



Investor Report

For the quarter ended 31 December 2001

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General Overview

This is the second quarterly investor report to be published by Glas Cymru Cyf, covering the three months to 31 December 2001. Glas Cymru acquired Welsh Water on 11 May 2001. Where results are shown for Glas Cymru for the year to date, these therefore include the trading performance of Welsh Water during the seven and a half months since acquisition.

Full details of financial and operational performance during the period to 30 September 2001 were given in the first investor report and in the Interim Report and Accounts of Glas Cymru Cyf, both published on 19 November 2001.

Financial Performance

Details of financial performance in the period to 31 December 2001 are included in this report, together with forecasts of financial performance and key financial ratios up to 31 March 2005. These forecasts are unchanged from the September Investor Report but will be updated in the next Investor Report, when the full year results for the year to 31 March 2002 will also be available.

The underlying profit in the quarter was £6.3 million, giving a total for the period to 31 December 2001 of £18.2 million. The derivation of this underlying profit figure is shown below:

	Oct-Dec 2001	Year to date
Underlying profit	6.3	18.2
Add: amortisation of negative goodwill	9.9	23.1
Add: release of acquisition fair value provisions	2.7	6.7
Profit for the period	18.9	48.0

Earnings before interest, tax, depreciation and amortisation (EBITDA) in the quarter were £65.2 million, giving a total for the year to 31 December 2001 of £160.2 million.

Operational Performance

Overall, measures of customer service and environmental quality have continued to achieve very high levels, in many cases ahead of the regulatory targets set out in the Welsh Water monitoring plan submitted to Ofwat in December 2000.

Outsourcing of Operations

No material outsourced contracts have been awarded during the period. Full details of Welsh Water's procurement strategy and the existing operational outsourcing arrangements are given in the Procurement Plan document which is available on the website (www.glascymru.com).

No material contractual issues have occurred during the period.

Capital Investment Programme

Capital expenditure by Welsh Water during the period was £51 million (before capital contributions), bring the total investment in the financial year to date to £128 million. Since 1 April 2000, the start of the 5-year AMP3 period, investment has totalled £336 million.

Financing

There have been no bond issues or other raising of finance during the period. There have been no credit rating changes of the bonds issued by Dwr Cymru (Financing) Limited since their issue on 10 May 2001.

Market evidence suggests that the bonds have continued to trade well over the period, with credit margins having tightened significantly relative to other traded water sector bonds since launch.

Welsh Water is considering a range of options to raise additional finance in the period to 2005 on as efficient a basis as possible. This finance will be primarily to fund the capital expenditure programme over that period.

The Glas Cymru bond issue in May 2001 has been awarded a number of international financial awards during the period, including from Thomson IFR (Financing Package of the Year, European Securitisation, Sterling Bond), Association of Corporate Treasurers (Deals of the Year), and Corporate Finance Magazine (Securitisation of the Year and Most Innovative Transaction).

Corporate Governance

Following recommendations by the independent membership selection panel, 20 further individuals have been appointed as Members of Glas Cymru Cyf.. This brings the total number of Members to 57 (including Directors), which is in line with the published membership policy of the Board. The names and brief background details of members have been published and are available on the website (www.glascymru.com).

Consolidated cashflow (£m)

	3 months ended 31 Dec 2001 (Unaudited)	9 months ended 31 Dec 2001* (Unaudited)
Turnover	115.4	292.1
Less: operating expenses	(50.2)	(131.9)
Earnings before interest, taxation, depreciation and amortisation	65.2	160.2
Working capital movements	(1.1)	(6.1)
Non bond related interest paid	(0.1)	(0.3)
Interest received	3.0	6.7
Net operating cashflow and interest received	67.0	160.5
New borrowings	-	-
Utilisation of reserves:		
Cash utilised from capex reserve	36.7	75.7
Cash utilised from other reserves	-	-
Capital expenditure:		
Acquisition of subsidiary undertakings	-	(4.2)
Sale proceeds from disposal of assets	0.1	1.7
Infrastructure renewal expenditure	(12.8)	(27.8)
Non-infrastructure maintenance	(12.2)	(27.9)
Enhancement expenditure	(29.7)	(63.2)
Net cashflow after capital expenditure, new borrowings and reserve drawings	49.1	114.8
Transfer to debt service payment account	(48.2)	(96.2)
Principal repayments	-	-
Transfer to customer payment account	-	(1.0)
Net cashflow after debt service	0.9	17.6
Free cash balances brought forward	81.9	(0.2)
Free cash balances acquired on acquisition of subsidiary undertakings	-	65.4
Free cash balances carried forward	82.8	82.8

* including results of Welsh Water post acquisition on 11 May 2001

Consolidated debt service payments (£m)

	Amount accrued 31 Dec 01 £m	Payments made in 3 months ending 31 Dec 01 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Liquidity facility interest on drawings	-	-
Liquidity facility repayments	-	-
	0.1	0.1
Senior interest payments:		
Finance lease interest payments	•18.3	-
A1 interest payments	13.6	-
A2 interest payments	-	1.3
A3 interest payments	-	2.4
A4 interest payments	2.5	-
A5 interest payments	0.8	-
B1 interest payments	14.5	-
B2 interest payments	-	1.4
B3 interest payments	1.1	-
B4 interest payments	0.4	-
Authorised loan facilities' commitment fees	0.1	0.1
	51.3	5.2
Interest rate swaps	-	1.9
Junior debt:		
C1 interest payments	6.6	-
C2 interest payments	-	2.3
D interest payments	-	2.6
	6.6	4.9
Total debt service payments	58.0	12.1

* Note: includes interest accrual brought forward on acquisition of £11.3 million

Glas notes principal balance reconciliation

	Opening balance 1 Oct 01 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 Dec 01 £m
Finance leases	172.9	-	-	-	172.9
A1 notes	350.0	-	-	-	350.0
A2 notes	100.0	-	-	-	100.0
A3 notes	200.0	-	-	-	200.0
A4 notes	264.1	-	-	1.7	265.8
A5 notes	84.7	-	-	0.5	85.2
B1 notes	325.0	-	-	-	325.0
B2 notes	100.0	-	-	-	100.0
B3 notes	99.7	-	-	0.6	100.3
B4 notes	34.9	-	-	0.2	35.1
Authorised loan facilities	0.0	-	-	-	0.0
C1 notes	125.0	-	-	-	125.0
C2 notes	125.0	-	-	-	125.0
D notes	100.0	-	-	-	100.0
Local Authority Loans	5.8	-	(0.1)	-	5.7
	<u>2,087.1</u>	<u>-</u>	<u>(0.1)</u>	<u>3.0</u>	<u>2,090.0</u>

Glas bank account movements (£m)

	Opening balance 1 Oct 01	Interest received	Deposits	Payments	Closing balance 31 Dec 01
Debt service payment account:					
Debt service ledger	34.6	-	48.2	(12.1)	70.7
Lease payment ledger	12.0	-	-	-	12.0
Insurance proceeds ledger	0.0	-	-	-	0.0
	<u>46.6</u>	<u>-</u>	<u>48.2</u>	<u>(12.1)</u>	<u>82.7</u>
Capex reserve ledger	126.0	-	10.7	(47.4)	89.3
Customer payments account	1.0	-	-	(0.2)	0.8
Receipts account	40.3	-	116.4	(155.2)	1.5
Payments account	40.6	-	223.6	(206.3)	57.9
Other bank accounts	1.0	1.0	406.4	(385.0)	23.4
	<u>255.5</u>	<u>1.0</u>	<u>805.3</u>	<u>(806.2)</u>	<u>255.6</u>

Interest cover ratio (ICR)

	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	402.4	463.7	478.1	492.8
Operating expenditure	(179.6)	(206.7)	(205.8)	(203.4)
Pre capital maintenance cashflows	222.8	257.0	272.3	289.4
Capital maintenance expenditure	(77.1)	(95.0)	(83.0)	(91.0)
Post capital maintenance cashflows	145.7	162.0	189.3	198.4
Net interest	(106.5)	(126.1)	(131.8)	(136.6)
Capital expenditure	(116.9)	(169.7)	(121.0)	(163.6)
Customer rebates	-	-	(11.0)	(12.0)
Pre-financing cashflows	(77.7)	(133.8)	(74.5)	(113.8)
Interest payable on senior debt:				
Finance leases	9.9	17.0	16.7	16.3
Class A	43.0	48.2	48.5	48.7
Class B	30.4	34.2	34.4	34.5
New debt	-	5.7	7.7	7.8
MBIA wrap fees	4.3	4.8	4.8	4.9
interest & currency swaps	3.0	5.7	5.8	5.9
Authorised loans	-	-	-	-
less interest receivable	(11.5)	(19.7)	(16.4)	(11.7)
Total net senior debt interest	79.1	95.9	101.5	106.4
Interest payable on junior debt:				
Class C	17.0	19.0	19.0	19.0
Class D	9.0	10.0	10.0	10.0
Other	1.4	1.2	1.3	1.2
Total interest payable	106.5	126.1	131.8	136.6
Senior interest cover pre capital maintenance	2.8	2.7	2.7	2.7
Senior interest cover post capital maintenance	1.8	1.7	1.9	1.9
Total interest cover pre capital maintenance	2.1	2.0	2.1	2.1
Total interest cover post capital maintenance	1.4	1.3	1.4	1.5

Regulatory asset ratio

	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	189	319	313	307
Class A	998	1,005	1,012	1,019
Class B	561	564	567	569
New debt	-	203	208	213
Authorised loans	-	-	-	-
Total senior gross debt	1,748	2,091	2,100	2,108
Less: cash balances	(169)	(349)	(257)	(126)
Total senior net debt	1,579	1,742	1,843	1,982
Class C	250	250	250	250
Class D	100	100	100	100
Total net debt	1,929	2,092	2,193	2,332
Regulated asset value	2,136	2,346	2,561	2,732
RAR (Senior)	73.9%	74.3%	72.0%	72.5%
RAR (Senior + C)	85.6%	84.9%	81.7%	81.7%
RAR (Senior + C + D)	90.3%	89.2%	85.6%	85.4%

Profit and loss account (£m)

	3 months ended 30 Dec 2001 (Unaudited)	9 months ended 31 Dec 2001* (Unaudited)
Turnover	115.4	292.1
Operating expenditure	(50.2)	(131.9)
Infrastructure renewals charge	(9.0)	(22.8)
Goodwill amortisation	9.9	23.1
Depreciation	(13.6)	(34.2)
Operating profit	52.5	126.3
Profit on disposal of assets	0.1	1.2
Profit before interest and tax	52.6	127.5
Interest payable	(36.6)	(86.5)
Interest receivable	4.2	9.9
Profit before tax	20.2	50.9
Taxation	(1.3)	(2.9)
Profit after tax	18.9	48.0
Reserves b/fwd	29.1	-
Reserves c/fwd	48.0	48.0

* including results of Welsh Water post acquisition on 11 May 2001

Balance sheet at 31 December 2001 (Unaudited)

	£m	£m	£m
Tangible fixed assets			2,308.4
Negative goodwill			(129.1)
Investments			0.2
			2,179.5
Current assets and liabilities:			
Debtors and prepayments		97.1	
Creditors and accruals		(197.2)	
			(100.1)
Total assets less current liabilities			2,079.4
Financing liabilities:			
Bonds		1,911.4	
Finance leases		172.9	
Authorised loans		-	
Other		5.7	
		2,090.0	
Cash and cash equivalents:			
Receipts account	1.5		
Payments account	81.0		
Capex reserves account	89.3		
Debt service payment account	82.7		
Customer payments account	0.8		
Other bank accounts	0.3		
		(255.6)	
Net debt			(1,834.4)
Deferred income			(38.3)
Provisions for liabilities and charges			(52.1)
Deferred taxation			(106.6)
Net assets			48.0