glas
Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 March 2008

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 and business update

This quarterly Investor Report covers the three month period ending 31 March 2008. 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 bondholders 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.

Business performance including key performance indicators (KPIs) for operations and customer service are reported in the company's annual report and accounts. These are available on the company's website (www.dwrcymru.com).

Financial performance

Financial performance for the year was slightly ahead of expectations with gearing (net debt/regulatory capital value) at 31 March 2008 of some 72% (2007: 74%).

Summary financial results for the year ended 31 March 2008 are as follows:

	Year to 31 March 2008 £m	Year to 31 March 2007 £m	Change
Turnover	623	578	+8%
Operating costs	231	229	+1%
EBITDA (before infrastructure renewals expenditure)	**392**	**349**	**+12%**
Net interest (excluding indexation and amortisation)	129	128	
Capital expenditure (before grants and contributions)	301	269	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) increased by some 12% to £392 million (2007: £349 million) due primarily to the increase in prices of 8% allowed by the price control for the year.

General overview and business update (cont'd)

Turnover in the year to 31 March 2008 was £623 million, as compared to £578 million in the year to 31 March 2007. The increase reflects the RPI+K increase in prices of 8% allowed by Ofwat less the increase in the 'customer dividend' for the year from £19 per customer to £20 per customer. In the year to 31 March 2008, 17,500 domestic customers switched to metered charging (2007: 22,000). The exceptionally wet summer saw a 2% (circa £2 million) reduction in consumption by our metered customers.

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £231 million (2007: £229 million), partly reflecting the impact of lower power prices on power costs, down by £5 million in the period.

Net interest payable in the period (excluding fair value movements) was £159 million (2007: £151 million), including an indexation charge on index-linked debt of £30 million (2007: £23 million).

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £301 million before grants and contributions (2007: £269 million), bringing the total expenditure over the AMP4 period to £808 million.

Ofwat have allowed for an investment programme by the company 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.

Welsh Water's capital investment over the two years to 31 March 2010 is likely to be at or above £600 million. This will be a major challenge for the company and its alliance of capital investment partners.

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 11 and 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.

General overview and business update (cont'd)

Credit ratings

On 18 December 2007 Standard & Poor's ("S&P") raised the rating of the company's Class B Bonds from A- to A, and the Class C Bonds from BBB to BBB+. The rating action reflects Glas' continued trend of deleveraging, its public commitment to a target gearing of 70% and Glas' unique not-for-profit ownership structure. A copy of S&P's press release is available from the "Investors" section of the company's website (www.dwrcymru.com).

S&P, Moody's Investor Service ("Moody's") and Fitch Ratings ("Fitch") have all reviewed their credit ratings of MBIA and, as a consequence, their rating of the company's Class A Bonds, which are guaranteed by MBIA.

On 7 April 2008 Fitch downgraded the ratings of MBIA, and the company's Class A Bonds, from AAA to AA. On 4 June 2008 Moody's placed the AAA ratings on review for possible downgrade and, on 5 June 2008, S&P downgraded the AAA ratings to AA and placed the ratings on CreditWatch with negative implications.

The underlying ratings of the company's Class A Bonds are unaffected by these reviews and remain at A/A3/A for S&P, Moody's and Fitch respectively. Also the ratings of the company's Class B and C Bonds and the Moody's corporate family rating of Dŵr Cymru Cyfyngedig also remain unaffected and are stable, reflecting the stand alone credit quality of the company.

The current ratings of the company's debt are therefore summarised by the following table:

Bond Class	Moody's	S&P	Fitch
A	Aaa	AA	AA
B	A3	A	A
C	Baa2	BBB+	BBB+

Moody's corporate family rating of Dŵr Cymru Cyfyngedig is A3.

General overview and business update (cont'd)

Financing and liquidity

On 5 October 2007, Welsh Water entered into an £85 million finance lease of refurbished water mains with a leasing subsidiary of The Royal Bank of Scotland. Subsequently, on 30 April 2008, the company entered into an index-linked swap to fix the interest rate on this lease to annual movements in RPI.

As at 31 March 2008, the company's split of gross debt (after taking into account the above swap) was as follows:

Fixed	38%
RPI linked	59%
Floating	3%

As at 31 March 2008, undrawn revolving credit facilities and cash (excluding the debt service reserve account) amounted to £458 million, giving the company a high degree of liquidity. As a result, the company has been insulated from the recent turmoil in credit markets and our bonds continue to trade well relative to our peers. The company's next expected bond maturity is of its Class C1 Bonds (£125 million) in March 2011.

Outsourcing of operations

Thames Water plc has sold various non-regulated activities to Veolia UK, including the contract to provide billing and income services to Welsh Water amounting to some £19 million a year. This contract runs until 31 March 2012, although it contains various early termination and change of control provisions.

The acquisition of the Kelda Group by the Citigroup-led consortium, Saltaire Water, completed in February 2008. Kelda Water Services ("KWS") holds the contract to manage Welsh Water's waste water service for South Wales and Herefordshire. This contract runs until 2020 with break clauses in 2010 and 2015. It also contains various early termination and change of control provisions.

Annual report and accounts

Glas Cymru has today published its results for the year to 31 March 2008. The results provide full details of:

- key performance indicators (KPIs) for financial, operational and customer service performance;
- a review of business performance;
- a review of key risk issues facing the business; and
- future prospects for the business.

General overview and business update (cont'd)

Corporate governance

Glas Cymru held its regular half-year review meeting with members on 7 December 2007. There was no formal business conducted at the meeting. The AGM for the members of Glas Cymru will take place on 4 July 2008.

The company's "Compliance Certificate" required by the CTA is included on page 16 of this report.

Investor meetings

The company's annual investor meeting will be held on Monday 14 July 2008 at 11.00am at Founders Hall, 1 Cloth Fair, London EC1. At this meeting the company will deliver a presentation on its performance in 2007/08, and investors will have an opportunity to ask questions of the Chairman and Executive Directors.

If you would like to attend the annual meeting for investors, or would like a one-to-one meeting with the Finance Director and/or Treasurer, please contact Mary Mountjoy (telephone 01443 452353) or send an e-mail request to investors@dwrcymru.com.

Consolidated cash flow

	3 months ended 31 March 2008 £m	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
Turnover	157.4	622.9	578.0
Less: operating expenses	(54.3)	(230.8)	(228.6)
Earnings before interest, taxation, depreciation and amortisation	103.1	392.1	349.4
Working capital movements	6.8	(26.2)	(15.7)
Non bond related interest received/(paid)	6.3	5.4	(1.0)
Swap termination	-	(32.5)	-
Interest received	3.5	11.4	7.0
Net operating cash flow and interest received	119.7	350.2	339.7
New borrowings:			
Finance leases	-	85.0	32.2
Class A bonds	-	-	100.0
Class B bonds	-	-	50.0
European Investment Bank	-	-	75.0
Authorised loan facilities (repayments)/drawdowns	-	-	(120.3)
Utilisation of reserves:			
Cash transferred to capex reserve	(37.6)	(137.9)	(120.6)
Cash utilised from capex reserve	37.6	137.9	145.6
Cash utilised from other reserves	(20.9)	(0.6)	(2.3)
Capital expenditure:			
Sale proceeds from disposal of assets	-	0.9	-
Infrastructure renewal expenditure	(18.2)	(66.8)	(85.1)
Non-infrastructure maintenance	(25.8)	(88.0)	(89.2)
Enhancement expenditure	(34.7)	(118.3)	(76.1)
Net cash flow after capital expenditure, new borrowings and reserve drawings	20.1	162.5	248.9
Transfer to debt service payment account	(34.1)	(151.3)	(125.0)
Principal repayments	(0.2)	(4.7)	(0.5)
Net cash flow after debt service	(14.2)	6.5	123.4
Free cash balances brought forward	99.6	78.9	(44.5)
Free cash balances carried forward	85.4	85.4	78.9

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2008 £m	Amount accrued 31 March 2008 £m
Liquidity facility:		
Liquidity facility commitment fee	-	0.4
Senior interest payments:		
Finance lease interest payments	33.6	41.8
A1 interest payments	21.0	-
A4 interest payments	5.6	-
A5 interest payments	1.8	-
A6 interest payments	0.7	-
B1 interest payments	22.4	-
B3 interest payments	3.4	-
B4 interest payments	2.0	-
B5 interest payments	0.4	-
European Investment Bank loan	2.1	0.4
Authorised loan interest	-	-
Authorised loan facilities' commitment fees	0.1	0.1
	93.1	42.7
Interest rate swaps	(0.3)	-
Finance lease principal (net)	7.1	-
Finance lease, VAT on payment	4.2	-
Senior interest payments	104.1	42.7
Junior debt:		
C1 interest payments	10.2	-
Total debt service payments	114.3	42.7

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 January 2008 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2008 £m
Finance leases		849.5	-	(7.1)	-	842.4
A1 notes	AA/Aaa/AA	350.0	-	-	-	350.0
A4 notes		314.6	-	-	3.4	318.0
A5 notes		100.8	-		1.1	101.9
A6 notes *(Note)*		104.5	-	-	1.1	105.6
B1 notes	A/A3/A	325.0	-	-	-	325.0
B3 notes		152.7	-	-	1.7	154.4
B4 notes		89.2	-	-	1.0	90.2
B5 notes		52.3	-	-	0.6	52.9
C1 notes	BBB+/Baa2/BBB+	125.0	-	-	-	125.0
EIB Loan		130.6	-	-	-	130.6
Local authority loans		3.2	-	(0.2)	-	3.0
Authorised loan draw-downs		-	-	-	-	-
		2,597.4	-	(7.3)	8.9	2,599.0

* S&P/Moody's/Fitch ratings.

Note: The class A6 notes (£100m) were issued at a fixed rate of 4.473% but swapped into an effective index-linked rate of 1.35%. Cumulative indexation of £5.6m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 January 2008 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2008 £m
Free cash balances:					
Receipts account	50.2	-	168.0	(143.7)	74.5
Payments account	45.2	-	211.7	(249.3)	7.6
Other bank accounts	4.2	3.5	460.3	(464.7)	3.3
	99.6	3.5	840.0	(857.7)	85.4
Debt service payment account:					
Debt service ledger	91.4	-	34.1	(114.3)	11.2
Capex reserve account	-	-	37.6	(37.6)	-
Customer payments account:					
Customer rebate ledger	6.7	-	27.6	(6.8)	27.5
	197.7	3.5	939.3	(1,016.4)	124.1

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

	Actual			
	Year to 31 March 2002 £m	Year to 31 March 2003 £m	Year to 31 March 2004 £m	Year to 31 March 2005 £m
Income	406.1	462.9	481.2	505.6
Operating expenditure	(183.8)	(204.0)	(210.4)	(210.3)
Pre capital maintenance cash flows	222.3	258.9	270.8	295.3
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(85.7)
Post capital maintenance cash flows	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 cash flows	(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
MBIA financial guarantee fees	4.3	4.9	4.8	4.7
Interest rate and 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			*Projections*	
	Year to 31 March 2006 £m	Year to 31 March 2007 £m	Year to 31 March 2008 £m	*Year to 31 March 2009 £m*	*Year to 31 March 2010 £m*
Income	576.5	602.7	648.6	*694*	*725*
Operating expenditure	(213.2)	(228.6)	(230.8)	*(254)*	*(262)*
Pre capital maintenance cash flows	363.3	374.1	417.8	*440*	*463*
Capital maintenance expenditure	(98.1)	(150.2)	(146.2)	*(152)*	*(162)*
Post capital maintenance cash flows	265.2	223.9	271.6	*288*	*301*
Net interest (excluding indexation)	(129.9)	(127.0)	(127.5)	*(134)*	*(135)*
Capital expenditure	(122.3)	(96.7)	(136.7)	*(165)*	*(150)*
Customer rebates	(23.0)	(24.7)	(25.7)	*(27)*	*(28)*
Pre-financing cash flows	(10.0)	(24.5)	(18.3)	*(38)*	*(12)*
Interest payable on senior debt:					
Finance leases	31.9	33.7	45.8	*48*	*41*
Class A	43.6	36.9	36.4	*38*	*38*
Class B	33.5	32.4	33.2	*34*	*35*
MBIA financial guarantee fees	4.7	3.6	3.7	*4*	*4*
Interest rate swaps	4.2	7.7	(0.2)	*(5)*	*(4)*
Authorised loans	5.4	8.5	8.3	*13*	*17*
Less interest receivable	(9.7)	(7.4)	(12.2)	*(9)*	*(7)*
Total net senior debt interest	113.7	115.4	115.0	*123*	*124*
Interest payable on junior debt:					
Class C	13.1	10.2	10.2	*10*	*10*
Class D	-	-			
Other	3.1	2.2	2.3	*1*	*1*
Total interest payable	129.9	127.8	127.5	*134*	*135*
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.3	3.6	*3.6*	*3.7*
Total interest cover pre capital maintenance	2.8	2.9	3.3	*3.3*	*3.4*
Senior interest cover post capital maintenance (trigger 1.1)	2.3	2.0	2.4	*2.3*	*2.4*
Total interest cover post capital maintenance	2.0	1.8	2.1	*2.1*	*2.2*

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

	Actual			
	As at 31 March 2002 £m	As at 31 March 2003 £m	As at 31 March 2004 £m	As at 31 March 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
EIB Loan	-	-	-	35
Authorised loan facility	-	-	-	-
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	-
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%	81%	81%
RAR (Total debt)	89%	85%	84%	81%

Regulatory asset ratio (RAR) – 5 years to 31 March 2010

(See important notice at the front of the document)	**Actual** As at 31 March 2006 £m	**Actual** As at 31 March 2007 £m	**Actual** As at 31 March 2008 £m	***Projections*** *As at 31 March 2009 £m*	***Projections*** *As at 31 March 2010 £m*
Senior gross debt:					
Finance leases	740	767	842	*837*	*831*
Class A	742	856	875	*896*	*909*
Class B	553	611	623	*634*	*641*
Net interest accrual on senior debt	29	84	56	*55*	*57*
EIB Loan	60	135	131	*127*	*123*
Authorised loan facility	120	-	-	*120*	*159*
Total senior gross debt	2,244	2,453	2,527	*2,669*	*2,720*
Less: cash balances and authorised investments	(14)	(158)	(124)	*(150)*	*(150)*
Total senior net debt	2,230	2,295	2,403	*2,519*	*2,570*
Class C	125	125	125	*125*	*125*
Interest accrual on junior debt	-	10	-	*-*	*-*
Local authority loans	4	4	3	*3*	*3*
Total net debt	2,359	2,434	2,531	*2,647*	*2,698*
Regulatory capital value (RCV) [1]	3,042	3,310	3,529	*3,695*	*3,808*
Reserves (RCV less total net debt)	683	876	998	*1,048*	*1,110*
Regulatory asset ratio:					
RAR (Senior)	73%	69%	68%	*68%*	*67%*
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	72%	*72%*	*71%*
RAR (Total debt)	78%	74%	72%	*72%*	*71%*

[1] as published by Ofwat (RD 07/08) on 21 April 2008

Income statement

	3 months ended 31 March 2008 £m	Year ended 31 March 2008 £m	*12 months ended 31 March 2007 £m*
Turnover	157.4	622.9	578.0
Operating expenditure	(54.3)	(230.8)	(228.6)
EBITDA	103.1	392.1	349.4
Infrastructure renewals expenditure	(31.5)	(97.5)	(84.1)
Depreciation	(31.0)	(122.3)	(111.8)
Profit on disposal of fixed assets	(0.1)	0.8	-
Operating profit	40.5	173.1	153.5
Interest payable	(46.4)	(171.6)	(159.1)
Interest receivable	4.0	12.2	7.4
Fair value (losses)/gains on financial instruments	(24.4)	(47.9)	45.7
(Loss)/profit before tax	(26.2)	(34.1)	47.5
Deferred taxation	18.4	38.3	(14.2)
(Loss)/profit after tax	(7.8)	4.2	33.3

Balance sheet

	At 31 March 2008 £m	£m	At 31 March 2007 £m	£m
Fixed assets		2,918.5		2,853.9
Current assets and liabilities:				
Debtors and prepayments	117.0		98.8	
Creditors and accruals	(120.4)		(106.4)	
		(3.4)		(7.6)
Total assets less current liabilities		2,915.1		2,846.3
Financing liabilities:				
Bonds	(1,623.0)		(1,592.7)	
Finance leases	(842.4)		(766.8)	
EIB Loan	(130.6)		(135.0)	
Authorised loan facilities	-		-	
Other	(3.0)		(3.2)	
	(2,599.0)		(2,497.7)	
Net interest accrual	(54.0)		(94.1)	
	(2,653.0)		(2,591.8)	
Cash and cash equivalents:				
Receipts account	74.5		66.5	
Payments account	7.6		9.2	
Capex reserves account	-		-	
Debt service payment account	11.2		52.1	
Customer payments account	27.5		27.0	
Other bank accounts	3.3		3.2	
	124.1		158.0	
Net debt		**(2,528.9)**		**(2,433.8)**
Derivative financial instruments		(71.3)		(55.9)
Provisions for liabilities and charges		(6.5)		(14.1)
Net assets before deferred tax		**308.4**		**342.5**
Deferred tax		(350.1)		(388.4)
Net liabilities		**(41.7)**		**(45.9)**

Compliance Certificate

To: Deutsche Trustee Company Limited

Date 10 June 2008

Enquiries, please contact: 01443 452780

Our Ref: NW/cjw

Dear Sirs

Common Terms Agreement dated 10 May 2001 between Dŵr 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 8 November 2007 (being the date of the last published Compliance Certificate) to 11 June 2008 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
Dŵr Cymru Cyfyngedig

C A Jones Director	N C Annett Director