



## **Investor Report**

**For the quarter ended 31 March 2002**



# Investor Report

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## General Overview & Business Update

This is the third quarterly investor report to be published by Glas Cymru Cyf, covering the three months to 31 March 2002. Glas Cymru acquired Welsh Water on 11 May 2001. The results shown for Glas Cymru, therefore, include the trading performance of Welsh Water during the ten and a half months since acquisition.

Full details of the Directors' Review of the Year, compliance with corporate governance, accounting policies, and financial and operational performance for the year to 31 March 2002 are given in the Annual Report and Accounts of Glas Cymru Cyfyngedig, which will be published in early July.

### Financial Performance in 2001/02

Details of financial performance in the period to 31 March 2002 are included in this report.

The underlying profit in the quarter was £3.0 million, giving a total for the period to 31 March 2002 of £24.1 million. The derivation of this underlying profit figure is shown below:

	<b>Jan-Mar 2002</b>	<b>Year to date</b>
	<b>£m</b>	<b>£m</b>
Underlying profit	3.0	24.1
Add: amortisation of negative goodwill	17.7	40.8
Add: release of acquisition fair value provisions	1.7	8.4
Profit before tax for the period	<u>22.4</u>	<u>73.3</u>

Earnings before interest, tax, depreciation and amortisation (EBITDA) in the quarter were £62.1 million, giving a total for the year to 31 March 2002 of £222.3 million.

## **Financial Forecasts**

This report includes forecasts of financial performance and key financial ratios up to 31 March 2005. The forecasts have been updated since the last Investor Report to reflect the outturn at 31 March 2002, the level of RPI inflation at November 2001 (0.9%), which determines the allowed rate of tariff increases in 2002/03, and some rephrasing of the investment programme. The assumed future annual rate of RPI inflation remains at 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 are disclosed in the Annual Report and Accounts for Glas Cymru Cyf.

## **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](http://www.glascymru.com)).

A 3 year contract for meter installation and maintenance services was let during April 2002 to a joint venture between United Utilities and Atlantic Utility Services. This contract lasts for 3 years and has a value of some £5 million per year.

## **Capital Investment Programme**

Capital expenditure by Welsh Water during the period was £78 million (before capital contributions), bring the total investment in the financial year to £206 million. Since 1 April 2000, the start of the 5 year AMP3 period, investment has totalled £415 million.

## **Financing**

A £120 million finance lease was completed in March 2002 with a leasing subsidiary of Lombard, a part of The Royal Bank of Scotland Group. The financing terms achieved compare very favourably with Glas Cymru's existing sources of funds. A further 3 year finance lease facility of £100 million with similar commercial terms was completed on 31 May 2002 with Bayerische Landesbank.

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

### **Corporate Governance**

The second Annual General Meeting of the members of Glas Cymru Cyf will take place on 5 July 2002. The names and brief background details of members have been published and are available on the website ([www.glascymru.com](http://www.glascymru.com)).

### **Annual Bondholder Meeting**

Glas Cymru plans to hold an annual bondholder 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. Directors of the company will be available to answer questions. There will be no business which requires approval by bondholders. For further details and to register to attend the meeting, please contact Rupert Trefgarne, Smithfield Financial (tel: 020 7903 0672) (e-mail: [rtrefgarne@smithfieldfinancial.com](mailto:rtrefgarne@smithfieldfinancial.com)).

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## Consolidated cashflow (£m)

	3 months ended 31 Mar 2002 (Unaudited)	Year ended 31 Mar 2002*
Turnover	114.0	406.1
Less: operating expenses	(51.9)	(183.8)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>62.1</b>	<b>222.3</b>
Working capital movements	33.4	27.3
Non bond related interest paid	(0.1)	(0.4)
Interest received	4.5	11.2
<b>Net operating cashflow and interest received</b>	<b>99.9</b>	<b>260.4</b>
<b>New borrowings</b>	120.0	120.0
<b>Utilisation of reserves:</b>		
Cash transferred to capex reserve	(120.0)	(120.0)
Cash utilised from capex reserve	33.0	108.7
<b>Capital expenditure:</b>		
Acquisition of subsidiary undertakings	-	(4.2)
Sale proceeds from disposal of assets	1.4	3.1
Infrastructure renewal expenditure	(7.2)	(35.0)
Non-infrastructure maintenance	(19.2)	(47.1)
Enhancement expenditure	(34.8)	(98.0)
<b>Net cashflow after capital expenditure, new borrowings and reserve drawings</b>	<b>73.1</b>	<b>187.9</b>
Transfer to debt service payment account	-	(96.2)
Principal repayments	(0.3)	(0.3)
Transfer to customer payment account	0.3	(0.7)
<b>Net cashflow after debt service</b>	<b>73.1</b>	<b>90.7</b>
Free cash balances brought forward	82.8	(0.2)
Free cash balances acquired on acquisition of subsidiary undertakings	-	65.4
<b>Free cash balances carried forward</b>	<b>155.9</b>	<b>155.9</b>

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

## Consolidated debt service payments (£m)

	Amount accrued 31 Mar 02 £m	Payments made in 3 months ending 31 Mar 02 £m
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.1	0.1
	<b>0.1</b>	<b>0.1</b>
<b>Senior interest payments:</b>		
Finance lease interest payments	15.3	3.4
A1 interest payments	18.8	-
A2 interest payments	-	1.1
A3 interest payments	0.1	2.1
A4 interest payments	0.1	4.7
A5 interest payments	-	1.5
B1 interest payments	20.0	-
B2 interest payments	0.1	1.3
B3 interest payments	-	2.2
B4 interest payments	-	0.8
Authorised loan facilities' commitment fees	0.1	0.1
	<b>54.5</b>	<b>17.2</b>
<b>Interest rate swaps</b>	-	2.5
<b>MBIA Fees</b>	(4.9)	4.9
<b>Finance Lease Principal (gross)</b>	-	6.3
<b>Reimbursement of Insurance</b>	-	0.2
<b>Junior debt:</b>		
C1 interest payments	9.1	-
C2 interest payments	0.1	2.0
D interest payments	0.1	2.3
	<b>9.3</b>	<b>4.3</b>
<b>Total debt service payments</b>	<b>58.9</b>	<b>35.4</b>

## Glas notes principal balance reconciliation

	Opening balance 1 Jan 02 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 Mar 02 £m
Finance leases	172.9	120.0	(4.3)		288.6
A1 notes	350.0				350.0
A2 notes	100.0				100.0*
A3 notes	200.0				200.0
A4 notes	265.8			1.7	267.5
A5 notes	85.2			0.6	85.8
B1 notes	325.0				325.0
B2 notes	100.0				100.0
B3 notes	100.3			0.6	100.9
B4 notes	35.1			0.2	35.3
Authorised loan facilities	-				-
C1 notes	125.0				125.0
C2 notes	125.0				125.0
D notes	100.0				100.0
Local Authority Loans	5.7		(0.3)		5.4
	<u>2,090.0</u>	<u>120.0</u>	<u>(4.6)</u>	<u>3.1</u>	<u>2,208.5</u>

\* As at 31 March 2002, £15m of A2 notes (AAA/Aaa) were held as an Authorised Investment



## Glas bank account movements (£m)

	Opening balance 31 Dec 01	Interest received	Deposits	Payments	Closing balance 31 Mar 02
Debt service payment account:					
Debt service ledger	70.7	2.3	-	(25.5)	47.5
Lease payment ledger	12.0	-	-	(9.7)	2.3
Insurance proceeds ledger	-	-	0.2	(0.2)	-
	<u>82.7</u>	<u>2.3</u>	<u>0.2</u>	<u>(35.4)</u>	<u>49.8</u>
Capex reserve ledger	89.3	-	120.0	(33.0)	176.3
Customer payments account	0.8	-	14.0	(14.1)	0.7
Receipts account	1.5	-	159.8	(103.7)	57.6
Payments account	57.9	-	187.2	(178.3)	66.8
Other bank accounts	23.4	2.2	683.5	(677.6)	31.5
	<u>255.6</u>	<u>4.5</u>	<u>1,164.7</u>	<u>(1,042.1)</u>	<u>382.7</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)
<b>Pre capital maintenance cashflows</b>	<b>222.3</b>	<b>256.0</b>	<b>271.0</b>	<b>287.0</b>
Capital maintenance expenditure	(82.1)	(108.0)	(96.0)	(92.0)
<b>Post capital maintenance cashflows</b>	<b>140.2</b>	<b>148.0</b>	<b>175.0</b>	<b>195.0</b>
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	<b>(62.6)</b>	<b>(136.0)</b>	<b>(109.0)</b>	<b>(92.0)</b>
<b>Interest payable on senior debt:</b>				
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	<b>76.7</b>	<b>92.7</b>	<b>101.3</b>	<b>107.3</b>
<b>Interest payable on junior debt:</b>				
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
<b>Total interest payable</b>	<b>104.8</b>	<b>122.0</b>	<b>130.0</b>	<b>136.0</b>
<b>Interest cover ratio:</b>				
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
<b>Interest cover ratio post capital maintenance:</b>				
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
<b>Senior gross debt:</b>				
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
<b>Total senior gross debt</b>	<b>1,902</b>	<b>1,937</b>	<b>1,968</b>	<b>2,050</b>
<b>Less: cash balances and authorised investments</b>	<b>(383)</b>	<b>(186)</b>	<b>(86)</b>	<b>(56)</b>
<b>Total senior net debt</b>	<b>1,519</b>	<b>1,751</b>	<b>1,882</b>	<b>1,994</b>
Class C	250	250	250	250
Class D	100	76 <sup>♦</sup>	76	76
Interest accrual on junior debt	10	-	-	-
Local authority loans	5	5	5	5
<b>Total net debt</b>	<b>1,884</b>	<b>2,082</b>	<b>2,213</b>	<b>2,325</b>
<b>Regulatory capital value (RCV) <sup>▲</sup></b>	<b>2,125</b>	<b>2,337</b>	<b>2,551</b>	<b>2,725</b>
<b>"Reserves" (RCV less total net debt)</b>	<b>241</b>	<b>255</b>	<b>338</b>	<b>400</b>
<b>Regulatory asset ratio:</b>				
RAR (Senior)	71%	75%	74%	73%
RAR (Senior + C)	84%	86%	84%	82%
RAR (total debt)	89%	89%	87%	85%

<sup>♦</sup> On 17 May 2002, £24m of D bonds were purchased with the consent of the Beneficiary Instructing Group

<sup>▲</sup> As published by Ofwat (RD08/02) on 19 March 2002

## Profit and loss account (£m)

	3 months ended 31 Mar 2002 (Unaudited)	Year ended 31 Mar 2002*
Turnover	114.0	406.1
Operating expenditure	(51.9)	(183.8)
Infrastructure renewals charge	(8.9)	(31.7)
Goodwill amortisation	17.7	40.8
Depreciation	(14.3)	(48.5)
<b>Operating profit</b>	<b>56.6</b>	<b>182.9</b>
Profit on disposal of assets	(0.4)	0.8
<b>Profit before interest and tax</b>	<b>56.2</b>	<b>183.7</b>
Interest payable	(36.8)	(123.3)
Interest receivable	3.0	12.9
<b>Profit before tax</b>	<b>22.4</b>	<b>73.3</b>
Taxation	2.1	(0.8)
<b>Profit after tax</b>	<b>24.5</b>	<b>72.5</b>
Reserves b/fwd	48.0	-
Reserves c/fwd	72.5	72.5

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

## Balance sheet at 31 March 2002

	£m	£m	£m
<b>Tangible fixed assets</b>			2,358.1
<b>Negative goodwill</b>			(138.0)
<b>Investments</b>			0.2
			<u>2,220.3</u>
<b>Current assets and liabilities:</b>			
Debtors and prepayments		76.5	
Creditors and accruals		(230.8)	
			<u>(154.3)</u>
<b>Total assets less current liabilities</b>			<u>2,066.0</u>
<b>Financing liabilities:</b>			
Bonds		(1,914.5)	
Finance leases		(288.6)	
Other		(5.4)	
		<u>(2,208.5)</u>	
<b>Cash and cash equivalents:</b>			
Receipts account	57.6		
Payments account	66.8		
Capex reserves account	176.3		
Debt service payment account	49.8		
Customer payments account	0.7		
Other bank accounts	31.5		
		<u>382.7</u>	
<b>Net debt</b>			<b>(1,825.8)</b>
Deferred income			(38.6)
Provisions for liabilities and charges			(52.7)
Deferred taxation			(76.4)
<b>Net assets</b>			<u><u>72.5</u></u>

## Compliance Certificate

To: Deutsche Trustee Company Limited (formerly Bankers Trustee Company Limited)

**Date:** 12 June 2002

**Enquiries, please contact:**  
01443 452300

**Our Ref:** NW/cjw

Dear Sirs

**Common Terms Agreement dated 10 May 2001 between Dwr 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 8 and 9 of the Investors Report issued on today's date.

We also confirm that, in the period from 19 November 2001 (being the date of the last published Compliance Certificate) to 12 June 2002 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  
Dwr Cymru Cyfyngedig

C A Jones  
Finance Director

N C Annett  
Director