The presentation made by Directors can be obtained from the website (www.glascymru.com).

The company is happy to meet with any investor or potential investor on request to discuss these financial results, operating performance during the year to date and future prospects.

Consolidated cashflow

	3 months ended 30 Sept 2002 (Unaudited)	6 months ended 30 Sept 2002 (Unaudited)
	£m	£m
Turnover	116.6	231.6
Less: operating expenses	(49.7)	(99.1)
Earnings before interest, taxation, depreciation and amortisation	66.9	132.5
Working capital movements	(17.1)	(41.2)
Non bond related interest paid	(0.2)	(0.8)
Interest received	3.2	5.9
Net operating cashflow and interest received	52.8	96.4
New borrowings	0.0	30.8
Utilisation of reserves:		
Cash transferred to capex reserve	(6.4)	(45.0)
Cash utilised from capex reserve	35.9	69.6
Capital expenditure:		
SPA Adjustment	0.0	2.9
Sale proceeds from disposal of assets	0.0	0.4
Infrastructure renewal expenditure	(12.8)	(29.2)
Non-infrastructure maintenance	(18.6)	(30.5)
Enhancement expenditure	(26.2)	(58.2)
Net cashflow after capital expenditure, new borrowings and reserve drawings	24.7	37.2
Transfer to debt service payment account	(36.0)	(71.5)
Principal repayments	0.0	(24.2)
Transfer to customer payment account	0.0	0.0
Net cashflow after debt service	(11.3)	(58.5)
Free cash balances brought forward	108.7	155.9
Free cash balances carried forward	97.4	97.4

Consolidated debt service payments

	Amount accrued 30 Sept 02 £m	Payments due & made in 3 months ending 30 Sept 02 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Senior interest payments:		
Finance lease interest payments	19.2	0.0
A1 interest payments	10.6	0.0
A2 interest payments	0.0	1.2
A3 interest payments	0.0	2.4
A4 interest payments	0.0	4.7
A5 interest payments	0.0	1.5
B1 interest payments	11.3	0.0
B2 interest payments	0.0	1.4
B3 interest payments	0.0	2.2
B4 interest payments	0.0	0.8
Authorised loan facilities' commitment fees	0.1	0.1
	41.2	14.3
Interest rate swaps	0.7	2.5
MBIA Fees	(2.4)	0.0
Finance Lease Principal (gross)	0.0	0.0
Finance Lease, VAT on payment	0.0	0.0
Reimbursement of insurance	0.0	0.0
Other fees	0.0	0.1
Junior debt:		
C1 interest payments	5.1	0.0
C2 interest payments	0.0	2.1
D interest payments	0.0	2.5
	5.1	4.6
Total debt service payments	44.7	21.6

Glas notes principal balance reconciliation

	Opening balance 1 July 02 £m	New Issues £m	Repayment £m	Indexation ¹ £m	Closing balance 30 Sept 02 £m
Finance leases	317.3				317.3
A1 notes	350.0				350.0
A2 notes	100.0				100.0
A3 notes	200.0				200.0
A4 notes	267.5				267.5
A5 notes	85.8				85.8
B1 notes	325.0				325.0
B2 notes	100.0				100.0
B3 notes	100.9				100.9
B4 notes	35.3				35.3
Authorised loan facilities	0.0				0.0
C1 notes	125.0				125.0
C2 notes	125.0				125.0
D notes	76.0				76.0
Local Authority Loans	5.2				5.2
	2,213.0	0.0	0.0	0.0	2,213.0

¹ There is no indexation for the three months to 30 Sept 2002 because the level of RPI is unchanged for the relevant months.

Glas bank account movements

	Opening balance 1 July 02 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 Sept 02 £m
Debt service payment account:					
Debt service ledger	17.7	0.1	36.0	(21.6)	32.2
Lease payment ledger	0.0	0.0	0.0	0.0	0.0
Insurance proceeds ledger	0.0	0.0	0.0	0.0	0.0
	17.7	0.1	36.0	(21.6)	32.2
Capex reserve ledger	181.2	0.0	6.4	(35.9)	151.7
Customer payments account	0.7	0.0	0.0	0.0	0.7
Receipts account	34.9	0.0	107.7	(105.0)	37.6
Payments account	97.8	0.0	166.4	(180.4)	83.8
Other bank accounts	(23.9)	3.1	417.9	(421.1)	(24.0)
	308.4	3.2	734.4	(764.0)	282.0

Interest cover ratio (ICR)

	Actual	Forecast		
	Period to 31 Mar 2002 £m	Year to 31 Mar 2003 £m	Year to 31 Mar 2004 £m	Year to 31 Mar 2005 £m
Income	406.1	459.0	474.0	488.0
Operating expenditure	(183.8)	(203.0)	(203.0)	(201.0)
Pre capital maintenance cashflows	222.3	256.0	271.0	287.0
Capital maintenance expenditure	(82.1)	(108.0)	(96.0)	(92.0)
Post capital maintenance cashflows	140.2	148.0	175.0	195.0
Net interest	(104.8)	(122.0)	(130.0)	(136.0)
Capital expenditure	(98.0)	(162.0)	(143.0)	(139.0)
Customer rebates	0.0	0.0	(11.0)	(12.0)
Pre-financing cashflows	(62.6)	(136.0)	(109.0)	(92.0)
Interest payable on senior debt:				
Finance leases	8.7	16.2	17.6	18.0
Class A	43.2	49.0	49.3	49.5
Class B	30.5	34.5	34.6	34.7
New debt	0.0	0.0	0.0	0.0
MBIA wrap fees	4.3	4.8	4.8	4.9
Interest & currency swaps	2.9	4.1	4.2	4.3
Authorised loans	0.0	0.0	0.0	1.5
Less interest receivable	(12.9)	(15.9)	(9.2)	(5.6)
Total net senior debt interest	76.7	92.7	101.3	107.3
Interest payable on junior debt:				
Class C	16.9	19.3	19.3	19.3
Class D	9.0	8.4	7.8	7.8
Other	2.2	1.6	1.6	1.6
Total interest payable	104.8	122.0	130.0	136.0
Senior interest cover pre capital maintenance	2.9	2.8	2.7	2.7
Total interest cover pre capital maintenance	2.1	2.1	2.1	2.1
Senior interest cover post capital maintenance	1.8	1.6	1.7	1.8
Total interest cover post capital maintenance	1.3	1.2	1.3	1.4

Regulatory asset ratio (RAR)

	Actual	Forecast		
	As at 31 Mar 2002 £m	As at 31 Mar 2003 £m	As at 31 Mar 2004 £m	As at 30 Sept 2005 £m
Senior gross debt:				
Finance leases	289.0	359.4	378.0	394.9
Class A	1,003.0	1,010.0	1,018.0	1,025.0
Class B	561.0	564.0	566.8	569.6
New debt	0.0	0.0	0.0	0.0
Net interest accrual on senior debt	49.0	4.0	5.0	10.0
Authorised loans	0.0	0.0	0.0	50.0
Total senior gross debt	1,902.0	1,937.4	1,967.8	2,049.5
Less: cash balances and authorised investments	(383.0)	(186.0)	(86.0)	(56.0)
Total senior net debt	1,519.0	1,751.4	1,881.8	1,993.5
Class C	250.0	250.0	250.0	250.0
Interest accrual on Class C	9.1	0.0	0.0	0.0
Class D	100.0	76.0	76.0	76.0
Interest accrual on junior debt	0.0	0.0	0.0	0.0
Local authority loans	5.4	5.4	5.4	5.4
Other interest accruals	0.0	0.0	0.0	0.0
Total net debt	1,883.6	2,082.8	2,213.2	2,324.9
Regulatory capital value (RCV) [^]	2,125	2,337	2,551	2,725
"Reserves" (RCV less total net debt)	241	254	338	400
Regulatory asset ratio:				
RAR (Senior)	72%	75%	74%	73%
RAR (Senior + C)	83%	86%	84%	82%
RAR (total debt)	87%	89%	87%	85%

[^] As published by Ofwat (RD08/02) on 19 March 2002

Profit and loss account

	3 months ended 30 Sept 2002 (Unaudited) £m	6 months ended 30 Sept 2002 (Unaudited) £m
Turnover	116.6	231.6
Operating expenditure	(49.7)	(99.1)
Infrastructure renewals charge	(8.9)	(17.9)
Goodwill amortisation	11.7	23.4
Depreciation	(15.0)	(29.0)
Operating profit	54.7	109.0
Profit on disposal of assets	2.7	2.9
Profit before interest and tax	57.4	111.9
Interest payable	(35.8)	(69.8)
Interest receivable	4.2	8.6
Profit before tax	25.8	50.7
Taxation	(6.7)	(6.7)
Profit after tax	19.1	44.0
Reserves b/fwd	97.4	72.5
Reserves c/fwd	116.5	116.5

Balance sheet at 30 Sept 2002

	At 30 September 2002		At 31 March 2002	
	£m	£m	£m	£m
Tangible fixed assets		2,422.9		2,358.1
Negative goodwill		(117.5)		(138.0)
Investments		0.0		0.2
		2,305.4		2,220.3
Current assets and liabilities:				
Debtors and prepayments	93.7		76.5	
Creditors and accruals	(142.5)		(171.9)	
		(48.8)		(95.4)
Total assets less current liabilities		2,256.6		2,124.9
Financing liabilities:				
Bonds	(1,890.5)		(1,914.5)	
Finance leases	(317.3)		(288.6)	
Other	(5.2)		(5.4)	
Net interest accrual	(39.0)		(58.9)	
		(2,252.0)		(2,267.4)
Cash and cash equivalents:				
Receipts account	37.6		57.6	
Payments account	83.8		66.8	
Capex reserves account	151.7		176.3	
Debt service payment account	32.2		49.8	
Customer payments account	0.7		0.7	
Other bank accounts	(24.0)		31.5	
		282.0		382.7
Net debt		(1,970.0)		(1,884.7)
Deferred income		(38.6)		(38.6)
Provisions for liabilities and charges		(48.4)		(52.7)
Deferred taxation		(83.1)		(76.4)
Net assets		116.5		72.5

Compliance Certificate

To: Deutsche Trustee Company Limited (formerly Bankers Trustee Company Limited)

Date: 13 November 2002

Enquiries, please contact:
01443 452300

Our Ref: NW/cjw

Dear Sirs

Common Terms Agreement dated 10 May 2001 between Dwr Cymru Cyfyngedig, ("DCC") and the Deutsche Trustee Company Limited (the "DCC Security Trustee" and the "Issuer Security Trustee") ("the Common Terms Agreement")

Capitalised terms not defined in this certificate have the meaning given to them in the Common Terms Agreement.

We refer to the Common Terms Agreement and pursuant to Paragraph 1.5 of Schedule 3 of that Agreement hereby confirm that as of today's date, DCC is in compliance with the RAR, the Historical RAR, the Historical Senior RAR, the Projected RAR, the Projected Senior RAR and the Historical ICR, the Historical Senior ICR and the Projected Senior ICR (together the "**Ratios**").

The calculations of the ratios are set out on pages 8 and 9 of the Investors Report issued on today's date.

We also confirm that, in the period from 12 June 2001 (being the date of the last published Compliance Certificate) to 13 November 2002 that:

- (a) no DCC Potential Event of Default, DCC Event of Default, Potential Trigger event or Trigger Event has occurred; and
- (b) DCC's insurances are being maintained in accordance with:
 - (i) Schedule 14 (Insurance) (as amended on 30 October 2001) of the Common Terms Agreement; and
 - (ii) the provisions of each DCC Finance Lease

Yours faithfully

For and on behalf of
Dwr Cymru Cyfyngedig

C A Jones
Finance Director

N C Annett
Director