



## **Investor Report**

**For the quarter ended 30 Sept 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.

# Investor Report

## Contents

	<b>Page</b>
General overview & business update	1
Consolidated cashflow	4
Consolidated debt service payments	5
Glas notes principal balance reconciliation	6
Glas bank account movements	7
Interest cover ratio (ICR)	8
Regulatory asset ratio (RAR)	9
Profit and loss account	10
Balance sheet at 30 Sept 2003	11
Compliance Certificate	12

## General overview & business update

This quarterly investor report covers the 6 month period ending 30 September 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 six months £130 million (2002: £133 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 £7 million and for the 6 months £18 million (2002: £51 million), 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 £10 million, including the indexation charge for the index-linked bonds of £8 million (2002: £0 million).

### Financial ratios

As required by the CTA, covenanted financial ratios (regulatory asset ratio and interest cover ratios) are reported for the 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%. Minor changes have been made to the financial forecast made in the June Investor Report. In particular, a contingency of £20 million has been included in 2004/05 in respect of agreed AMP4 investment, which may be advanced from the first year of the AMP4 period to ensure compliance with regulatory completion dates. 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](http://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 will be invited to submit bids in the first quarter of 2004.

### **Capital investment programme (AMP 3)**

Capital expenditure by Welsh Water during the quarter was £69m, before grants and contributions, which bring the total invested since 1 April 2000 to £810m. 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.

£9.9 million was drawn down under the finance lease facilities in the 3 months to 30 September 2003. This leaves £52.4 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**

The third AGM for the members of Glas Cymru took place on 4 July 2003. All resolutions proposed were approved by the members.

### **Investor meetings**

Glas Cymru held a second annual meeting for investors in London on 14 July 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.

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## Consolidated cashflow

	3 months ended 30 Sept 2003 £m	6 months ended 30 Sept 2003 £m	6 months ended 30 Sept 2002 £m
Turnover	118.2	234.2	231.6
Less: operating expenses	(54.1)	(104.2)	(99.1)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	64.1	130.0	132.5
Working capital movements	(10.0)	(19.7)	(42.0)
Interest received	3.8	7.7	5.9
<b>Net operating cashflow and interest received</b>	57.9	118.0	96.4
<b>New borrowings:</b>			
Principal	9.9	95.4	30.8
Net premium on bond issue	0.0	14.6	-
<b>Utilisation of reserves:</b>			
Cash transferred to capex reserve	(15.4)	(37.9)	(45.0)
Cash utilised from capex reserve	45.2	103.4	69.6
Cash utilised from other reserves	2.9	6.7	-
<b>Capital expenditure:</b>			
SPA adjustment	-	-	2.9
Sale proceeds from disposal of assets	0.3	0.3	0.4
Infrastructure renewal expenditure	(12.5)	(27.8)	(29.2)
Non-infrastructure maintenance	(12.2)	(33.2)	(30.5)
Enhancement expenditure	(38.4)	(71.7)	(58.2)
<b>Net cashflow after capital expenditure, new borrowings and reserve drawings</b>	37.7	167.8	37.2
Transfer to debt service payment account	(38.0)	(87.0)	(71.5)
Principal repayments	-	(0.1)	(24.2)
<b>Net cashflow after debt service</b>	(0.3)	80.7	(58.5)
Free cash balances brought forward	188.0	107.0	155.9
<b>Free cash balances carried forward</b>	187.7	187.7	97.4

## Consolidated debt service payments

	Amount accrued 30 Sept 2003 £m	Payments due & made in 3 months ending 30 Sept 2003 £m
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.2	-
<b>Senior interest payments:</b>		
Finance lease interest payments	19.9	-
A1 interest payments	10.6	-
A2 interest payments	-	1.0
A3 interest payments	-	2.1
A4 interest payments	-	4.8
A5 interest payments	-	1.6
B1 interest payments	11.3	-
B2 interest payments	-	1.3
B3 interest payments	-	2.9
B4 interest payments	-	1.7
Authorised loan facilities' commitment fees	0.2	0.1
	42.0	15.5
<b>Interest rate swaps</b>	1.1	3.3
<b>MBIA fees</b>	(2.4)	-
<b>Finance lease principal (net)</b>	-	-
<b>Finance lease, VAT on payment</b>	-	-
<b>Reimbursement of insurance</b>	-	-
<b>Other fees</b>	0.3	-
<b>Junior debt:</b>		
C1 interest payments	5.1	-
C2 interest payments	-	1.9
D interest payments	-	2.3
	46.3	23.0
<b>Total debt service payments</b>	46.3	23.0



## Glas notes principal balance reconciliation

	Opening balance 1 July 2003	New Issues	Repayment	Indexation	Closing balance 30 Sept 2003
	£m	£m	£m	£m	£m
Finance leases	396.8	9.9	-	-	406.7
A1 notes	350.0	-	-	-	350.0
A2 notes	100.0	-	-	-	100.0
A3 notes	200.0	-	-	-	200.0
A4 notes	273.4	-	-	2.0	275.4
A5 notes	87.7	-	-	0.6	88.3
B1 notes	325.0	-	-	-	325.0
B2 notes	100.0	-	-	-	100.0
B3 notes	132.6	-	-	0.9	133.5
B4 notes	77.4	-	-	0.6	78.0
C1 notes	125.0	-	-	-	125.0
C2 notes	125.0	-	-	-	125.0
D notes	76.0	-	-	-	76.0
Local authority loans	4.8	-	-	-	4.8
	<b>2,373.7</b>	<b>9.9</b>	<b>-</b>	<b>4.1</b>	<b>2,387.7</b>

## Glas bank account movements

	Opening balance 1 July 2003 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 Sept 2003 £m
Debt service payment account:					
Debt service ledger	33.3	-	38.0	(23.0)	48.3
Insurance proceeds ledger	-	-	0.2	(0.2)	0.0
	33.3	-	38.2	(23.2)	48.3
Capex reserve account	127.0	-	15.4	(45.2)	97.2
Customer payments account:					
Customer rebate ledger	7.7	-	-	(2.9)	4.8
Receipts account	36.1	-	112.8	(109.4)	39.5
Payments account	175.3	-	181.6	(185.5)	171.4
Other bank accounts	(23.4)	3.8	1,080.2	(1,083.8)	(23.2)
	356.0	3.8	1,428.2	(1,450.0)	338.0

## Interest cover ratio (ICR)

	Actual		Forecast <sup>1</sup>	
	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	462.9	475.6	489.4
Operating expenditure	(183.8)	(202.6)	(207.1)	(205.8)
<b>Pre capital maintenance cashflows</b>	222.3	260.3	268.5	283.6
Capital maintenance expenditure	(82.1)	(137.3)	(109.2)	(81.4)
<b>Post capital maintenance cashflows</b>	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	-	-	(11.5)	(11.5)
<b>Pre-financing cashflows</b>	(62.6)	(121.1)	(130.1)	(103.9)
<b>Interest payable on senior debt:</b>				
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	-	-	-	-
Less interest receivable	(12.9)	(16.7)	(13.8)	(11.2)
<b>Total net senior debt interest</b>	76.7	91.4	103.0	103.8
<b>Interest payable on junior debt:</b>				
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
<b>Total interest payable</b>	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

<sup>1</sup> See the Important Notice at the front of the Investor Report

## Regulatory asset ratio (RAR)

	Actual		Forecast <sup>1</sup>	
	As at 31 Mar 2002 £m	As at 31 Mar 2003 £m	As at 31 Mar 2004 £m	As at 31 Mar 2005 £m
<b>Senior gross debt:</b>				
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	-	-	-	-
<b>Total senior gross debt</b>	<b>1,902</b>	<b>1,968</b>	<b>2,093</b>	<b>2,129</b>
Less: cash balances and authorised investments	(383)	(287)	(231)	(151)
<b>Total senior net debt</b>	<b>1,519</b>	<b>1,681</b>	<b>1,862</b>	<b>1,978</b>
Class C	250	250	250	250
Interest accrual on Class C	9	-	-	-
Class D	100	76	76	76
Interest accrual on junior debt	-	-	-	-
Local authority loans	5	5	5	5
Other interest accruals	-	1	-	-
<b>Total net debt</b>	<b>1,884</b>	<b>2,013</b>	<b>2,193</b>	<b>2,309</b>
<b>Regulatory capital value (RCV)<sup>2</sup></b>	<b>2,125</b>	<b>2,362</b>	<b>2,578</b>	<b>2,754</b>
<b>Reserves (RCV less total net debt)</b>	<b>241</b>	<b>349</b>	<b>385</b>	<b>445</b>
<b>Regulatory asset ratio:</b>				
RAR (Senior)	71%	71%	72%	72%
RAR (Senior + C) (trigger 90%; default 95%)	83%	82%	82%	81%
RAR (Total debt)	89%	85%	85%	84%

<sup>1</sup> See the Important Notice at the front of the Investor Report

<sup>2</sup> As published by Ofwat (RD08/03) on 18 March 2003

## Profit and loss account

	3 months ended 30 Sept 2003 (Unaudited) £m	6 months ended 30 Sept 2003 (Unaudited) £m	6 months ended 30 Sept 2002 (Unaudited) £m
Turnover	118.2	234.2	231.6
Operating expenses	(54.1)	(104.2)	(99.1)
Infrastructure renewals charge	(13.7)	(27.5)	(17.9)
Goodwill amortisation	11.9	23.5	23.4
Depreciation	(20.3)	(36.3)	(29.0)
<b>Operating profit</b>	42.0	89.7	109.0
Profit on disposal of assets	0.3	0.3	2.9
<b>Profit before interest and tax</b>	42.3	90.0	111.9
Interest payable	(39.6)	(79.8)	(69.8)
Interest receivable	4.4	7.6	8.6
<b>Profit before tax</b>	7.1	17.8	50.7
Taxation	4.8	4.8	(6.7)
<b>Profit after tax</b>	11.9	22.6	44.0
Reserves b/fwd	144.0	133.3	72.5
<b>Reserves c/fwd</b>	155.9	155.9	116.5

## Balance sheet at 30 Sept 2003

	At 30 Sept 2003		At 31 March 2003	
	£m	£m	£m	£m
<b>Tangible fixed assets</b>		2,558.2		2,500.7
<b>Negative goodwill</b>		(70.5)		(94.0)
<b>Investments</b>		-		-
		<u>2,487.7</u>		<u>2,406.7</u>
<b>Current assets and liabilities:</b>				
Debtors and prepayments	85.9		69.9	
Creditors and accruals	(152.3)		(164.6)	
		<u>(66.4)</u>		<u>(94.7)</u>
<b>Total assets less current liabilities</b>		<u>2,421.3</u>		<u>2,312.0</u>
<b>Financing liabilities:</b>				
Bonds	(1,976.2)		(1,897.9)	
Finance leases	(406.7)		(381.6)	
Other	(4.8)		(4.9)	
Net interest accrual	(58.6)		(16.1)	
	<u>(2,446.3)</u>		<u>(2,300.5)</u>	
<b>Cash and cash equivalents:</b>				
Receipts account	39.5		63.1	
Payments account	171.4		62.2	
Capex reserves account	97.2		162.7	
Debt service payment account	48.3		6.2	
Customer payments account	4.8		11.5	
Other bank accounts	(23.2)		(18.3)	
	<u>338.0</u>		<u>287.4</u>	
<b>Net debt</b>		<u>(2,108.3)</u>		<u>(2,013.1)</u>
Deferred income		(36.7)		(37.5)
Provisions for liabilities and charges		(41.4)		(44.3)
Deferred taxation		(79.0)		(83.8)
<b>Net assets</b>		<u>155.9</u>		<u>133.3</u>

## Compliance Certificate

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

**Date:** 12 November 2003

**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 2003 (being the date of the last published Compliance Certificate) to 12 November 2003 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