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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 March 2006

Important Notice

This report is being distributed in fulfilment of a document, the Common Terms Agreement (CTA), which governs the company’s obligations to its bond holders and other financial creditors. 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 (or any other information in this report, other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. 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. For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in Article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as it relates to bonds which are already admitted to trading on a relevant market).

Contents

General overview & business update

This quarterly investor report covers the three month period ending 31 March 2006. The Investor Report is a requirement of (and has been prepared to comply with the specific requirements of) the Common Terms Agreement (CTA), which governs the company's obligations to its bond holders and other financial creditors.

The financial information 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. It should be noted that the information in this report has not been reviewed by the company's auditors.

Financial Performance

Financial performance over the twelve month period was ahead of expectations with gearing (net debt/regulatory capital value) at 31 March 2006 of some 78% (as compared to some 93% on the acquisition of Welsh Water in May 2001).

Summary financial results for the twelve month period ended 31 March 2006 are as follows:

	Period to 31 March 2006 £m	Period to 31 March 2005 £m	Change
Turnover	553.5	494.1	+12%
Operating costs	(213.2)	(210.7)	+1%
EBITDA (before infrastructure renewals expenditure)	**340.3**	**283.4**	+20%
Net interest (excluding indexation and amortisation)	129.9	122.7	
Capital expenditure (before grants and contributions)	237.6	238.9	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) increased by some 20% to £340 million (2005: £283 million) due primarily to the increase in prices allowed by the price control for the year, offset to some extent by the higher 'customer dividend' for the year of £18 per customer (2005: £9 per customer).

Turnover in the twelve months to 31 March 2006 was £554 million, as compared to £494 million in the twelve months to 31 March 2005. The increase reflects the price increase of 12.6% in the year. In the 12 month period to 31 March 2006, 28,000 domestic customers switched to metered charging (2005: 31,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £213 million (2005: £211 million). Around 70% of operating costs are accounted for by the competitively procured operating contracts, which came into effect on 1 April 2005.

Net interest payable in the period (excluding fair value movements) was £147 million (2005: £140 million), including an indexation charge on index linked debt of £17million (2005: £18 million).

Capital Investment Programme

Capital investment (including infrastructure renewals expenditure) was £238 million before grants and contributions (2005: £239 million). Expenditure to date is in-line with Welsh Water's £1.2 billion AMP4 capital investment programme to deliver regulatory targets for service and environmental improvements.

Prospective Financial Ratio Tests

As required by the CTA to demonstrate compliance with prospective financial ratio tests (regulatory asset ratio and interest cover ratios), this report includes projected ratios up to 31 March 2010. These projected ratios 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 prospective financial ratios exceed the "trigger levels" as defined in the CTA (see pages 10 to 13). It should be noted that the company's business plan and the projected ratios have not been reviewed by the company's auditors and the reader's attention is drawn to the important notice at the front of this document.

Financing

On 31 March 2005, following approval by the Security Trustee, Dwr Cymru (Financing) Ltd (DCFL) called and cancelled the £100 million Class D1 bonds.

On 15 April 2005 Moody's announced an upgrade to the rating of the Class C1 and Class C2 bonds from Baa3 to Baa2.

On 29 April 2005, DCFL entered into a seven year revolving credit banking facility with Fortis Bank for £75 million. DCFL followed this on 9 May 2005 by signing a five year facility for £305 million with a group of banks comprising The Royal Bank of Scotland, Barclays, HSBC, Bayerische Landesbank, Norddeutsche Landesbank, ING and Sumitomo Mitsui Banking Corporation (Europe). On 12 April 2006, all of these banks agreed to extend this facility for a further year from 2010 to 2011.These banking facilities give the Company flexible access to funds at rates competitive with the prevailing rates available in the bond market. The previous £150 million syndicated bank facilities were cancelled on 9 May 2005.

Given the strong liquidity position of the Company and the change in the prevailing rates of interest in the capital markets since May 2001, notice was given on 16 May 2005 for the call and early redemption on 30 June 2005 of the following bond series:

- US$286 million (£200 million) Class A3, expected maturity March 2008
- £100 million Class B2, expected maturity March 2008
- £125 million Class C2, expected maturity March 2008

This repurchase of bonds was financed from existing cash resources and by an initial draw-down under the financing facilities of £192 million.

During the year Dwr Cymru Cyfyngedig drew down a further £114 million under finance leasing facilities with The Royal Bank of Scotland, Lloyds TSB, HSBC, Bayerische Landesbank Norddeutsche Landesbank and Alliance and Leicester.

On 5 December 2005, a £100 million loan facility with the European Investment Bank ("EIB") was completed to fund capital investment in AMP4. The first £25 million 15 year loan was drawn down on 15 March 2007. The balance of the facility of £75 million is available to be drawn in the period to 5 June 2007.

In July, August 2005 and January 2006, we executed £587 million of inflation (RPI) swaps with banks to hedge the interest rate exposure of an equivalent amount of finance leases. The effect of the swaps is to fix the weighted average real interest rate of these leases at some 1.6% plus the lessors' interest margin. These swaps have a range of maturities from 2019 to 2040.

As a result of these inflation swaps the company's inflation linked debt exposure has increased to approximately 54% of its gross debt as at 31 March 2006.

On 10 February 2006 we gave notice for the call and redemption of the Class A2 £100 million floating rate notes on their expected maturity date of 31 March 2006. The redemption of these bonds was funded from our revolving credit banking facilities.

On 16 February 2006, Fitch Ratings reviewed their ratings for the water sector, resulting in an upgrade of the class B bonds from A- to A and of the class C bonds from BBB to BBB+.

As at 31 March 2006, we had undrawn EIB, revolving credit facilities and cash totalling £349 million, giving the company a high degree of liquidity.

Outsourcing of operations

No material contractual issues have occurred during the period.

Following a competitive tendering exercise, Hyder Consulting have been appointed as Network Development Consultants. This contract, which has a value of some £1.5 million a year, commenced on 1 January 2006 and can run for up to 14 years.

Customer service, water quality and environmental quality

In September 2005, Ofwat published its Annual Report on Levels of Service for the Water Industry in England and Wales for the year to 31 March 2005. On Ofwat's "Overall Performance Assessment", Welsh Water was ranked joint first, with Yorkshire Water, compared to second in the previous year. This performance reflects a sustained commitment to improving services for customers. Prior to its acquisition by Glas Cymru, Welsh Water was ranked seventh in 2000/01. Performance for 2005/06 is expected to be published in September 2006.

International Financial Reporting Standards (IFRS)

Glas Cymru has implemented IFRS for this financial year (including restating the comparatives for 2005) in-line with its "IFRS adoption document" published on 22 September 2005. The main effects of the adoption of IFRS are on non cash items, including deferred tax, changes in the current value of derivatives and the depreciation of infrastructure assets.

Glas Cymru purchases financial instruments to achieve economic hedges in respect of its borrowings so that a high proportion of its borrowings are at fixed interest rates. IFRS requires specific tests to be met in order to achieve hedge accounting for purposes of the financial statements. As the current hedges achieve economic effectiveness and comply with our hedging policy, the financial instruments have not been reconfigured to satisfy the requirements of IFRS. Accordingly, the balance sheet includes the fair market value of swaps with the change in value between balance sheet dates recognised in the income statement. For the year ended 31

March 2006, this means that a £33 million non-cash “book loss” (2005: £8 million loss) has been charged to the income statement. Over the life of the interest rate swaps, these fair value adjustments will reverse and reduce to zero.

At 31 March 2006, the balance sheet includes a provision for deferred tax of £374 million (2005: £380 million) reflecting the temporary differences between the carrying value and tax base of the group’s assets and liabilities. IFRS, unlike UK GAAP, does not permit the discounting of deferred tax liabilities. Consequently, IFRS has increased the reported deferred tax provision by some £300 million.

The disclosures required by IFRS 1 for the transition from UK GAAP to IFRS are provided in note 28 to the Annual Report and Accounts.

Corporate Governance

Glas Cymru held its regular half-year review meeting with members on 9 December 2005. There was no formal business conducted at the meeting.

The AGM for the members of Glas Cymru will take place on 7 July 2006. The company’s “Compliance Certificate” required by the CTA is included on page 16 of this report.

Investor Meetings

Glas Cymru will hold its annual meeting for investors in London on 17 July 2006. At the meeting, Directors will present a review of performance during the last year and their objectives for the future. Investors are invited to attend the meeting by contacting the company (e-mail to investors@dwrcymru.com).

The company is always 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 March 2006	12 months ended 31 March 2006	*12 months ended 31 March 2005*
	£m	£m	*£m*
Turnover	139.2	553.5	*494.1*
Less: operating expenses	(51.7)	(213.2)	*(210.7)*
Earnings before interest, taxation, depreciation and amortisation	87.5	340.3	*283.4*
Working capital movements	19.0	(28.1)	*(7.9)*
Non bond related interest received /(paid)	(0.8)	(1.1)	*1.4*
Interest received	1.3	10.2	*24.5*
Net operating cashflow and interest received	107.0	321.3	*301.4*
New borrowings:			
Finance leases	3.0	112.4	*273.9*
Authorised loan facilities	80.1	145.3	*35.0*
Utilisation of reserves:			
Cash transferred to capex reserve	(56.3)	(147.3)	*(105.9)*
Cash utilised from capex reserve	35.0	178.3	*169.2*
Cash utilised from other reserves	(18.9)	(1.6)	*(11.7)*
Capital expenditure:			
Sale proceeds from disposal of assets	-	0.6	*0.4*
Infrastructure renewal expenditure	(15.1)	(47.2)	*(49.3)*
Non-infrastructure maintenance	(7.5)	(42.9)	*(49.7)*
Enhancement expenditure	(23.3)	(124.5)	*(164.1)*
Net cashflow after capital expenditure, new borrowings and reserve drawings	104.0	394.3	*399.2*
Transfer to debt service payment account	(39.5)	(157.8)	*(157.4)*
Principal repayments	(100.3)	(525.4)	*(129.6)*
Termination cost on early redemption of swap	-	-	*(6.9)*
Net cashflow after debt service	(35.8)	(288.9)	*105.3*
Free cash balances brought forward	(8.7)	244.4	*139.1*
Free cash balances carried forward	(44.5)	(44.5)	*244.4*

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2006 £m	Amount accrued 31 March 2006 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Senior interest payments:		
Finance lease interest payments	26.7	19.0
A1 interest payments	21.1	-
A2 interest payments	1.3	-
A4 interest payments	5.2	-
A5 interest payments	1.7	-
B1 interest payments	22.4	-
B3 interest payments	3.1	-
B4 interest payments	1.8	-
EIB loan	0.4	0.1
Authorised loan interest	0.8	0.1
Authorised loan facilities' commitment fees	0.1	-
Miscellaneous fees	0.1	-
	84.8	19.3
Interest rate swaps	1.7	-
MBIA fees	3.6	(3.6)
Finance lease Principal (Net)	3.8	-
Finance lease, VAT on payment	3.1	-
Senior interest payments	97.0	15.7
Junior debt:		
C1 interest payments	10.2	-
Total debt service payments	107.2	15.7

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 Jan 2006 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2006 £m
Finance leases		740.9	3.0	(3.8)		740.1
A1 notes	AAA/Aaa/AAA	350.0				350.0
A2 notes		100.0		(100.0)		-
A3 notes		-				-
A4 notes		294.1			2.5	296.6
A5 notes		94.3			0.8	95.1
B1 notes	A-/A3/A	325.0				325.0
B2 notes		-				-
B3 notes		142.9			1.1	144.0
B4 notes		83.1			0.9	84.0
C1 notes	BBB/Baa2/BBB+	125.0				125.0
C2 notes		-				-
D notes	n/a	-				-
Local authority loans		4.0		(0.3)		3.7
Authorised loan drawdowns		100.2	80.1			180.3
		2,359.5	83.1	(104.1)	5.3	2,343.8

*Standard and Poors / Moody's / Fitch Ratings

Glas bank account movements

	Opening balance 1 Jan 2006 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2006 £m
Free cash balances:					
Receipts account	43.7		170.0	(149.2)	64.5
Payments account	(56.5)		451.1	(506.4)	(111.8)
Other bank accounts	4.1	1.3	788.0	(790.6)	2.8
	(8.7)	1.3	1409.1	(1446.2)	(44.5)
Debt service payment account:					
Debt service ledger	76.8		39.5	(107.2)	9.1
	76.8		39.5	(107.2)	9.1
Capex reserve account	3.7		56.3	(35.0)	25.0
Customer payments account:					
Customer rebate ledger	5.8		24.7	(5.8)	24.7
	77.6	1.3	1529.6	(1594.2)	14.3

Interest cover ratio (ICR) – Period to 31 March 2005

	Actual			
	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	505.6
Operating expenditure	(183.8)	(204.0)	(210.4)	(210.3)
Pre capital maintenance cashflows	222.3	258.9	270.8	295.3
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(85.7)
Post capital maintenance cashflows	140.2	121.6	159.8	209.6
Net interest (excluding indexation)	(104.8)	(119.4)	(124.3)	(122.7)
Capital expenditure	(98.0)	(124.7)	(148.7)	(142.0)
Customer rebates	-	-	(11.5)	(11.5)
Pre-financing cashflows	(62.6)	(122.5)	(124.7)	(66.6)
Interest payable on senior debt:				
Finance leases	8.7	12.6	12.8	12.5
Class A	43.2	47.0	46.4	50.0
Class B	30.5	33.8	36.3	37.8
New debt	-	-	-	-
MBIA wrap fees	4.3	4.9	4.8	4.7
Interest & currency swaps	2.9	9.9	15.1	8.3
Authorised loans	-	-	-	0.5
Less interest receivable	(12.9)	(16.8)	(17.6)	(19.1)
Total net senior debt interest	76.7	91.4	97.8	94.7
Interest payable on junior debt:				
Class C	16.9	18.5	18.1	19.5
Class D	9.0	8.0	6.8	5.8
Other	2.2	1.5	1.6	2.7
Total interest payable	104.8	119.4	124.3	122.7
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.8	3.1
Total interest cover pre capital maintenance	2.1	2.2	2.2	2.4
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.3	1.6	2.2
Total interest cover post capital maintenance	1.3	1.0	1.3	1.7

Interest cover ratio (ICR) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual Year to 31 Mar 2006 £m	Projections Year to 31 Mar 2007 £m	Year to 31 Mar 2008 £m	Year to 31 Mar 2009 £m	Year to 31 Mar 2010 £m
Income	576.5	596	625	651	671
Operating expenditure	(213.2)	(232)	(231)	(236)	(241)
Pre capital maintenance cashflows	363.3	364	394	415	430
Capital maintenance expenditure	(98.1)	(146)	(130)	(145)	(99)
Post capital maintenance cashflows	265.2	218	264	271	331
Net interest (excluding indexation)	(129.9)	(130)	(135)	(136)	(137)
Capital expenditure	(122.3)	(134)	(153)	(92)	(92)
Customer rebates	(23.0)	(24)	(26)	(27)	(28)
Taxation					(23)
Pre-financing cashflows	(10.0)	(70)	(49)	15	51
Interest payable on senior debt:					
Finance leases	31.9	34	34	34	35
Class A	43.6	35	35	35	36
Class B	33.5	33	33	33	33
New debt	0	0	0	0	0
MBIA wrap fees	4.7	3	4	4	4
Interest & currency swaps	4.2	0	0	(1)	(1)
Authorised loans	5.4	15	19	22	22
Less interest receivable	(9.7)	(2)	(2)	(3)	(3)
Total net senior debt interest	113.7	118	123	124	125
Interest payable on junior debt:					
Class C	13.1	10	10	10	10
Class D	-	-	-	-	-
Other	3.1	2	2	2	2
Total interest payable	129.9	130	135	136	137
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.1	3.2	3.3	3.5
Total interest cover pre capital maintenance	2.8	2.8	2.9	3.0	3.2
Senior interest cover post capital maintenance (trigger 1.1)	2.3	1.9	2.1	2.2	2.7
Total interest cover post capital maintenance	2.0	1.7	2.0	2.0	2.4

Regulatory asset ratio (RAR) – Period to 31 March 2005

	Actual			
	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	632
Class A	1,003	1,009	1,020	1,031
Class B	561	563	640	646
Net interest accrual on senior debt	49	14	43	32
Authorised loans	-	-	-	35
Total senior gross debt	1,902	1,968	2,143	2,376
Less: cash balances and authorised investments	(383)	(287)	(280)	(325)
Total senior net debt	1,519	1,681	1,863	2,051
Class C	250	250	250	250
Interest accrual on Class C	10	-	-	-
Class D	100	76	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	2,305
Regulatory capital value (RCV)	2,125	2,362	2,594	2,843
Reserves (RCV less total net debt)	241	349	421	538
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%	81%

Regulatory asset ratio (RAR) –Actual/ Projections to 31 March 2010

(See important notice at the front of the document)	Actual As at 31 Mar 2006 £m	Projections As at 31 Mar 2007 £m	As at 31 Mar 2008 £m	As at 31 Mar 2009 £m	As at 31 Mar 2010 £m
Senior gross debt:					
Finance leases	740	736	732	726	719
Class A	742	750	758	766	774
Class B	553	557	562	567	572
Net interest accrual on senior debt	29	39	48	52	55
Authorised loans	180	403	388	420	396
Total senior gross debt	2,244	2,486	2,487	2,530	2,515
Less: cash balances and authorised investments	(14)	(90)	(20)	(35)	(38)
Total senior net debt	2,230	2,396	2,467	2,495	2,477
Class C	125	125	125	125	125
Interest accrual on Class C	-	-	-	-	-
Class D	-	-	-	-	-
Interest accrual on junior debt	-	-	-	-	-
Local authority loans	4	4	4	4	4
Total net debt	2,359	2,525	2,596	2,624	2,606
Regulatory capital value (RCV) [1]	3,042	3,222	3,376	3,500	3,590
Reserves (RCV less total net debt)	683	697	780	876	984
Regulatory asset ratio:					
RAR (Senior)	73%	74%	73%	71%	69%
RAR (Senior + C) (trigger 90%; default 95%)	77%	78%	77%	75%	73%
RAR (Total debt)	78%	78%	77%	75%	73%

[1] **as published by Ofwat (RD 08/06) on 26 April 2006**

Income Statement

	3 months ended 31 March 2006	12 months ended 31 March 2006	*12 months ended 31 March 2005*
	£m	£m	*£m*
Turnover	139.2	553.5	*494.1*
Operating expenditure	(51.7)	(213.2)	*(210.7)*
EBITDA	87.5	340.3	*283.4*
Infrastructure renewals expenditure	(17.1)	(48.8)	*(43.0)*
Depreciation	(24.6)	(97.5)	*(89.8)*
Profit on disposal of fixed assets	-	0.8	*4.3*
Operating profit	45.8	194.8	*154.9*
Interest payable	(38.1)	(156.9)	*(158.8)*
Interest receivable	(1.0)	6.7	*16.2*
Fair value (losses)/gains on financial instruments	18.8	(33.3)	*(8.0)*
Profit before tax	25.5	11.3	*4.3*
Taxation	2.9	4.8	*1.2*
Profit after tax	28.4	16.1	*5.5*

Note: all results stated under IFRS

Balance sheet at 31 March 2006

Note: all results stated under IFRS

	At 31 March 2006		At 31 March 2005	
	£m	£m	£m	£m
Fixed assets		2,800.0		2,725.3
Current assets and liabilities:				
Debtors and prepayments	90.6		75.6	
Creditors and accruals	(118.5)		(125.2)	
		(27.9)		(49.6)
Total assets less current liabilities		2,772.1		2,675.7
Financing liabilities:				
Bonds	(1,419.7)		(1,878.8)	
Finance leases	(740.1)		(631.5)	
Authorised loan facilities	(180.3)		(35.0)	
Other	(3.7)		(4.1)	
	(2,343.8)		(2,549.4)	
Net interest accrual	(29.6)		(32.0)	
	(2,373.4)		(2,581.4)	
Cash and cash equivalents:				
Receipts account	64.5		59.6	
Payments account	(111.8)		172.4	
Capex reserves account	25.0		56.0	
Debt service payment account	9.1		1.6	
Customer payments account	24.7		23.1	
Other bank accounts	2.8		12.4	
	14.3		325.1	
Net debt		**(2359.1)**		(2,256.3)
Derivative financial instruments		(101.6)		(116.8)
Provisions for liabilities and charges		(16.4)		(17.5)
Net assets before deferred tax		**295.0**		**285.1**
Deferred tax		(374.2)		(380.4)
Net liabilities		**(79.2)**		**(95.3)**

Compliance Certificate

To: Deutsche Trustee Company Limited

Date 8 June 2006

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 11 and 13 of the Investors Report issued on today's date.

We also confirm that, in the period from 18 November 2005 (being the date of the last published Compliance Certificate) to 8 June 2006 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