



Investor Report

For the quarter ended 31 December 2002



Investor Report

Contents

	Page
General overview & business update	1
Consolidated cashflow	4
Consolidated debt service payments	5
Glas notes principal balance reconciliation	6
Glas bank account movements	7
Interest cover ratio (ICR)	8
Regulatory asset ratio (RAR)	9
Profit and loss account	10
Balance sheet at 31 Dec 2002	11

General overview & business update

This quarterly investor report covers the 3 month period ending 31 December 2002. The Investor Report is a requirement of the Common Terms Agreement (CTA), which governs the company's obligations to its lenders and investors. The report is directed at existing and potential investors and allows the company's financial performance to be assessed, together with its compliance with the covenants and warranties stipulated by the CTA.

The data in this report is drawn from the same accounting records as the company's statutory accounts but is presented in a modified form for investors as required by the CTA.

Financial Performance in 2002/03

The underlying retained profit for the nine months to 31 December 2002 was £20.2 million. The derivation of this underlying profit figure is shown below:

	Apr-Dec 2002 £m
Underlying profit	20.2
Add: amortisation of negative goodwill	35.2
Add: release of acquisition fair value provisions	6.3
Retained profit for the period	<u>61.7</u>

Earnings before interest, tax, depreciation and amortisation (EBITDA) in the nine months to 31 December 2002 were £198 million.

Performance is in line with published forecasts.

Financial Ratios

As required by the bond documentation, 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.

Financial Forecasts

This report includes forecasts of financial performance and key financial ratios up to 31 March 2005.

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. Further details of performance during the first half of the year are given in the interim statement for Glas Cymru Cyf (which is available from the website (www.glascymru.com) or by request to the Company Secretary).

Outsourcing of Operations

No material contractual issues have occurred 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).

Capital Investment Programme

Capital expenditure by Welsh Water during the nine months was £180 million (before capital contributions). Since 1 April 2000, the start of the 5 year AMP3 period, investment has totalled £595 million.

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 21 November 2002 we completed a £75 million finance lease facility with Sovereign Finance.

During the quarter, £3.8 million was drawn down against the finance lease facilities with Bayerische Landesbank and Sovereign Finance.

As at 31 December 2002, Glas Cymru had cash on deposit and authorised investments totalling £315 million. These funds, together with undrawn finance lease facilities of £106 million and undrawn bank facilities of £150 million, give the company a high level of financial liquidity.

Corporate Governance

Glas Cymru held a regular half-year review meeting with members on 6 December 2002. There was no formal business conducted at the meeting.

Investors Meetings

The company is happy to meet with any investor or potential investor on request to discuss these financial results, operating performance during the year to date and future prospects.

Consolidated cashflow

	3 months ended 31 Dec 2002 (Unaudited)	9 months ended 31 Dec 2002 (Unaudited)
	£m	£m
Turnover	116.4	348.0
Less: operating expenses	(51.4)	(150.5)
Earnings before interest, taxation, depreciation and amortisation	65.0	197.5
Working capital movements	4.2	(37.0)
Non bond related interest paid	(0.5)	(1.3)
Interest received	4.2	10.1
Net operating cashflow and interest received	72.9	169.3
New borrowings	38.8	69.6
Utilisation of reserves:		
Cash transferred to capex reserve	(65.5)	(110.5)
Cash utilised from capex reserve	59.7	129.3
Cash utilised from other reserves	0.7	0.7
Capital expenditure:		
SPA Adjustment	0.0	2.9
Sale proceeds from disposal of assets	0.0	0.4
Infrastructure renewal expenditure	(4.4)	(33.6)
Non-infrastructure maintenance	(27.3)	(57.8)
Enhancement expenditure	(34.3)	(92.5)
Net cashflow after capital expenditure, new borrowings and reserve drawings	40.6	77.8
Transfer to debt service payment account	(36.6)	(108.1)
Principal repayments	(0.1)	(24.3)
Transfer to customer payment account		
Net cashflow after debt service	3.9	(54.6)
Free cash balances brought forward	97.4	155.9
Free cash balances carried forward	101.3	101.3

Consolidated debt service payments

	Amount accrued 31 Dec 02 £m	Payments due & made in 3 months ending 31 Dec 02 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.0
Senior interest payments:		
Finance lease interest payments	23.3	0.0
A1 interest payments	15.9	0.0
A2 interest payments	0.0	1.1
A3 interest payments	0.0	2.2
A4 interest payments	2.4	0.0
A5 interest payments	0.8	0.0
B1 interest payments	16.9	0.0
B2 interest payments	0.0	1.3
B3 interest payments	1.1	0.0
B4 interest payments	0.4	0.0
Authorised loan facilities' commitment fees	0.1	0.1
	60.9	4.7
Interest rate swaps	1.1	2.8
MBIA Fees	(1.2)	0.0
Finance Lease Principal (gross)	0.0	0.5
Finance Lease, VAT on payment	0.0	0.1
Reimbursement of insurance	0.0	0.0
Other fees		0.1
Junior debt:		
C1 interest payments	7.7	0.0
C2 interest payments	0.0	2.0
D interest payments		2.4
	7.7	4.4
Total debt service payments	68.6	12.6

Glas notes principal balance reconciliation

	Opening balance 1 Oct 02 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 Dec 02 £m
Finance leases	317.3	38.8	(0.5)		355.6
A1 notes	350.0				350.0
A2 notes	100.0				100.0
A3 notes	200.0				200.0
A4 notes	267.5			2.0	269.5
A5 notes	85.8			0.6	86.5
B1 notes	325.0				325.0
B2 notes	100.0				100.0
B3 notes	100.9			0.7	101.6
B4 notes	35.3			0.3	35.6
Authorised loan facilities	0.0				0.0
C1 notes	125.0				125.0
C2 notes	125.0				125.0
D notes	76.0				76.0
Local Authority Loans	5.2		(0.1)		5.1
	2,213.0	38.8	(0.6)	3.6	2,254.8

Glas bank account movements

	Opening balance 1 Oct 02 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 Dec 02 £m
Debt service payment account:					
Debt service ledger	32.2		36.6	(12.6)	56.2
Insurance proceeds ledger	0.0		0.0	0.0	0.0
	32.2		36.6	(12.6)	56.2
Capex reserve account	151.7		65.5	(59.7)	157.5
Customer payments account	0.7		7.0	(7.7)	0.0
Receipts account	37.6		114.9	(115.1)	37.4
Payments account	83.8		211.3	(208.8)	86.3
Other bank accounts	(24.0)	3.8	521.7	(523.9)	(22.4)
	282.0	3.8	957.0	(927.8)	315.0

Interest cover ratio (ICR)

	Actual	Forecast		
	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	459.0	474.0	488.0
Operating expenditure	(183.8)	(203.0)	(203.0)	(201.0)
Pre capital maintenance cashflows	222.3	256.0	271.0	287.0
Capital maintenance expenditure	(82.1)	(108.0)	(96.0)	(92.0)
Post capital maintenance cashflows	140.2	148.0	175.0	195.0
Net interest	(104.8)	(122.0)	(130.0)	(136.0)
Capital expenditure	(98.0)	(162.0)	(143.0)	(139.0)
Customer rebates	0.0	0.0	(11.0)	(12.0)
Pre-financing cashflows	(62.6)	(136.0)	(109.0)	(92.0)
Interest payable on senior debt:				
Finance leases	8.7	16.2	17.6	18.0
Class A	43.2	49.0	49.3	49.5
Class B	30.5	34.5	34.6	34.7
New debt	0.0	0.0	0.0	0.0
MBIA wrap fees	4.3	4.8	4.8	4.9
Interest & currency swaps	2.9	4.1	4.2	4.3
Authorised loans	0.0	0.0	0.0	1.5
Less interest receivable	(12.9)	(15.9)	(9.2)	(5.6)
Total net senior debt interest	76.7	92.7	101.3	107.3
Interest payable on junior debt:				
Class C	16.9	19.3	19.3	19.3
Class D	9.0	8.4	7.8	7.8
Other	2.2	1.6	1.6	1.6
Total interest payable	104.8	122.0	130.0	136.0
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.7	2.7
Total interest cover pre capital maintenance	2.1	2.1	2.1	2.1
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.6	1.7	1.8
Total interest cover post capital maintenance	1.3	1.2	1.3	1.4

Regulatory asset ratio (RAR)

	Actual	Forecast		
	As at 31 Mar 2002 £m	As at 31 Mar 2003 £m	As at 31 Mar 2004 £m	As at 31 Dec 2005 £m
Senior gross debt:				
Finance leases	289.0	359.4	378.0	394.9
Class A	1,003.0	1,010.0	1,018.0	1,025.0
Class B	561.0	564.0	566.8	569.6
New debt	0.0	0.0	0.0	0.0
Net interest accrual on senior debt	49.0	4.0	5.0	10.0
Authorised loans	0.0	0.0	0.0	50.0
Total senior gross debt	1,902.0	1,937.4	1,967.8	2,049.5
Less: cash balances and authorised investments	(383.0)	(186.0)	(86.0)	(56.0)
Total senior net debt	1,519.0	1,751.4	1,881.8	1,993.5
Class C	250.0	250.0	250.0	250.0
Interest accrual on Class C	9.1	0.0	0.0	0.0
Class D	100.0	76.0	76.0	76.0
Interest accrual on junior debt	0.0	0.0	0.0	0.0
Local authority loans	5.4	5.4	5.4	5.4
Other interest accruals	0.0	0.0	0.0	0.0
Total net debt	1,883.6	2,082.8	2,213.2	2,324.9
Regulatory capital value (RCV) ^a	2,125	2,337	2,551	2,725
?Reserves? (RCV less total net debt)	241	254	338	400
Regulatory asset ratio:				
RAR (Senior)	72%	75%	74%	73%
RAR (Senior + C) (trigger 90%; default 95%)	83%	86%	84%	82%
RAR (total debt)	87%	89%	87%	85%

^a As published by Ofwat (RD08/02) on 19 March 2002

Profit and loss account

	3 months ended 31 Dec 2002 (Unaudited) £m	9 months ended 31 Dec 2002 (Unaudited) £m
Turnover	116.4	348.0
Operating expenditure	(51.4)	(150.5)
Infrastructure renewals charge	(9.0)	(26.9)
Goodwill amortisation	11.8	35.2
Depreciation	(15.3)	(44.3)
Operating profit	52.5	161.5
Profit on disposal of assets	0.3	3.2
Profit before interest and tax	52.8	164.7
Interest payable	(39.3)	(109.1)
Interest receivable	4.1	12.8
Profit before tax	17.6	68.4
Taxation	0.0	(6.7)
Profit after tax	17.6	61.7
Reserves b/fwd	116.6	72.5
Reserves c/fwd	134.2	134.2

Balance sheet at 31 Dec 2002

	At 31 December 2002		At 31 March 2002	
	£m	£m	£m	£m
Tangible fixed assets		2,460.3		2,358.1
Negative goodwill		(105.8)		(138.0)
Investments		0.0		0.2
		2,354.5		2,220.3
Current assets and liabilities:				
Debtors and prepayments	91.6		76.5	
Creditors and accruals	(140.4)		(171.9)	
		(48.8)		(95.4)
Total assets less current liabilities		2,305.7		2,124.9
Financing liabilities:				
Bonds	(1,894.1)		(1,914.5)	
Finance leases	(355.6)		(288.6)	
Other	(5.1)		(5.4)	
Net interest accrual	(64.0)		(58.9)	
	(2,318.8)		(2,267.4)	
Cash and cash equivalents:				
Receipts account	37.4		57.6	
Payments account	86.3		66.8	
Capex reserves account	157.5		176.3	
Debt service payment account	56.2		49.8	
Customer payments account			0.7	
Other bank accounts	(22.4)		31.5	
	315.0		382.7	
Net debt		(2,003.8)		(1,884.7)
Deferred income		(38.2)		(38.6)
Provisions for liabilities and charges		(46.5)		(52.7)
Deferred taxation		(83.0)		(76.4)
Net assets		134.2		72.5