



Investor Report

For the quarter ended 31 December 2003

Important Notice

This report is being distributed in fulfilment of a finance document, the Common Terms Agreement. It is directed to, and intended for existing investors in the company. No other persons should act or rely on it. The company makes no representation as to the accuracy of forecast information. This report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the company. It should be noted that the information in this report has not been reviewed by the company's auditors.

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General overview & business update

This quarterly investor report covers the 3 month period ending 31 December 2003. The Investor Report is a requirement of the Common Terms Agreement (CTA), which governs the company's obligations to its bond holders and other financial creditors. The report enables assessment of the company's past financial performance, together with its compliance with the covenants and warranties stipulated by the CTA.

The data in this report is drawn from the same accounting records as the company's statutory accounts but is presented in a modified form for investors as required by the CTA. Readers should note that the information in this report has not been reviewed by the company's auditors.

Financial performance in 2003/04

Earnings before interest, tax and depreciation (EBITDA) for the quarter were £64 million and for the nine months were £194 million (2002: £198 million). Financial performance continues to be broadly in line with published forecasts. The reduction in EBITDA largely reflects the first bill rebate to customers (at a cost of £11.5 million for the full year).

Profit before tax in the quarter (unaudited) was £9 million and for the 9 months £27 million (2002: £68 million). The lower profit was due primarily to higher charges for depreciation and infrastructure renewals, which were reflected in the full-year accounts for 2002/03. In addition net interest payable has increased by £12 million, including the indexation charge for the index-linked bonds of £12 million (2002: £0 million).

Financial ratios

As required by the CTA, covenanted financial ratios (regulatory asset ratio and interest cover ratios) are reported for previous financial year and for the two remaining years until the end of the current 5 year regulatory period. In all cases, the financial ratios are comfortably better than the "trigger levels" as defined in the CTA.

Financial forecasts

As required by the CTA to demonstrate compliance with prospective financial ratio tests, this report includes forecasts of financial performance and financial ratios up to 31 March 2005, the end of the current regulatory period. These forecasts are derived from Glas Cymru's business plan (which has been prepared by the company) and are in the format specified by the CTA. It is assumed that the annual rate of RPI inflation over the period will be 2%. On this basis, the ratio of total net debt to RCV (RAR) is currently forecast to reduce to 84% by 31 March 2005.

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.

In 2002/03, Welsh Water achieved its best ever score of 405 points in Ofwat's published Overall Performance Assessment (OPA), the best result of the water and sewerage companies.

Full details of operational performance during the year to date are given in the Company's Interim Report & Accounts.

Outsourcing of operations

No material contractual issues have occurred during the period.

Welsh Water published an updated version of its Procurement Plan in April 2003, which set out details of its proposed approach to the re-tendering during 2004 of the operations contract, the income and billing contract and the delivery of the capital investment programme. These new contracts, worth some £350 million a year, will come into effect from 1 April 2005. Copies of the Procurement Plan are available on the website (www.dwrcymru.com).

Calls for Competition for these three main contracts were published in the European Journal (OJEC) on 15 May 2003 and resulted in a large number of responses for each of the main contracts. A pre-qualification exercise has been carried out and the pre-qualified bidders were invited to submit bids by the end of January 2004.

Bids were received by the due date from almost all of the pre-qualified bidders – comprising 7 bids for operations contracts, 9 bids for the income and billing contract, and 23 bids for capital investment contracts. Welsh Water is now considering these bids with a view to awarding contracts before the end of 2004.

Capital investment programme (AMP 3)

Capital expenditure by Welsh Water during the quarter was £72m, before grants and contributions, which bring the total invested since 1 April 2000 to £882m. Overall, the capital investment programme is on track to deliver the required regulatory outputs by their due dates.

Customer rebate

Glas Cymru has implemented a customer rebate worth £9 per customer for 2003/04 in accordance with its plans announced in the bond prospectus. In accordance with the CTA, £11.5m has been set-aside in the Customer Rebate Ledger to fund this rebate.

Financing

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

During April 2003, Dwr Cymru (Financing) Limited carried out a first tap issue of index linked bonds (series B3 and B4), at an effective yield of 3.1% (plus RPI or LPI respectively). Net proceeds were around £85 million.

£18.5 million was drawn down under the finance lease facilities in the 3 months to 31 December 2003. This leaves £33.9 million remaining undrawn under these facilities.

Glas Cymru does not have more than 20% of its outstanding debt due for maturity in any 24 month period. The next expected maturity is of the Class A2 bonds (£100 million) in March 2006.

Corporate governance

Glas Cymru held its regular half-year review meeting with members on 6 December 2003. There was no formal business conducted.

Investor meetings

Glas Cymru held a series of meetings with investors in London and Edinburgh during December 2003.

The company is happy to meet with any investor on request to discuss this investor report and the performance of the company in general.

Consolidated cashflow

	3 months ended 31-Dec-03 £m	9 months ended 31-Dec-03 £m	9 months ended 31-Dec-02 £m
Turnover	116.5	350.7	348.0
Less: operating expenses	(52.3)	(156.5)	(150.5)
Earnings before interest, taxation, depreciation and amortisation	64.2	194.2	197.5
Working capital movements	(6.1)	(25.8)	(37.0)
Interest received	3.6	11.3	8.8
Net operating cashflow and interest received	61.7	179.7	169.3
New borrowings:			
Principal	18.5	113.9	69.6
Net premium on bond issue	0.0	14.6	0.0
Utilisation of reserves:			
Cash transferred to capex reserve	(19.0)	(56.9)	(110.5)
Cash utilised from capex reserve	26.0	129.4	129.3
Cash utilised from other reserves	1.9	8.6	0.7
Capital expenditure:			
SPA adjustment	0.0	0.0	2.9
Sale proceeds from disposal of assets	1.4	1.7	0.4
Infrastructure renewal expenditure	(20.3)	(48.2)	(33.6)
Non-infrastructure maintenance	(16.8)	(50.0)	(57.8)
Enhancement expenditure	(30.9)	(102.5)	(92.5)
Net cashflow after capital expenditure, new borrowings and reserve drawings	22.5	190.3	77.8
Transfer to debt service payment account	(22.4)	(109.4)	(108.1)
Principal repayments	(0.2)	(0.3)	(24.3)
Net cashflow after debt service	(0.1)	80.6	(54.6)
Free cash balances brought forward	187.7	107.0	155.9
Free cash balances carried forward	187.6	187.6	101.3

Consolidated debt service payments

	Amount accrued 31-Dec-03 £m	Payments due & made in 3 months ending 31 Dec 03 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Senior interest payments:		
Finance lease interest payments	23.4	0.0
A1 interest payments	15.9	0.0
A2 interest payments	0.0	1.0
A3 interest payments	0.0	2.1
A4 interest payments	2.5	0.0
A5 interest payments	0.8	0.0
B1 interest payments	16.9	0.0
B2 interest payments	0.0	1.3
B3 interest payments	1.5	0.0
B4 interest payments	0.9	0.0
Authorised loan facilities' commitment fees	0.2	0.1
	62.1	4.5
Interest rate swaps	1.6	3.2
MBIA Fees	(1.2)	0.0
Finance Lease Principal (net)	0.0	0.0
Finance Lease, VAT on payment	0.0	0.0
Reimbursement of insurance	0.0	0.0
Other fees	0.3	0.0
Junior debt:		
C1 interest payments	7.7	0.0
C2 interest payments	0.0	2.0
D interest payments	0.0	2.3
	7.7	4.3
Total debt service payments	70.7	12.1

Glas notes principal balance reconciliation

	Opening balance 01-Oct-03 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31-Dec-03 £m
Finance leases	406.7	18.5			425.2
A1 notes	350.0				350.0
A2 notes	100.0				100.0
A3 notes	200.0				200.0
A4 notes	275.4			2.1	277.5
A5 notes	88.3			0.7	89.0
B1 notes	325.0				325.0
B2 notes	100.0				100.0
B3 notes	133.5			1.0	134.5
B4 notes	78.0			0.6	78.6
C1 notes	125.0				125.0
C2 notes	125.0				125.0
D notes	76.0				76.0
Local authority loans	4.8		(0.2)		4.6
	2,387.7	18.5	(0.2)	4.4	2,410.4

Glas bank account movements

	Opening balance 01-Oct-03 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31-Dec-03 £m
Debt service payment account:					
Debt service ledger	48.3	0.0	22.4	(12.1)	58.6
Insurance proceeds ledger	0.0	0.0	0.0	0.0	0.0
	48.3	0.0	22.4	(12.1)	58.6
Capex reserve account	97.2	0.0	19.0	(26.0)	90.2
Customer payments account:					
Customer rebate ledger	4.8	0.0	0.0	(1.9)	2.9
General ledger	-		7.0	(7.0)	-
Receipts account	39.5	0.0	121.0	(121.0)	39.5
Payments account	171.4	0.0	172.1	(179.1)	164.4
Other bank accounts	(23.2)	3.6	664.8	(661.5)	(16.3)
	338.0	3.6	1,006.3	(1,008.6)	339.3

Interest cover ratio (ICR)

	Actual		Forecast ^[1]	
	Period to 31-Mar-02 £m	Year to 31-Mar-03 £m	Year to 31-Mar-04 £m	Year to 31-Mar-05 £m
Income	406.1	462.9	475.6	489.4
Operating expenditure	(183.8)	(202.6)	(207.1)	(205.8)
Pre capital maintenance cashflows	222.3	260.3	268.5	283.6
Capital maintenance expenditure	(82.1)	(137.3)	(109.2)	(81.4)
Post capital maintenance cashflows	140.2	123.0	159.3	202.2
Net interest (excluding indexation)	(104.8)	(119.4)	(130.1)	(132.0)
Capital expenditure	(98.0)	(124.7)	(147.8)	(162.6)
Customer rebates	0.0	0.0	(11.5)	(11.5)
Pre-financing cashflows	(62.6)	(121.1)	(130.1)	(103.9)
Interest payable on senior debt:				
Finance leases	8.7	12.6	14.7	17.0
Class A	43.2	47.0	47.0	48.8
Class B	30.5	33.8	37.0	37.5
New debt				
MBIA wrap fees	4.3	4.9	4.9	4.9
Interest & currency swaps	2.9	9.9	13.2	6.8
Authorised loans	0.0	0.0	0.0	0.0
Less interest receivable	(12.9)	(16.7)	(13.8)	(11.2)
Total net senior debt interest	76.7	91.4	103.0	103.8
Interest payable on junior debt:				
Class C	16.9	18.5	18.3	19.0
Class D	9.0	8.0	7.2	7.6
Other	2.2	1.5	1.6	1.6
Total interest payable	104.8	119.4	130.1	132.0
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.6	2.7
Total interest cover pre capital maintenance	2.1	2.2	2.1	2.1
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.3	1.5	1.9
Total interest cover post capital maintenance	1.3	1.0	1.2	1.5

^[1] See the Important Notice at the front of the Investor Report

Regulatory asset ratio (RAR)

	Actual		Forecast ^[1]	
	As at 31-Mar-02 £m	As at 31-Mar-03 £m	As at 31-Mar-04 £m	As at 31-Mar-05 £m
Senior gross debt:				
Finance leases	289	382	408	433
Class A	1,003	1,009	1,016	1,023
Class B	561	563	638	642
Net interest accrual on senior debt	49	15	31	31
Authorised loans	0	0	0	0
Total senior gross debt	1,902	1,968	2,093	2,129
Less: cash balances and authorised investments	(383)	(287)	(231)	(151)
Total senior net debt	1,519	1,681	1,862	1,978
Class C	250	250	250	250
Interest accrual on Class C	9	0	0	0
Class D	100	76	76	76
Interest accrual on junior debt	0	0	0	0
Local authority loans	5	5	5	5
Other interest accruals	0	1	0	0
Total net debt	1,884	2,013	2,193	2,309
Regulatory capital value (RCV) ^[2]	2,125	2,362	2,578	2,754
Reserves (RCV less total net debt)	241	349	385	445
Regulatory asset ratio:				
RAR (Senior)	71%	71%	72%	72%
RAR (Senior + C) (trigger 90%; default 95%)	83%	82%	82%	81%
RAR (Total debt)	89%	85%	85%	84%

^[1] See the Important Notice at the front of the Investor Report

^[2] As published by Ofwat (RD08/03) on 18 March 2003

Profit and loss account

	3 months ended 31-Dec-03 £m	9 months ended 31-Dec-03 £m	9 months ended 31-Dec-02 £m
Turnover	116.5	350.7	348.0
Operating expenditure	(52.3)	(156.5)	(150.5)
Infrastructure renewals charge	(13.8)	(41.3)	(26.9)
Goodwill amortisation	11.5	35.0	35.2
Depreciation	(16.6)	(52.9)	(44.3)
Operating profit	45.3	135.0	161.5
Profit on disposal of assets	0.5	0.8	3.2
Profit before interest and tax	45.8	135.8	164.7
Interest payable	(40.2)	(120.1)	(109.1)
Interest receivable	3.6	11.3	12.8
Profit before tax	9.2	27.0	68.4
Taxation	0.0	4.8	(6.7)
Profit after tax	9.2	31.8	61.7
Reserves b/fwd	155.9	133.3	72.5
Reserves c/fwd	165.1	165.1	134.2

Balance sheet at 31 Dec 2003

	At 31 December 2003		At 31 March 2003	
	£m	£m	£m	£m
Tangible fixed assets		2,595.2		2,500.7
Negative goodwill		(59.0)		(94.0)
Investments		0.0		0.0
		2,536.2		2,406.7
Current assets and liabilities:				
Debtors and prepayments	85.6		69.9	
Creditors and accruals	(148.8)		(164.6)	
		(63.2)		(94.7)
Total assets less current liabilities		2,473.0		2,312.0
Financing liabilities:				
Bonds	(1,980.6)		(1,897.9)	
Finance leases	(425.2)		(381.6)	
Other	(4.6)		(4.9)	
	<u>(2,410.4)</u>		<u>(2,284.4)</u>	
Net interest accrual	(82.3)		(16.1)	
	<u>(2,492.7)</u>		<u>(2,300.5)</u>	
Cash and cash equivalents:				
Receipts account	39.5		63.1	
Payments account	164.4		62.2	
Other bank accounts	<u>(16.3)</u>		<u>(18.3)</u>	
	187.6		107.0	
Capex reserve accounts	90.2		162.7	
Debt service payment account	58.6		6.2	
Customer payments account	<u>2.9</u>		<u>11.5</u>	
	<u>339.3</u>		<u>287.4</u>	
Net debt		(2,153.4)		(2,013.1)
Deferred income		(35.9)		(37.5)
Provisions for liabilities and charges		(39.6)		(44.3)
Deferred taxation		(79.0)		(83.8)
Net assets		165.1		133.3