



Investor Report

For the quarter ended 30 September 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 three month period ending 30 September 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 6 month period ended 30 September 2004 are as follows:

	2004/05 £m	2003/04 £m	Change
Turnover	245.2	234.2	+5%
Operating costs	103.8	104.9	-1%
EBITDA	141.4	129.3	
Net interest (excluding indexation)	65.7	64.1	
Capital expenditure (before grants and contributions)	121.0	126.0	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) was £141.4 million (2003 £129.3million). Financial performance continues to be in line with published forecasts.

Profit after tax (unaudited) was £31million (2003 £23million). Turnover of £245 million increased by £11 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 £104 million (2003: £105 million), representing real cost efficiencies of 4%.

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 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 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 previous 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 are given in the Interim Report and Accounts.

Regulatory Price Review

In August 2004 Ofwat published its draft determination of price limits for the five years 2005 to 2010. Throughout the Regulatory Price Review, we have consulted with all our stakeholders in assessing the right balance between the investment for quality and service improvements, customer bills and investor requirements. We await Ofwat’s final determination, which will be published in December.

Outsourcing of Operations

No material contractual issues have occurred during the period. Welsh Water is in the final stages of the competitive reletting of contracts for its main operations, income and billing and capital investment contracts. New contracts, worth some £350 million a year, which will come into effect from 1 April 2005. Copies of the Procurement Plan are available on the website (www.dwrcymru.com).

Capital Investment Programme

Capital expenditure by Welsh Water during the six months was £121 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 £1,076 million, or 92% 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.

On 12 August 2004, the company agreed a £35 million loan facility with the European Investment Bank.

As at 30 September 2004, Glas Cymru had cash on deposit and authorised investments totalling £239 million (including £55 million of Class A2 bonds). These funds, together with undrawn finance lease facilities of £2 million and undrawn bank facilities of £185 million, give the company a high level of financial liquidity, totalling some £426 million.

On 11 November 2004, the company extended its existing finance lease facility with Bayerische Landesbank by £33 million and £13.5 million was drawn down on 15 November.

On 11 and 12 November 2004, the company entered into finance facilities of £219 million with leasing subsidiaries of The Royal Bank of Scotland, Lloyds TSB and HSBC.

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. The company's "Compliance Certificate" required by the CTA is included as page 12 of this document.

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 Sept 2004	6 months ended 30 Sept 2004	6 months ended 30 Sept 2003
	£m	£m	£m
Turnover	125.0	245.2	234.2
Less: operating expenses	(52.6)	(103.8)	(104.9)
Earnings before interest, taxation, depreciation and amortisation	72.4	141.4	129.3
Working capital movements	(13.1)	(19.4)	(19.0)
Non bond related interest paid	(0.4)	(0.4)	-
Interest received	4.8	6.6	7.7
Net operating cashflow and interest received	63.7	128.2	118.0
New borrowings:			
Finance leases	-	14.5	-
Bond issue	-	-	95.4
Net premium on bond issue	-	-	14.6
Utilisation of reserves:			
Cash transferred to capex reserve	(0.4)	(19.8)	(37.9)
Cash utilised from capex reserve	47.2	90.1	103.4
Cash utilised from other reserves	2.8	5.7	6.7
Capital expenditure:			
Sale proceeds from disposal of assets	0.2	0.3	0.3
Infrastructure renewal expenditure	(11.8)	(22.8)	(27.8)
Non-infrastructure maintenance	(14.4)	(27.8)	(33.2)
Enhancement expenditure	(42.2)	(75.9)	(71.7)
Net cashflow after capital expenditure, new borrowings and reserve drawings	45.1	92.5	167.8
Transfer to debt service payment account	(36.0)	(72.0)	(87.0)
Principal repayments	(0.1)	(0.1)	(0.1)
Termination cost on early redemption of swap	-	(6.9)	-
Net cashflow after debt service	9.0	13.5	80.7
Free cash balances brought forward	143.6	139.1	107.0
Free cash balances carried forward	152.6	152.6	187.7

Consolidated debt service payments

	Payments due & made in 3 months ending 30 Sept 2004 £m	Amount accrued 30 Sept 2004 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Senior interest payments:		
Finance lease interest payments	-	22.7
A1 interest payments	-	10.6
A2 interest payments	1.3	-
A3 interest payments	2.7	-
A4 interest payments	5.0	-
A5 interest payments	1.6	-
B1 interest payments	-	11.3
B2 interest payments	1.6	-
B3 interest payments	3.0	-
B4 interest payments	1.7	-
Authorised loan facilities' commitment fees	0.1	-
	17.0	44.6
Interest rate swaps	1.4	-
MBIA fees	-	(2.4)
Finance lease, VAT on payment	-	-
Reimbursement of insurance	-	-
Other fees	0.1	-
Junior debt:		
C1 interest payments	-	5.2
C2 interest payments	2.3	-
D interest payments	2.6	-
	23.5	47.5
Total debt service payments	23.5	47.5

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 July 2004 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 Sept 2004 £m
Finance leases		454.8				454.8
A1 notes	AAA/Aaa	350.0				350.0
A2 notes		100.0				100.0
A3 notes		200.0				200.0
A4 notes		281.0			1.5	282.5
A5 notes		90.6			0.3	90.9
B1 notes	A-/A3	325.0				325.0
B2 notes		100.0				100.0
B3 notes		136.1			0.7	136.8
B4 notes		79.7			0.4	80.1
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		(0.1)		4.3
		2,427.6		(0.1)	2.9	2,430.4

Glas bank account movements

	Opening balance 1 July 2004 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 Sept 2004 £m
Free cash balances:					
Receipts account	36.8		118.4	(113.2)	42.0
Payments account	150.7		187.0	(183.8)	153.9
Other bank accounts	(43.9)	4.8	445.3	(449.5)	(43.3)
	143.6	4.8	750.7	(746.5)	152.6
Debt service payment account:					
Debt service ledger	19.2		36.0	(23.5)	31.7
Insurance proceeds ledger	0.0		0.0	0.0	0.0
	19.2		36.0	(23.5)	31.7
Capex reserve account	95.8		0.4	(47.2)	49.0
Customer payments account:					
Customer rebate ledger	8.5		0.0	(2.8)	5.7
	267.1	4.8	787.1	(820.0)	239.0

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%)	84%	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 30 Sept 2004 (Unaudited)	6 months ended 30 Sept 2004 (Unaudited)	6 months ended 30 Sept 2003 (Unaudited)
	£m	£m	£m
Turnover	125.0	245.2	234.2
Operating expenditure	(52.6)	(103.8)	(104.9)
EBITDA	72.4	141.4	129.3
Infrastructure renewals charge	(11.5)	(23.0)	(27.5)
Goodwill amortisation	11.3	23.0	23.5
Depreciation	(17.0)	(35.3)	(35.6)
Operating profit	55.2	106.1	89.7
Profit on disposal of assets	0.2	0.3	0.3
Profit before interest and tax	55.4	106.4	90.0
Interest payable	(38.1)	(77.3)	(79.8)
Interest receivable	2.4	5.9	7.6
Profit before tax	19.7	35.0	17.8
Taxation	(3.8)	(3.8)	4.8
Profit after tax	15.9	31.2	22.6
Reserves b/fwd	194.2	178.9	133.3
Reserves c/fwd	210.1	210.1	155.9

Balance sheet at 30 September 2004

	At 30 September 2004		At 31 March 2004	
	£m	£m	£m	£m
Tangible fixed assets		2,693.9		2,636.7
Negative goodwill		(23.9)		(46.9)
		2,670.0		2,589.8
Current assets and liabilities:				
Debtors and prepayments	87.2		71.8	
Creditors and accruals	(149.2)		(158.9)	
		(62.0)		(87.1)
Total assets less current liabilities		2,608.0		2,502.7
Financing liabilities:				
Bonds	(1,971.3)		(1,965.6)	
Finance leases	(454.8)		(440.3)	
Other	(4.3)		(4.4)	
		(2,430.4)		(2,401.3)
Net interest accrual	(58.3)		(43.0)	
		(2,488.7)		(2,453.3)
Cash and cash equivalents:				
Receipts account	42.0		63.6	
Payments account	153.9		108.1	
Capex reserves account	49.0		119.3	
Debt service payment account	31.7		10.5	
Customer payments account	5.7		11.4	
Other bank accounts	(43.3)		(32.6)	
		239.0		280.3
Net debt		(2,249.7)		(2,173.0)
Deferred income		(35.1)		(35.9)
Provisions for liabilities and charges		(27.2)		(32.8)
Deferred taxation		(85.9)		(82.1)
Net assets		210.1		178.9

Compliance Certificate

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

Date: 18 November 2004

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 9 June 2004 (being the date of the last published Compliance Certificate) to 18 November 2004 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
Director

N C Annett
Director