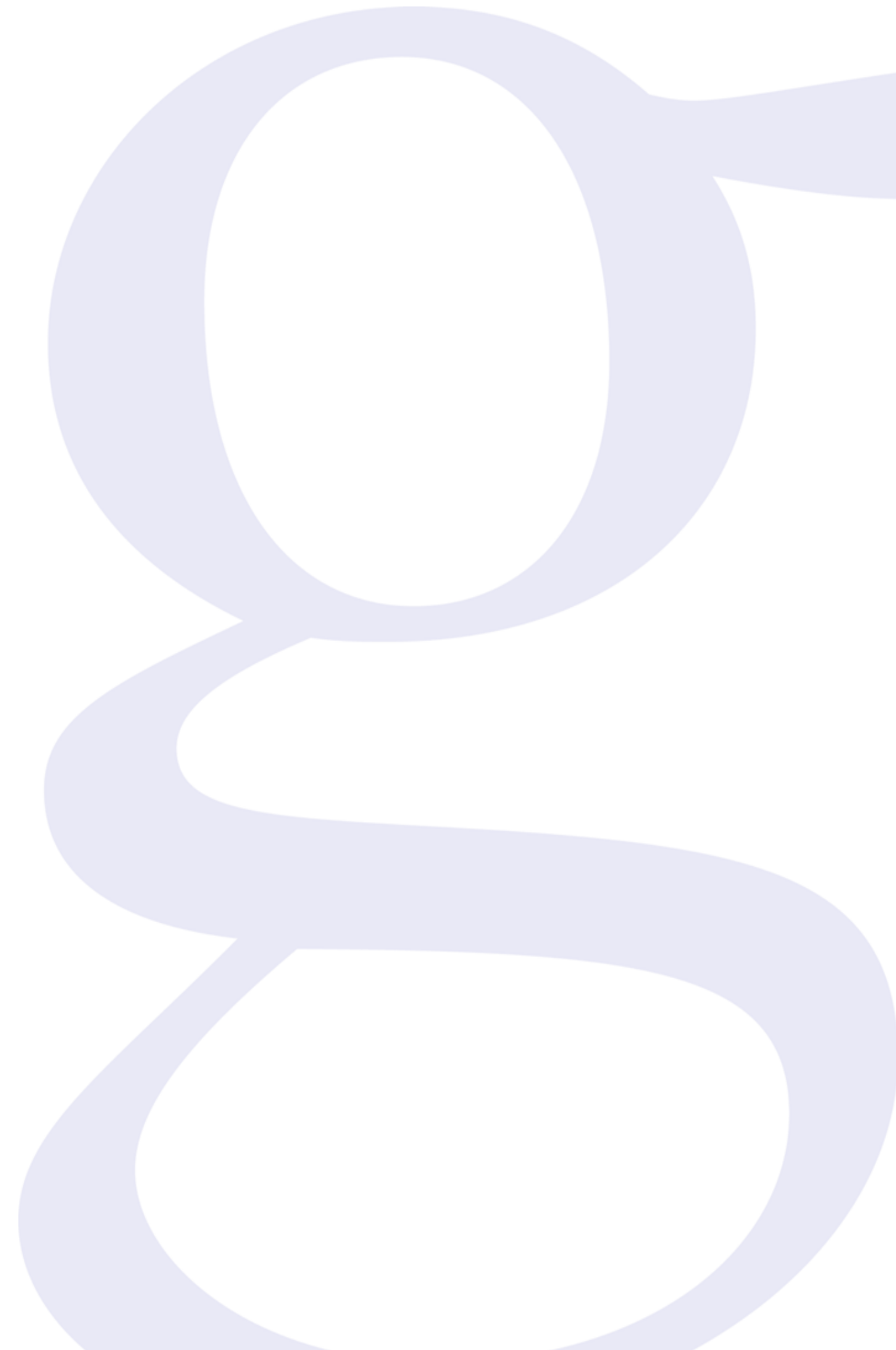




Investor Report

For the quarter ended 30 June 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.

Investor Report

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General overview & business update

This quarterly investor report covers the 3 month period ending 30 June 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 and warranties stipulated by the CTA.

The data in this report is drawn from the company's statutory 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 3 month period ended 30 June 2004 are as follows:

	2004/05 £m	2003/04 £m	Change
Turnover	120.2	116.0	+4%
Operating costs	51.2	50.1	+2%
EBITDA	69.0	65.9	
Net interest (excluding indexation)	35.7	37.0	
Capital expenditure (before grants and contributions)	65.0	57.0	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) was £69 million (2003 £65.9million). Financial performance continues to be in line with published forecasts

Profit before tax in the quarter (unaudited) was £15.3million (2003 £10.7million). Turnover of £120 million increased by £4 million compared to the same quarter last year, reflecting the RPI+K price increase of 4.3% allowed by Ofwat.

Glas Cymru's operating costs (excluding depreciation and exceptional items) were £51 million (2003: £50 million), representing the RPI increase.

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 revised 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 currently forecast to be reduced to 83% by 31 March 2005 (see page 9).

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 second highest result for the water and sewerage companies. The Company currently believes that its OPA score for 2003/04 is likely to be at least as high as that in the previous year. The final results will not be know for certain until they are published by Ofwat in the Autumn.

Full details of operational performance during the year are given in the Annual Report and 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 retendering during 2004 of the operations contract, the customer services 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).

Progress in letting these contracts is in line with the Company’s programme. Shortlists of bidders for each of the three types of contract have been drawn up and Welsh Water expects to be able to choose “preferred bidders” in each case later in 2004.

Capital Investment Programme

Capital expenditure by Welsh Water during the quarter was £65 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 £1020 million, or 87% of the AMP3 total. Overall, the capital investment programme is on track to deliver required regulatory outputs by their due dates.

Customer Rebate

Glas Cymru has implemented a further customer rebate worth £9 per customer for 2004/05 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 of the bonds issued by Dwr Cymru (Financing) Limited since their issue on 10 May 2001.

£14.5 million was drawn under the finance lease facilities on 30 June 2004, which leaves undrawn lease facilities of £2 million

As at 30 June 2004, Glas Cymru had cash on deposit and authorised investments totalling £267 million (including £55 million of Class A2 bonds). These funds, together with undrawn finance lease facilities of £2 million and undrawn bank facilities of £150 million, give the company a high level of financial liquidity, totalling some £419 million.

Corporate Governance

The fourth AGM for the members of Glas Cymru took place on 9 July 2004. All resolutions proposed were approved by the members.

Investor Meetings

Glas Cymru held a third annual meeting for investors in London on 21 July 2004.

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 30 June 2004	Year to date 30 June 2004
	£m	£m
Turnover	120.2	120.2
Less: operating expenses	(51.2)	(51.2)
Earnings before interest, taxation, depreciation and amortisation	69.0	69.0
Working capital movements	(6.3)	(6.3)
Interest received	1.8	1.8
Net operating cashflow and interest received	64.5	64.5
New borrowings:		
Finance leases	14.5	14.5
Utilisation of reserves:		
Cash transferred to capex reserve	(19.4)	(19.4)
Cash utilised from capex reserve	42.9	42.9
Cash utilised from other reserves	2.9	2.9
Capital expenditure:		
Sale proceeds from disposal of assets	0.1	0.1
Infrastructure renewal expenditure	(8.7)	(11.0)
Non-infrastructure maintenance	(12.8)	(13.4)
Enhancement expenditure	(36.6)	(33.7)
Net cashflow after capital expenditure, new borrowings and reserve drawings	47.4	47.4
Transfer to debt service payment account	(36.0)	(36.0)
Termination cost on early redemption of swap	(6.9)	(6.9)
Net cashflow after debt service	4.5	4.5
Free cash balances brought forward	139.1	139.1
Free cash balances carried forward	143.6	143.6

Consolidated debt service payments

	Payments due & made in 3 months ending 30 June 2004 £m	Amount accrued 30 June 2004 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Senior interest payments:		
Finance lease interest payments	7.1	17.6
A1 interest payments	-	5.3
A2 interest payments	1.2	-
A3 interest payments	2.4	-
A4 interest payments	-	2.5
A5 interest payments	-	0.8
B1 interest payments	-	5.7
B2 interest payments	1.4	-
B3 interest payments	-	1.5
B4 interest payments	-	0.9
Authorised loan facilities' commitment fees	0.1	0.1
	<hr/>	<hr/>
	12.2	34.4
Interest rate swaps	4.3	-
MBIA Fees	4.7	(3.5)
Finance lease, VAT on payment	1.3	-
Reimbursement of insurance	-	-
	-	-
Junior debt:		
C1 interest payments	-	2.6
C2 interest payments	2.1	-
D interest payments	2.5	-
	<hr/>	<hr/>
Total debt service payments	27.3	33.6

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 April 2004 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 June 2004 £m
Finance leases		440.3	14.5	-	-	454.8
A1 notes	AAA/Aaa	350.0	-	-	-	350.0
A2 notes		100.0	-	-	-	100.0
A3 notes		200.0	-	-	-	200.0
A4 notes		279.8	-	-	1.2	281.0
A5 notes		90.0	-	-	0.6	90.6
B1 notes	A-/A3	325.0	-	-	-	325.0
B2 notes		100.0	-	-	-	100.0
B3 notes		135.5	-	-	0.6	136.1
B4 notes		79.3	-	-	0.4	79.7
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		4.4	-	-	-	4.4
		2,410.3	14.5	-	2.8	2,427.6

Glas bank account movements

	Opening balance 1 April 2004 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2004 £m
Debt service payment account:					
Debt service ledger	10.5		36.0	(27.3)	19.2
Insurance proceeds ledger	-		-	-	-
	10.5		36.0	(27.3)	19.2
Capex reserve account	119.3		19.4	(42.9)	95.8
Customer payments account:					
Customer rebate ledger	11.4		-	(2.9)	8.5
Receipts account	63.6		125.2	(152.0)	36.8
Payments account	108.1		220.8	(178.2)	150.7
Other bank accounts	(32.6)	1.8	380.6	(393.7)	(43.9)
	280.3	1.8	782.0	(797.0)	267.1

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	489.9
Operating expenditure	(183.8)	(204.0)	(210.4)	(205.3)
Pre capital maintenance cashflows	222.3	258.9	270.8	284.6
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(75.0)
Post capital maintenance cashflows	140.2	121.6	159.8	209.6
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)	(96.3)
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	2.7
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	2.0
Total interest cover post capital maintenance	1.3	1.0	1.3	1.6

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%	81%	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 30 June 2004 £m	3 months ended 30 June 2003 £m
Turnover	120.2	116.0
Operating expenditure	(51.2)	(50.1)
Infrastructure renewals charge	(11.5)	(13.8)
Goodwill amortisation	11.7	11.6
Depreciation	(18.3)	(16.0)
Operating profit	50.9	47.7
Profit on disposal of assets	0.1	-
Profit before interest and tax	51.0	47.7
Interest payable	(39.3)	(40.2)
Interest receivable	3.6	3.2
Profit before tax	15.3	10.7
Taxation	-	-
Profit after tax	15.3	10.7
Reserves b/fwd	179.0	133.3
Reserves c/fwd	194.3	144.0

Balance sheet at 30 June 2004

	At 30 June 2004		At 31 March 2004	
	£m	£m	£m	£m
Tangible fixed assets		2,669.0		2,636.7
Negative goodwill		(35.2)		(46.9)
		2,633.8		2,589.8
Current assets and liabilities:				
Debtors and prepayments	86.8		71.8	
Creditors and accruals	(173.4)		(158.9)	
		(86.6)		(87.1)
Total assets less current liabilities		2,547.2		2,502.7
Financing liabilities:				
Bonds	(1,968.4)		(1,965.6)	
Finance leases	(454.8)		(440.3)	
Other	(4.4)		(4.4)	
Net interest accrual	(44.4)		(43.0)	
		(2,472.0)		(2,453.3)
Cash and cash equivalents:				
Receipts account	36.8		63.6	
Payments account	150.7		108.1	
Capex reserves account	95.8		119.3	
Debt service payment account	19.2		10.5	
Customer payments account	8.5		11.4	
Other bank accounts	(43.9)		(32.6)	
		267.1		280.3
Net debt		(2,204.9)		(2,173.0)
Deferred income		(35.6)		(35.9)
Provisions for liabilities and charges		(30.3)		(32.8)
Deferred taxation		(82.1)		(82.1)
Net assets		194.3		178.9