



Investor Report

For the quarter ended 30 June 2002



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General Overview & Business Update

This quarterly investor report covers the 3 month period ending 30 June 2002. Because Glas Cymru acquired Welsh Water on 11 May 2001, it is not possible to make direct comparisons with the equivalent period during the last financial year.

Financial Performance in 2002/03

The underlying profit for the quarter to 30 June 2002 was £11.4 million. The derivation of this underlying profit figure is shown below:

	Apr-June 2002 £m
Underlying profit	11.4
Add: amortisation of negative goodwill	11.7
Add: release of acquisition fair value provisions	1.8
Profit before tax for the period	<u>24.9</u>

Earnings before interest, tax, depreciation and amortisation (EBITDA) in the quarter to 30 June 2002 were £65.6m.

This financial performance is broadly 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. These reflect the level of RPI inflation at November 2001 (0.9%), which determines the allowed rate of tariff increases in 2002/03, and an assumed future annual rate of RPI inflation of 2%.

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. Full details of performance during last year are disclosed in the Annual Report and Accounts for Glas Cymru Cyf (which is available from the website 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 period was £55.1 million (before capital contributions). Since 1 April 2000, the start of the 5 year AMP3 period, investment has totalled £470.1 million.

Financing

A finance lease facility of £100 million was completed on 31 May 2002 with Bayerische Landesbank, on commercial terms very similar to the previous lease completed with Lombard Leasing.

There have been no credit rating changes of the bonds issued by Dwr Cymru (Financing) Limited since their issue on 10 May 2001.

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 would be primarily to fund the capital expenditure programme over that period.

Corporate Governance

Glas Cymru held its second Annual General Meeting on 5 July 2002. All resolutions proposed were approved by members.

Annual Investors Meeting

Glas Cymru held an annual investors meeting on 8 July to brief its providers of finance on its operational and financial performance during 2001/02 and its plans for the future. The presentation made by Directors can be obtained from the website (www.glascymru.com).

Consolidated cashflow (£m)

3 months ended
30 June 2002
(Unaudited)

Turnover	115.0
Less: operating expenses	(49.4)
Earnings before interest, taxation, depreciation and amortisation	65.6
Working capital movements	(24.1)
Non bond related interest paid	(0.6)
Interest received	2.7
Net operating cashflow and interest received	43.6
New borrowings	30.8
Utilisation of reserves:	
Cash transferred to capex reserve	(38.6)
Cash utilised from capex reserve	33.7
Capital expenditure:	
SPA Adjustment	2.9
Sale proceeds from disposal of assets	0.4
Infrastructure renewal expenditure	(16.4)
Non-infrastructure maintenance	(11.9)
Enhancement expenditure	(32.0)
Net cashflow after capital expenditure, new borrowings and reserve drawings	12.6
Transfer to debt service payment account	(35.5)
Principal repayments	(24.2)
Transfer to customer payment account	-
Net cashflow after debt service	(47.1)
Free cash balances brought forward	155.9
Free cash balances acquired on acquisition of subsidiary undertakings	-
Free cash balances carried forward	108.8

Consolidated debt service payments (£m)

	Amount accrued 30 June 02 £m	Payments made in 3 months ending 30 June 02 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
	0.1	0.1
Senior interest payments:		
Finance lease interest payments	15.3	3.6
A1 interest payments	5.3	18.7
A2 interest payments	-	1.2
A3 interest payments	0.1	2.3
A4 interest payments	2.4	-
A5 interest payments	0.8	-
B1 interest payments	5.6	20.0
B2 interest payments	-	1.4
B3 interest payments	1.1	-
B4 interest payments	0.4	-
Authorised loan facilities' commitment fees	0.1	0.1
	31.1	47.3
Interest rate swaps	0.4	3.8
MBIA Fees	(3.7)	-
Finance Lease Principal (gross)	-	2.1
Finance Lease, VAT on payment	-	0.8
Junior debt:		
C1 interest payments	2.6	9.1
C2 interest payments	-	2.1
D interest payments	0.1	1.4
	2.7	12.6
Total debt service payments	30.6	66.7

Glas notes principal balance reconciliation

	Opening balance 1 Apr 02 £m	New Issues £m	Repayment £m	Indexation ¹ £m	Closing balance 30 Jun 02 £m
Finance leases	288.6	30.8	(2.1)	-	317.3
A1 notes	350.0			-	350.0
A2 notes	100.0			-	100.0 ²
A3 notes	200.0			-	200.0
A4 notes	267.5			0.0	267.5
A5 notes	85.8			0.0	85.8
B1 notes	325.0			-	325.0
B2 notes	100.0			-	100.0
B3 notes	100.9			0.0	100.9
B4 notes	35.3			0.0	35.3
Authorised loan facilities	-			-	-
C1 notes	125.0			-	125.0
C2 notes	125.0			-	125.0
D notes	100.0		(24.0) ³	-	76.0
Local Authority Loans	5.4		(0.2)	-	5.2
	<u>2,208.5</u>	<u>30.8</u>	<u>(26.3)</u>	<u>-</u>	<u>2,213.0</u>

¹ There is no indexation for the three months to 30 June 2002 because the level of RPI is unchanged for the relevant months.

² As at 30 June 2002, £23 million of A2 notes (AAA/Aaa) were held as an Authorised Investment.

³ On 17 May 2002, £24 million of Class D notes were purchased with the consent of the Beneficiary Instructing Group

Glas bank account movements (£m)

	Opening balance 1 Apr 02	Interest received	Deposits	Payments	Closing balance 30 June 02
Debt service payment account:					
Debt service ledger	47.5	0.1	35.5	(65.4)	17.7
Lease payment ledger	2.3			(2.3)	-
Insurance proceeds ledger	-	-	-	-	-
	<u>49.8</u>	<u>0.1</u>	<u>35.5</u>	<u>(67.7)</u>	<u>17.7</u>
Capex reserve ledger	176.3		38.6	(33.7)	181.2
Customer payments account	0.7		7.0	(7.0)	0.7
Receipts account	57.6		120.3	(143.0)	34.9
Payments account	66.8	1.3	227.2	(197.5)	97.8
Other bank accounts	31.5	1.3	671.9	(728.6)	23.9
	<u>382.7</u>	<u>2.7</u>	<u>1,100.5</u>	<u>(1,177.5)</u>	<u>308.4</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	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	-	-	(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	-	-	-	-
MBIA wrap fees	4.3	4.8	4.8	4.9
Interest & currency swaps	2.9	4.1	4.2	4.3
Authorised loans	-	-	-	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
Interest cover ratio:				
ICR (Senior)	2.9	2.8	2.7	2.7
ICR (Senior + C)	2.4	2.3	2.2	2.3
ICR (Total debt)	2.1	2.1	2.1	2.1
Interest cover ratio post capital maintenance:				
ICR (Senior)	1.8	1.6	1.7	1.8
ICR (Senior + C)	1.5	1.3	1.5	1.5
ICR (Total debt)	1.3	1.2	1.3	1.4

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	289	359	378	395
Class A	1,003	1,010	1,018	1,025
Class B	561	564	567	570
Net interest accrual on senior debt	49	4	5	10
Authorised loans	-	-	-	50
Total senior gross debt	1,902	1,937	1,968	2,050
Less: cash balances and authorised investments	(383)	(186)	(86)	(56)
Total senior net debt	1,519	1,751	1,882	1,994
Class C	250	250	250	250
Class D	100	76	76	76
Interest accrual on junior debt	10	-	-	-
Local authority loans	5	5	5	5
Total net debt	1,884	2,082	2,213	2,325
Regulatory capital value (RCV) ^a	2,125	2,337	2,551	2,725
?Reserves? (RCV less total net debt)	241	255	338	400
Regulatory asset ratio:				
RAR (Senior)	71%	75%	74%	73%
RAR (Senior + C)	84%	86%	84%	82%
RAR (total debt)	89%	89%	87%	85%

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

Profit and loss account (£m)

3 months ended
30 June 2002
(Unaudited)

Turnover	115.0
Operating expenditure	(49.4)
Infrastructure renewals charge	(9.0)
Goodwill amortisation	11.7
Depreciation	(14.0)
Operating profit	54.3
Profit on disposal of assets	0.2
Profit before interest and tax	54.5
Interest payable	(34.0)
Interest receivable	4.4
Profit before tax	24.9
Taxation	0.0
Profit after tax	24.9
Reserves b/fwd	72.5
Reserves c/fwd	97.4

Balance sheet at 30 June 2002

	£m	£m	£m
Tangible fixed assets			2,387.8
Negative goodwill			(129.2)
Investments			0.2
			2,258.8
Current assets and liabilities:			
Debtors and prepayments		89.5	
Creditors and accruals		(181.0)	(91.5)
			2,167.3
Financing liabilities:			
Bonds		(1,890.5)	
Finance leases		(317.3)	
Other		(5.2)	
		(2,213.0)	
Cash and cash equivalents:			
Receipts account	34.9		
Payments account	97.8		
Capex reserves account	181.2		
Debt service payment account	17.7		
Customer payments account	0.7		
Other bank accounts	(23.9)	308.4	
			(1,904.6)
Net debt			(1,904.6)
Deferred income			(38.3)
Provisions for liabilities and charges			(50.6)
Deferred taxation			(76.4)
Net assets			97.4