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Glas Cymru Cyfyngedig

Investor report

For the quarter ended 30 September 2001

Investors Report

Contents

General Overview

This is the first quarterly investor report to be published by Glas Cymru Cyf., covering the six months to 30 September 2001. Glas Cymru acquired Welsh Water on 11 May 2001. The consolidated financial performance reported includes the financial results of Welsh Water for the four and a half months to 30 September 2001. Full details of financial and operational service performance are given in the Interim Report and Accounts of Glas Cymru Cyf., published on 19 November 2001.

Financial Performance

Details of financial performance in the period to 30 September 2001 are included in this report, together with forecasts of financial performance and key financial ratios up to 31 March 2005, which update those forecasts made in the Information Memorandum for the bond issue by Dŵr Cymru (Financing) Limited in May 2001.

Financial performance in the period to date is better than the forecasts made in the Information Memorandum (see the Interim Report and Accounts). Net debt levels are lower than forecast, resulting in expected levels of the key financial ratios at 31 March 2002 which are ahead of expectations:

Period to 31 March 2002	Revised Forecast	Information Memorandum
Senior interest cover pre-capital maintenance	2.8x	2.4x
Senior interest cover post-capital maintenance	1.8x	1.5x
Total net interest cover pre-capital maintenance	2.1x	1.8x
Total net interest cover post-capital maintenance	1.4x	1.2x
Total net debt (year end)	£1,929m	£2,028m
Total net debt to RAV (year end)	90%	92%

Note: RAV = Regulatory Asset Value. Source: Revised forecast – see pages 10 & 11 of this report. Information Memorandum - see page 166.

The financial projections for the 4 years to 31 March 2005 are derived from a post acquisition business plan approved by the Board of Glas Cymru on 5 October 2001. Under this business plan, strong financial performance will continue through the period, resulting in improving financial "reserves" and financial ratios in excess of the levels projected in the Information Memorandum. In particular, the overall measure of financial headroom or "reserves" (defined as Regulatory Asset Value minus net debt) is now projected to rise to £400 million by 31 March 2005, as compared to a target of £340 million.
Other key ratios include:

Year to 31 March 2005	Revised Forecast	Information Memorandum
Senior interest cover pre-capital maintenance	2.7x	2.6x
Senior interest cover post-capital maintenance	1.9x	1.8x
Total net interest cover pre-capital maintenance	2.1x	2.0x
Total net interest cover post-capital maintenance	1.5x	1.4x
Total net debt (year end)	£2,332m	£2,443m
Total net debt to RAV (year end)	85%	88%

Note: RAV = Regulatory Asset Value. Source: Revised forecast – see pages 10 & 11 of this report. Information Memorandum - see page 166.

Operational Performance

Overall, measures of customer service and environmental quality have continued to achieve very high levels, with particularly pleasing improvements in water supply service performance. Service performance is in many cases ahead of the regulatory targets set out in the Welsh Water monitoring plan submitted to Ofwat in December 2000. Further details of operational performance during the period are given in the Interim Report and Accounts.

Outsourcing of Operations

Since the acquisition of Welsh Water by Glas Cymru, the only material contract to be awarded has been the water quality sampling contract, which was awarded to Severn Trent Water following a competitive tendering process. The contract runs until 2005.

A summary of the largest existing Welsh Water operational outsourcing contracts is given below:

Service	Service Provider	Contract End Date
Water supply, water distribution, sewage treatment and disposal	United Utilities	31 March 2005
Sewerage operation	Wessex Water Swansea CC Carmarthenshire CC PGS Atlantic Power	31 March 2004
Customer services	Thames Water	31 March 2005
Water quality sampling	Severn Trent Water	31 July 2005
Laboratory services	Severn Trent Water	5 April 2005
IT Services	Logica	31 March 2005

Good progress has been made in developing a “partnering” relationship with the operational service providers. No material contractual issues have occurred during the period.

Full details of Welsh Water’s procurement strategy and its existing outsourcing arrangements are outlined in the Procurement Plan document which is to be published in November 2001, as required under the terms of the Welsh Water Licence (copies available on the website **www.dwrcymru.com**).

Capital Investment Programme

Capital expenditure by Welsh Water in the 6 months to 30 September 2001 totalled £77 million (before capital contributions). Since 1 April 2000, the start of the 5-year AMP3 period, investment has totalled £285 million.

Further details are given in the Interim Report and Accounts.

Financing

The details of the £1,910 million bond issue completed by Dŵr Cymru (Financing) Limited on 10 May 2001 are given on page 8 of this report. The bond issue was highly successful – being of the order of 70% oversubscribed and achieving real rates of interest well within the cost of capital allowed by Ofwat at the 1999 Periodic Review. There have been no further bond issues or other raising of finance during the period.

There have been no rating changes of the bonds since launch.

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

Welsh Water is considering a range of options to raise the additional finance it needs 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.

In June 2001, Independent Insurance went into provisional liquidation. Welsh Water had arranged its property, business interruption and fidelity guarantee insurance with Independent Insurance, with a prepayment of premiums for the remainder of the year totalling some £600,000. Alternative insurance arrangements that insure the business against risks in line with good industry practice have therefore had to be put in place. Consequential amendments to the Schedule detailing the minimum insurance requirements in the Common Terms Agreement were approved by the Security Trustee on 30 October 2001.

Compliance with Financing Covenants

The compliance certificate sent to the Security Trustee on 19 November 2001 is included on page 14 of this report

Consolidated cashflow

	6 months ended 30 Sept 2001
Turnover	176.7
Less: operating expenses	(81.7)
Earnings before interest, taxation, depreciation and amortisation	**95.0**
Working capital movements	(5.0)
Non bond related interest paid	(0.2)
Interest received	3.7
Net operating cashflow and interest received	**93.5**
New borrowings	-
Utilisation of reserves:	
Cash utilised from capex reserve	39.0
Cash utilised from other reserves	-
Capital expenditure:	
Acquisition of subsidiary undertakings	(4.2)
Sale proceeds from disposal of assets	1.6
Infrastructure renewal expenditure	(15.0)
Non-infrastructure maintenance	(15.7)
Enhancement expenditure	(33.5)
Net cashflow after capital expenditure, new borrowings and reserve drawings	**65.7**
Transfer to debt service payment account	(48.0)
Principal repayments	-
Transfer to customer payment account	(1.0)
Net cashflow after debt service	**16.7**
Free cash balances brought forward	(0.2)
Free cash balances acquired on acquisition of subsidiary undertakings	65.4
Free cash balances carried forward	81.9

Consolidated debt service payments

	Amount accrued £m	Payment due & made £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Liquidity facility interest on drawings	-	-
Liquidity facility repayments	-	-
	0.2	**0.1**
Senior interest payments:		
Finance lease interest payments	16.0*	-
A1 interest payments	8.3	-
A2 interest payments	-	2.2
A3 interest payments	0.1	4.4
A4 interest payments	0.1	3.6
A5 interest payments	-	1.2
B1 interest payments	8.8	-
B2 interest payments	-	2.5
B3 interest payments	-	1.7
B4 interest payments	-	0.6
Authorised loan facilities' interest payments	0.2	0.1
	33.5	**16.3**
Interest rate swaps	-	**1.1**
Junior debt:		
C1 interest payments	4.0	-
C2 interest payments	0.1	3.7
D interest payments	0.1	4.2
	4.2	**7.9**
Total debt service payments	**37.9**	**25.4**

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

Glas notes principal balance reconciliation

	Opening balance £m	Assumed on acquisition £m	Repayment £m	Indexation £m	Closing balance £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	-	265.0	-	(0.9)	264.1
A5 notes	-	85.0	-	(0.3)	84.7
B1 notes	-	325.0	-	-	325.0
B2 notes	-	100.0	-	-	100.0
B3 notes	-	100.0	-	(0.3)	99.7
B4 notes	-	35.0	-	(0.1)	34.9
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	-	-	5.8
	0.0	2,088.7	0.0	(1.6)	2,087.1

Glas bank account movements

	Balance at 11 May £m	Interest received £m	Deposits £m	Payments £m	Balance at 30 September £m
Debt service payment account:					
Debt service ledger	12.0	-	48.0	(25.4)	34.6
Lease payment ledger	12.0	-	-	-	12.0
Insurance proceeds ledger	0.0	-	0.8	(0.8)	0.0
	24.0	-	48.8	(26.2)	46.6
Capex reserve ledger	165.0	-	9.6	(48.6)	126.0
Customer payments account	-	-	3.4	(2.4)	1.0
Receipts account	34.4	-	198.0	(192.1)	40.3
Payments account	31.2	-	281.9	(272.5)	40.6
Other bank accounts	0.6	3.7	1,197.9	(1,201.2)	1.0
	255.2	3.7	1,739.6	(1,743.0)	255.5

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 (RAR)

	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

	Period to date 30 Sep 2001 £m
Turnover	176.7
Operating expenditure	(81.7)
Infrastructure renewals charge	(13.8)
Goodwill amortisation	13.2
Depreciation	(20.6)
Operating profit	**73.8**
Profit on disposal of assets	1.1
Profit before interest and tax	**74.9**
Interest payable	(49.9)
Interest receivable	5.7
Profit before tax	30.7
Taxation	(1.6)
Profit after tax	**29.1**
Reserves b/fwd	-
Reserves c/fwd	29.1

Balance sheet at 30 September 2001

	£m	£m	£m
Tangible fixed assets			2,280.9
Negative goodwill			(139.0)
Investments			0.2
			2,142.1
Current assets and liabilities:			
Debtors and prepayments		117.5	
Creditors and accruals		(198.9)	
			(81.4)
Total assets less current liabilities			2,060.7
Financing liabilities:			
Bonds		1,908.4	
Finance leases		172.9	
Authorised loans		-	
Other		5.8	
		2,087.1	
Cash and cash equivalents:			
Receipts account	40.3		
Payments account	40.6		
Capex reserves account	126.0		
Debt service payment account	46.6		
Customer payments account	1.0		
Other bank account	1.0		
		(255.5)	
Net debt			(1,831.6)
Deferred income			(38.7)
Provisions for liabilities and charges			(56.0)
Deferred taxation			(105.3)
Net assets			29.1

To: Bankers Trustee Company Limited

Date: 19 November 2001

Enquiries, please contact: 01443 452300

Our Ref: NW/cjw

Dear Sirs

Common Terms Agreement dated 10 May 2001 between Dŵr Cymru Cyfyngedig, (DCC) and the Bankers 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 with the "Ratios").

The calculations of the ratios, in so far as they are applicable, are set out on pages 10 and 11 of the Investors Report issued on today's date.

Independent Insurance

On 17 June 2001 one of DCC's insurers, Independent Insurance Company Limited ("Independent"), was placed into provisional liquidation. The DCC Security Trustee and the Beneficiary Instructing Group, subsequently granted a temporary waiver, until 31 October 2001, of any DCC Potential Event of Default or DCC Event of Default that might have occurred as a result of the liquidation of Independent.

On 30 October 2001, the insurance requirements of the Common Terms Agreement were amended. The new insurance policies taken out by DCC following the liquidation of Independent comply with these amended requirements.

Other than the situation described above, we confirm that:
(a) no DCC Potential Event of Default, DCC Event of Default, Potential Trigger Event or Trigger Event has occurred; and
(b) that 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,

C A Jones
Finance Director

R G Curtis
Company Secretary

For and on behalf of
Dŵr Cymru Cyfyngedig