



Investor Report

For the quarter ended 31 December 2004



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 three month period ending 31 December 2004. 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 stipulated by the CTA.

The data in this report is drawn from the company's accounting records, applying the accounting policies as per 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 2004/05

Summary financial results for the 9 month period ended 31 December 2004 are as follows:

	2004/05 £m	2003/04 £m	Change
Turnover	368.1	350.7	+5%
Operating costs	(155.4)	(156.5)	-1%
EBITDA	212.7	194.2	
Net interest (excluding indexation)	92.6	95.2	
Capital expenditure (before grants and contributions)	189.5	196.9	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) was £ 212.7 million (2003: £194.2 million). Financial performance continues to be in line with published forecasts.

Profit after tax (unaudited) was £62 million (2003: £32 million). Turnover of £368 million increased by £17 million compared to the same period last year, largely reflecting the RPI+K price increase of 4.3 % allowed by Ofwat.

Glas Cymru's operating costs (excluding depreciation and amortisation of negative goodwill) were £ 155 million (2003: £ 157 million), representing cost efficiencies of some 4% in real terms.

Financial Ratios

As required by the CTA, 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. In all cases, the financial ratios exceed 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 key financial ratios up to 31 March 2005, the start of the next 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. On this basis, the ratio of total net debt to RCV (RAR) is forecast to reduce to 83% by 31 March 2005 (see page 11).

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 September, Ofwat published its annual report on levels of service for the water and sewerage industry in England and Wales for the year to 31 March 2004. On Ofwat’s “Overall Performance Assessment” (OPA), Welsh Water was ranked second, the same as in the previous year. Ofwat also published its OPA for the last two years (2002/03 and 2003/04) combined. On this basis, Welsh Water was ranked first in the industry.

Full details of operational performance during the period to September 2004 are given in the Interim Report and Accounts.

Regulatory Price Review

In December 2004 Ofwat published its final determination of price limits for the five years 2005 to 2010. The final price limits and average household bills for Wales determined by Ofwat were as follows:

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Price limit – k factor (%)	-	14.2	3.6	4.1	3.3	2.2
Average household bill (£)	286	323	329	339	347	352

Ofwat have allowed for an AMP4 investment programme by Welsh Water of £1,145 million (at 2002/03 prices) in order to meet its regulatory requirements over the period. These requirements include the maintenance of current service levels, further significant improvements in the protection of the environment as required by Government and a major programme to address the sewage flooding of properties.

Throughout the Regulatory Price Review, Welsh Water has consulted with all its stakeholders in assessing the right balance between the investment for quality and service improvements, customer bills and investor requirements. Welsh Water believes that Ofwat's determination, although challenging, does strike the right balance between these priorities and so the company has accepted it.

Customer Dividend

Glas Cymru has announced an increased customer dividend of £18 per customer for each year from 2005/06 to 2009/10 (2003: £9 per customer). In accordance with the CTA, £23 million will be set-aside in the Customer Rebate Ledger to fund this dividend in 2005/06.

Outsourcing of Operations

No material contractual issues have occurred during the period.

Welsh Water has now completed the competitive reletting of its main operations and capital investment contracts. New contracts, worth some £350 million a year, will come into effect from 1 April 2005. Contracts have been awarded to the following companies:

Operations & Capital Maintenance	
Water supply & shared services	United Utilities
Wastewater services (North Wales)	United Utilities
Wastewater services (South Wales)	Kelda Water Services
Capital Investment	
Water mains rehabilitation	Laing Utilities
Civil engineering	Amec Morrison Construction Ltd Costain Ltd
Process engineering	Meica Process Ltd Black & Veatch Contracting Ltd

In addition, Thames Water has been announced as the preferred bidder for the income and billing contract.

Capital Investment Programme

Capital expenditure by Welsh Water during the nine months was £190 million (before grants and capital contributions). The planned total for the AMP3 investment programme remains £1,175 million. The total invested during the period to date is £1,145 million, or 97% of the AMP3 total. Overall, the capital investment programme is on track to deliver required regulatory outputs by their due dates.

Rating Agency Review

On 17 February 2005, Moody's Investor Service ("Moody's") placed the £250 million Dwr Cymru (Financing) Limited's Class C Bonds (currently rated Baa3) under review for possible upgrade.

Moody's indicate that the review of the Class C Bonds is due to:

- (a) a better financial position of the company than anticipated at the time of acquisition by Glas Cymru in 2001;
- (b) the completion of Ofwat's price review for 2005-10 and the announcement of the customer dividend policy for the period; and
- (c) the company's improved efficiency and service levels, as measured by Ofwat.

Moody's have also affirmed the credit ratings of the Class A and B Bonds, which are rated Aaa and A3 respectively.

Financing

In November 2004, the company entered into finance facilities of £219 million with leasing subsidiaries of The Royal Bank of Scotland, Lloyds TSB and HSBC.

In November and December 2004, the company extended its existing finance lease facilities with Bayerische Landesbank by £53 million, £20.5 million of this extended facility has been drawn.

In December 2004, the company drew its £35 million loan facility with the European Investment Bank.

In December 2004, the company redeemed its finance lease with Eurotunnel (formerly Abbey National) for £70.1 million generating an accounting profit of £6.1 million.

As at 31 December 2004, Glas Cymru had cash on deposit and authorised investments totalling £440 million (including £55 million of Class A2 bonds). These funds, together with undrawn finance lease facilities of £34 million and undrawn bank facilities of £150 million, give the company a high level of financial liquidity, totalling some £624 million.

Financing Plans

The company is currently considering its financing plans for the period to 2010, in light of the overall financing requirement for the AMP4 investment programme and possibilities to further optimise its future financing costs given current favourable conditions in the capital markets.

Corporate Governance

Glas Cymru held its regular half-year review meeting with members on 10 December 2004. There was no formal business conducted at the meeting.

Investor Meetings

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

Consolidated cashflow

	3 months ended 31 Dec 2004	9 months ended 31 Dec 2004	9 months ended 31 Dec 2003
	£m	£m	£m
Turnover	122.9	368.1	350.7
Less: operating expenses	(51.6)	(155.4)	(156.5)
Earnings before interest, taxation, depreciation and amortisation	71.3	212.7	194.2
Working capital movements	14.0	(5.4)	(25.8)
Non bond related interest received (paid)	1.7	1.3	-
Interest received	5.0	11.6	11.3
Net operating cashflow and interest received	92.0	220.2	179.7
New borrowings:			
Finance leases	239.5	254.0	18.5
Bond issue	-	-	95.4
Authorised loan facility	35.0	35.0	-
Net premium on bond issue	-	-	14.6
Utilisation of reserves:			
Cash transferred to capex reserve	(66.2)	(86.0)	(56.9)
Cash utilised from capex reserve	33.1	123.2	129.4
Cash utilised from other reserves	2.8	8.5	8.6
Capital expenditure:			
Sale proceeds from disposal of assets	0.3	0.6	1.7
Infrastructure renewal expenditure	(13.9)	(36.7)	(48.2)
Non-infrastructure maintenance	(12.9)	(40.7)	(50.0)
Enhancement expenditure	(50.4)	(126.3)	(102.5)
Net cashflow after capital expenditure, new borrowings and reserve drawings	259.3	351.8	190.3
Transfer to debt service payment account	(39.2)	(111.2)	(109.4)
Principal repayments	(73.4)	(73.5)	(0.3)
Termination cost on early redemption of swap	-	(6.9)	-
Net cashflow after debt service	146.7	160.2	80.6
Free cash balances brought forward	152.6	139.1	107.0
Free cash balances carried forward	299.3	299.3	187.6

Consolidated debt service payments

	Payments due & made in 3 months ending 31 Dec 2004 £m	Amount accrued 31 Dec 2004 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Senior interest payments:		
Finance lease interest payments	2.3	23.9
A1 interest payments	-	15.9
A2 interest payments	1.3	-
A3 interest payments	2.7	-
A4 interest payments	-	2.5
A5 interest payments	-	0.8
B1 interest payments	-	17.0
B2 interest payments	1.6	-
B3 interest payments	-	1.5
B4 interest payments	-	0.9
Authorised loan facilities' commitment fees	-	-
	7.9	62.5
Interest rate swaps	1.3	-
MBIA fees	-	(1.2)
Finance lease, VAT on payment	0.4	-
Reimbursement of insurance	-	-
Other fees	-	-
Junior debt:		
C1 interest payments	-	7.7
C2 interest payments	2.3	-
D interest payments	2.6	-
	14.7	69.1
Total debt service payments	14.7	69.1

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 Oct 2004 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 Dec 2004 £m
Finance leases		454.8	239.5	(73.3)		621.0
A1 notes	AAA/Aaa	350.0				350.0
A2 notes		100.0				100.0
A3 notes		200.0				200.0
A4 notes		282.5			3.0	285.5
A5 notes		90.9			0.8	91.7
B1 notes	A-/A3	325.0				325.0
B2 notes		100.0				100.0
B3 notes		136.8			1.6	138.4
B4 notes		80.1			0.8	80.9
C1 notes	BBB/Baa3	125.0				125.0
C2 notes		125.0				125.0
D notes	n/a	56.0				56.0
Local authority loans		4.3		(0.1)		4.2
Authorised loan facility		-	35.0			35.0
		2,430.4	274.5	(73.4)	6.2	2,637.7

Glas bank account movements

	Opening balance 1 Oct 2004 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 Dec 2004 £m
Free cash balances:					
Receipts account	42.0		124.5	(122.6)	43.9
Payments account	153.9		444.5	(300.4)	298.0
Other bank accounts	(43.3)	5.0	728.8	(733.1)	(42.6)
	152.6	5.0	1297.8	(1,156.1)	299.3
Debt service payment account:					
Debt service ledger	31.7		39.2	(14.7)	56.2
Insurance proceeds ledger					
	31.7		39.2	(14.7)	56.2
Capex reserve account	49.0		66.2	(33.1)	82.1
Customer payments account:					
Customer rebate ledger	5.7		-	(2.8)	2.9
General ledger	-		7.0	(7.0)	-
	239.0	5.0	1,410.2	(1,213.7)	440.5

Interest cover ratio (ICR)

	Actual			Forecast ¹
	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	481.2	502.2
Operating expenditure	(183.8)	(204.0)	(210.4)	(208.0)
Pre capital maintenance cashflows	222.3	258.9	270.8	294.2
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(75.0)
Post capital maintenance cashflows	140.2	121.6	159.8	219.2
Net interest (excluding indexation)	(104.8)	(119.4)	(124.3)	(131.4)
Capital expenditure	(98.0)	(124.7)	(148.7)	(163.0)
Customer rebates	-	-	(11.5)	(11.5)
Pre-financing cashflows	(62.6)	(122.5)	(124.7)	(86.7)
Interest payable on senior debt:				
Finance leases	8.7	12.6	12.8	20.2
Class A	43.2	47.0	46.4	50.4
Class B	30.5	33.8	36.3	38.3
New debt	-	-	-	-
MBIA wrap fees	4.3	4.9	4.8	4.9
Interest & currency swaps	2.9	9.9	15.1	3.7
Authorised loans	-	-	-	-
Less interest receivable	(12.9)	(16.8)	(17.6)	(13.2)
Total net senior debt interest	76.7	91.4	97.8	104.3
Interest payable on junior debt:				
Class C	16.9	18.5	18.1	19.6
Class D	9.0	8.0	6.8	5.9
Other	2.2	1.5	1.6	1.6
Total interest payable	104.8	119.4	124.3	131.4
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.8	2.8
Total interest cover pre capital maintenance	2.1	2.2	2.2	2.2
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.3	1.6	2.1
Total interest cover post capital maintenance	1.3	1.0	1.3	1.7

¹ See the Important Notice at the front of the Investor Report

Regulatory asset ratio (RAR)

	Actual			Forecast ²
	As at 31 Mar 2002 £m	As at 31 Mar 2003 £m	As at 31 Mar 2004 £m	As at 31 Mar 2005 £m
Senior gross debt:				
Finance leases	289	382	440	453
Class A	1,003	1,009	1,020	1,029
Class B	561	563	640	645
Net interest accrual on senior debt	49	14	43	32
Authorised loans	-	-	-	-
Total senior gross debt	1,902	1,968	2,143	2,159
Less: cash balances and authorised investments	(383)	(287)	(280)	(160)
Total senior net debt	1,519	1,681	1,863	1,999
Class C	250	250	250	250
Interest accrual on Class C	10	-	-	-
Class D	100	76	56	56
Interest accrual on junior debt	-	-	-	-
Local authority loans	5	5	4	4
Other interest accruals	-	1	-	-
Total net debt	1,884	2,013	2,173	2,309
Regulatory capital value (RCV) ^[3]	2,125	2,362	2,594	2,770
Reserves (RCV less total net debt)	241	349	421	461
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%	84%	83%

² See the Important Notice at the front of the Investor Report

³ As published by Ofwat (RD05/04) on 10 March 2004

Profit and loss account

	3 months ended 31 Dec 2004 (Unaudited)	9 months ended 31 Dec 2004 (Unaudited)	9 months ended 31 Dec 2003 (Unaudited)
	£m	£m	£m
Turnover	122.9	368.1	350.7
Operating expenditure	(51.6)	(155.4)	(156.5)
EBITDA	71.3	212.7	194.2
Infrastructure renewals charge	(7.7)	(30.7)	(41.3)
Goodwill amortisation	12.4	35.4	35.0
Depreciation	(15.7)	(51.0)	(52.9)
Operating profit	60.3	166.4	135.0
Profit on disposal of assets	4.4	4.7	0.8
Profit before interest and tax	64.7	171.1	135.8
Interest payable	(40.9)	(118.2)	(120.1)
Interest receivable	6.6	12.5	11.3
Profit before tax	30.4	65.4	27.0
Taxation	-	(3.8)	4.8
Profit after tax	30.4	61.6	31.8
Reserves b/fwd	210.1	178.9	133.3
Reserves c/fwd	240.5	240.5	165.1

Balance sheet at 31 December 2004

	At 31 December 2004		At 31 March 2004	
	£m	£m	£m	£m
Tangible fixed assets		2,734.9		2,636.7
Negative goodwill		(11.6)		(46.9)
		2,723.3		2,589.8
Current assets and liabilities:				
Debtors and prepayments	76.3		71.8	
Creditors and accruals	(138.1)		(158.9)	
		(61.8)		(87.1)
Total assets less current liabilities		2,661.5		2,502.7
Financing liabilities:				
Bonds	(1,977.5)		(1,965.6)	
Finance leases	(621.0)		(440.3)	
Authorised loan facility	(35.0)		-	
Other	(4.2)		(4.4)	
	(2,637.7)		(2,410.3)	
Net interest accrual	(78.5)		(43.0)	
	(2,716.2)		(2,453.3)	
Cash and cash equivalents:				
Receipts account	43.9		63.6	
Payments account	298.0		108.1	
Capex reserves account	82.1		119.3	
Debt service payment account	56.2		10.5	
Customer payments account	2.9		11.4	
Other bank accounts	(42.6)		(32.6)	
	440.5		280.3	
Net debt		(2,275.7)		(2,173.0)
Deferred income		(35.1)		(35.9)
Provisions for liabilities and charges		(24.3)		(32.8)
Deferred taxation		(85.9)		(82.1)
Net assets		240.5		178.9

