



D Ŵ R C Y M R U
W E L S H W A T E R

INVESTOR UPDATE

Financial Results for the period to March 2002

Agenda

- Financial results for the period ended March 2002 3
- Financial projections to March 2005 8
- Out-sourcing update 12
- Service delivery performance 13
- Glas Cymru strategy 16
- Appendices 17

Report and Accounts

- Results announced on 13 June 2002
- Consolidated financial results for the Glas Cymru group
- Includes Welsh Water's financial results post acquisition
(ie 12 May 2001 to 31 March 2002 - 324 days)
- Main accounting issues – acquisition accounting (negative goodwill and fair value adjustments) and FRS 19 (deferred tax); FRS 17 (pension costs) not a material issue.
- Extensive disclosure of financial and operational performance
- Latest Quarterly Investor Report also published on 13 June 2002

Glas Cymru: Consolidated Profit and Loss

Period ending 31 March 2002

	£m		£m
Turnover	406	Underlying profit	24
Operating costs	<u>(184)</u>	Add: amortisation negative goodwill	41
EBITDA	222	Add: release of fair value provisions	8
Depreciation	(80)	Taxation	<u>(1)</u>
Amortisation of negative goodwill	41	Retained profit for period	73
Profit on disposal of assets	<u>1</u>		
Profit before interest and taxation	184		
Net interest	(110)		
Deferred taxation	<u>(1)</u>		
Retained profit for period	73		

Financial results vs Prospectus forecasts

Period ending 31 March 2002

	Out-turn	Prospectus	Variance
	<i>(restated to 324 days)</i>		
	£m	£m	
Turnover	406	396	
Operating costs	(184)	(186)	
EBITDA	222	209	+6%
Net interest (exl. indexation)	(105)	(115)	
Capital expenditure	(180)	(237)	
Net cashflow	(63)	(142)	
Regulatory capital value*	2,125	2,201	
Net debt	(1,884)	(2,028)	
Financial reserves	241	173	+£68m

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

Financial ratios vs Prospectus forecasts

Period ending 31 March 2002

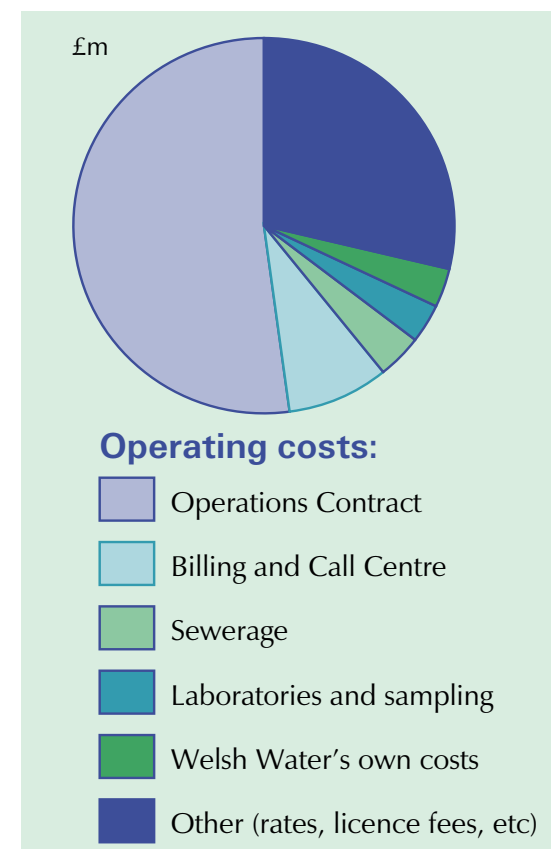
	Out-turn	Prospectus
	<i>(restated to 324 days)</i>	
	£m	£m
Gearing		
- senior debt	72%	76%
- senior debt plus class C bonds	84%	87%
- total debt	89%	92%
Interest cover (EBITDA/net interest)		
- senior debt	2.9x	2.4x
- senior debt plus class C bonds	2.4x	2.0x
- total debt	2.1x	1.8x

Welsh Water financial results

Twelve months ending 31 March 2002

Year ended 31 March	2002	2001
	£m	£m
Turnover	459	441
<i>Regulated</i>	454	436
<i>Unregulated</i>	5	5
Operating costs	(210)	(212)
Depreciation	(90)	(86)
Operating profit before exceptionals	159	143
Exceptional items*	(3)	(12)
Operating profit	155	131

Operating cost efficiency	£m
Operating costs 2000/1	212
Add: RPI	3
Add: costs of new quality standards	4
Add: higher insurance costs	3
Add: cost efficiency gains	(11)
Operating costs 2001/2	210



*Pre-acquisition costs associated with the refinancing of Welsh Water

Financial projections

Period to 31 March 2005

	Investor Report forecast				Prospectus forecast			
	2002 ¹	2003	2004	2005	2002	2003	2004	2005
Income	406	459	474	488	446	456	474	490
Operating expenditure	(184)	(203)	(203)	(201)	(210)	(207)	(205)	(201)
Net interest	(105)	(122)	(130)	(136)	(129)	(135)	(140)	(144)
Net capital expenditure ²	(180)	(270)	(239)	(231)	(267)	(247)	(215)	(275)
Customer rebates	0	0	(11)	(12)	0	0	(11)	(12)
Pre-financing cashflows	(63)	(136)	(109)	(92)	(160)	(133)	(97)	(142)
RCV ³	2,125	2,337	2,551	2,725	2,201	2,397	2,562	2,783
Net debt	(1,884)	(2,082)	(2,213)	(2,325)	(2,028)	(2,173)	(2,284)	(2,443)
Reserves	241	255	338	400	173	224	278	340

Notes:

1. Includes Welsh Water post acquisition (ie 324 days)

2. After capital grants and contributions of £7m pa

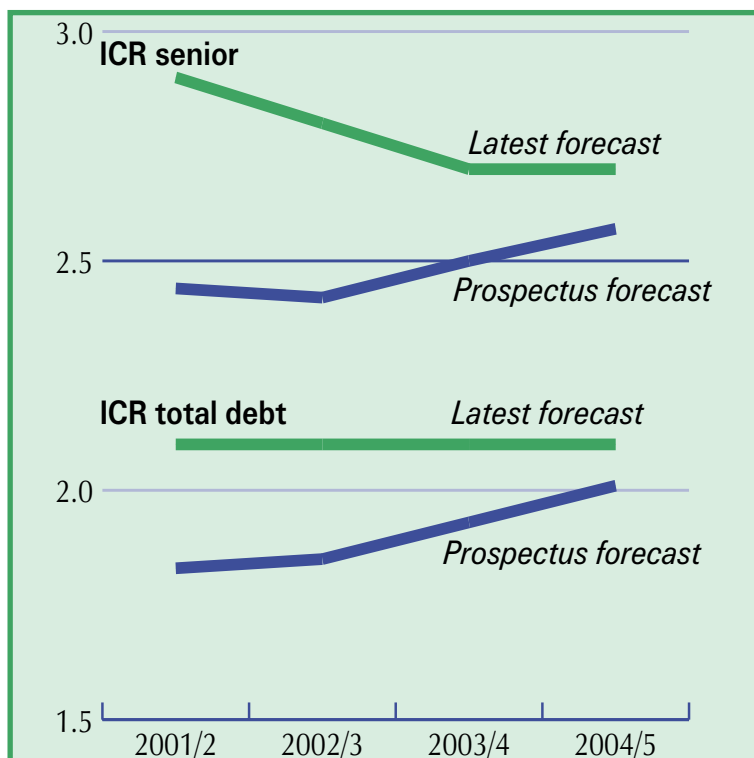
3. As published by Ofwat (RD08/02) on 19 March 2002

NB: RPI assumption is 2% pa compared with 2.5% in Prospectus

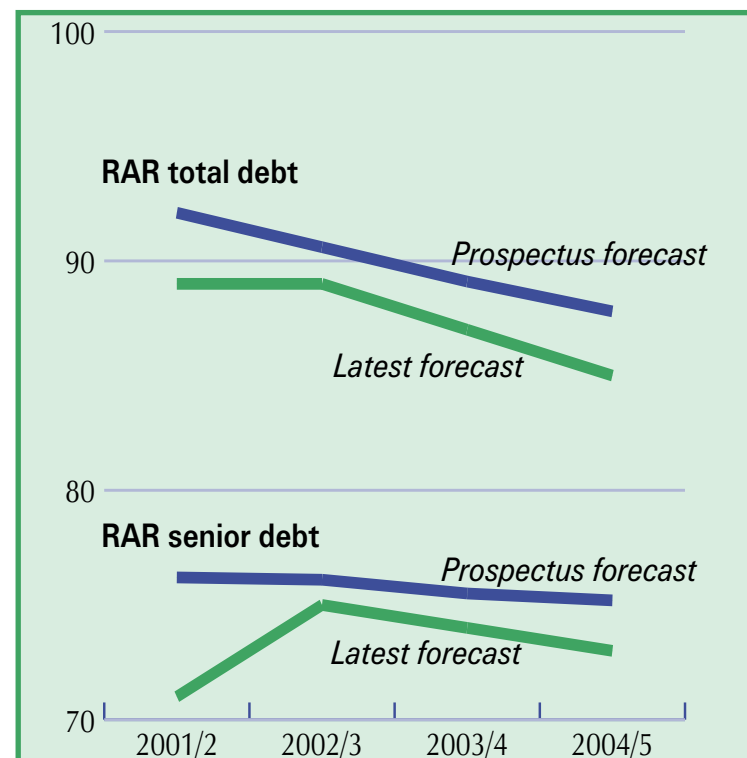
Financial ratios

Period to 31 March 2005

Interest cover ratio



Regulatory asset ratio

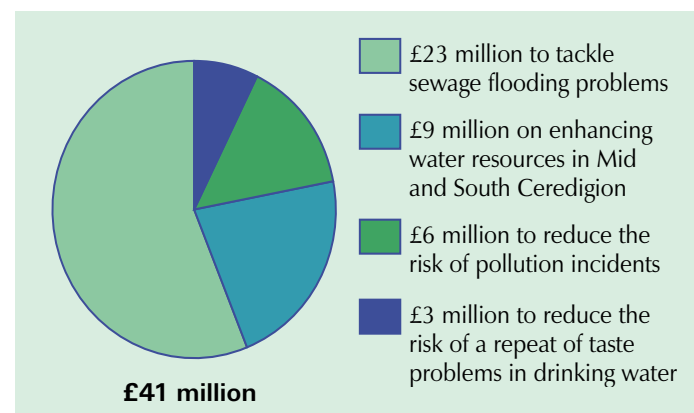
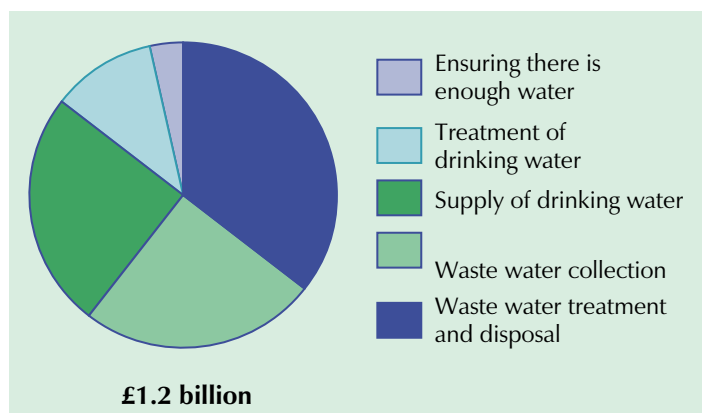


Capital investment programme

Period to 31 March 2005

Year to 31 March	2001	2002	2003	2004	2005	Total
	£m	£m	£m	£m	£m	£m
Ofwat Final Determination*	279	238	237	229	231	1,214
Efficiency savings	(71)	(34)	14	4	7	(80)
Expenditure to achieve Ofwat outputs	208	204	251	233	238	1,134
Additional outputs	0	2	26	13	0	41
Investor Report forecasts	208	206	277	246	238	1,175

* Inflation assumption is 2% pa



Financing plan

Period to 31 March 2005

Year to 31 March	2002	2003	2004	2005
	£m	£m	£m	£m
Gross debt as at 1 April		2,208	2,265	2,294
New debt raised		75	25	75
Debt repaid		(27)	(6)	(8)
Indexation		10	10	10
Gross debt as at 31 March	2,208	2,265	2,294	2,371
Add: accrued interest	59	4	5	10
Less: cash balances	(383)	(186)	(86)	(56)
Net debt	1,884	2,082	2,213	2,325

- £120 million lease facility signed with Lombard in March 2002
- £24 million of class D bonds were purchased on 17 May 2002 with consent of Beneficiary Instructing Group
- £100 million lease facility signed with Bayerische Landesbank in May 2002
- Future financing options include: tap issues, further finance leases, draw down of existing £150 million syndicated bank facility, additional bank facilities

Outsourcing update

- From April 2001, major outsourcing contracts with United Utilities (water and wastewater treatment), Thames Water (customer billing and contact centre), Severn Trent (labs and sampling services), Logica (IT), Wessex Water and others (sewerage)
- 1,800 staff transferred to United Utilities and 350 to Thames Water under TUPE – no adverse impact on terms and conditions
- Partnership agreements with Trade Unions
- New “sewerage alliance” management structure pulls together ten contractors working on the sewerage system
- £5m pa. contract for metering services won by United Utilities and Atlantic Utilities joint venture
- Additional incentivisation to reward KPI outperformance
- Overall, “best ever” levels of service delivered in 2001-02

Summary of levels of service performance

Year to 31 March 2002

	Achieved	Previous		Target	
LEVELS OF SERVICE					
Properties "at risk" of low pressure (DG2)	0.06%	0.11%	✓	0.14%	✓
Properties unplanned interruptions to supply (DG3)	0.14%	0.32%	✓	0.66%	✓
Properties "at risk" of sewage flooding (DG5)	0.03%	0.03%	✓	0.03%	✓
Sewage flooding incidents, hydraulic overload	53	205	✓	n/a	
Sewage flooding incidents, other causes	123	228	✓	n/a	
Billing enquiries answered within 5 days (DG6)	99.9%	99.5%	✓	99.2%	✓
Written complaints answered within 10 days (DG7)	99.1%	99.4%	✗	99.5%	✗
Number of written complaints	18,809	13,076	✗	n/a	
Customer meters read within year (DG8)	99.9%	99.6%	✓	99.7%	✓
Telephone contact answered within 30 seconds (DG9)	98.5%	93.7%	✓	94.6%	✓

Summary of levels of service performance

Year to 31 March 2002

	Achieved	Previous		Target	
WATER QUALITY					
Overall water quality compliance at customers' taps©	99.6%	99.6%	✓	99.6%	✓
Bacteriological compliance at customers' taps©	99.8%	99.7%	✓	n/a	
Iron compliance at customers' taps©	98.8%	98.0%	✓	97.7%	✓
Operational Performance Index	99.5%	99.6%	✗	n/a	
ENVIRONMENT					
Leakage (m ³ /km/d)	9.1	10.2	✓	9.2	✓
Number of "Category 1 and 2" pollution incidents©	22	11	✗	<12	✗
Customers served by compliant wastewater treatment works	99.9%	97.2%	✓	>95%	✓
Wastewater treatment works complying with regulatory standards	99.5%	98.6%	✓	>99%	✓
Sewage sludge recycled satisfactorily	100%	100%	✓	>99%	✓
Compliance with "Mandatory" bathing water quality standard	93.3%	98.7%	✗	98%	✓
Number of bathing waters achieving "Guideline" standard	45	32	✓	n/a	

© Calendar year; all other figures are for financial year ending 31 March

Estimated Ofwat "league table" position

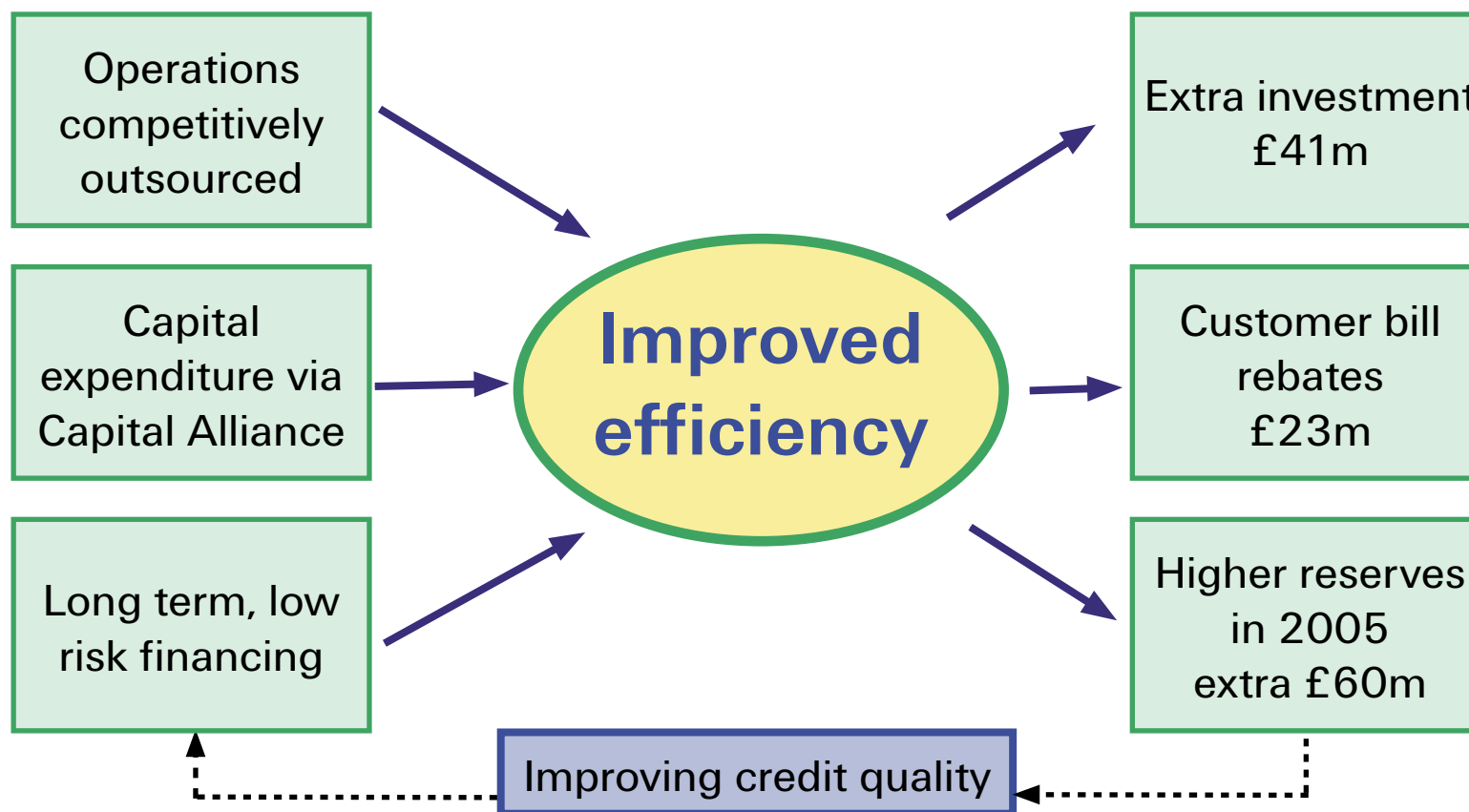
Year to 31 March 2002

	Max. points	2001	2002 (est.)
DG2 – risk of low pressure	37.5	34	37
DG3 – unplanned interruption to supply	37.5	35	37
Hosepipe bans	25	25	25
OPI – overall drinking water quality	50	27.5	5
DG5 - Sewage flooding (capacity)	25	8	22
DG5 - Sewage flooding (other causes)	37.5	20	32
Sewage flooding "at risk" register	12.5	12	12
Customer contact response	37.5	34	35
Customer contact assessed quality	37.5	35	35
EA pollution incidents	12.5	10	1
Sewage treatment works compliance	25	13	25
Bathing beaches pass rate	25	24	21
Satisfactory sea outfalls	12.5	2	2
Satisfactory combined sewer overflows	12.5	4	4
Satisfactory sludge disposal	12.5	12.5	12.5
Leakage	25	20	20
	425	316	326

3 bands:
"good" = 50 pts,
"average" = 27.5 pts
"poor" = 5 pts

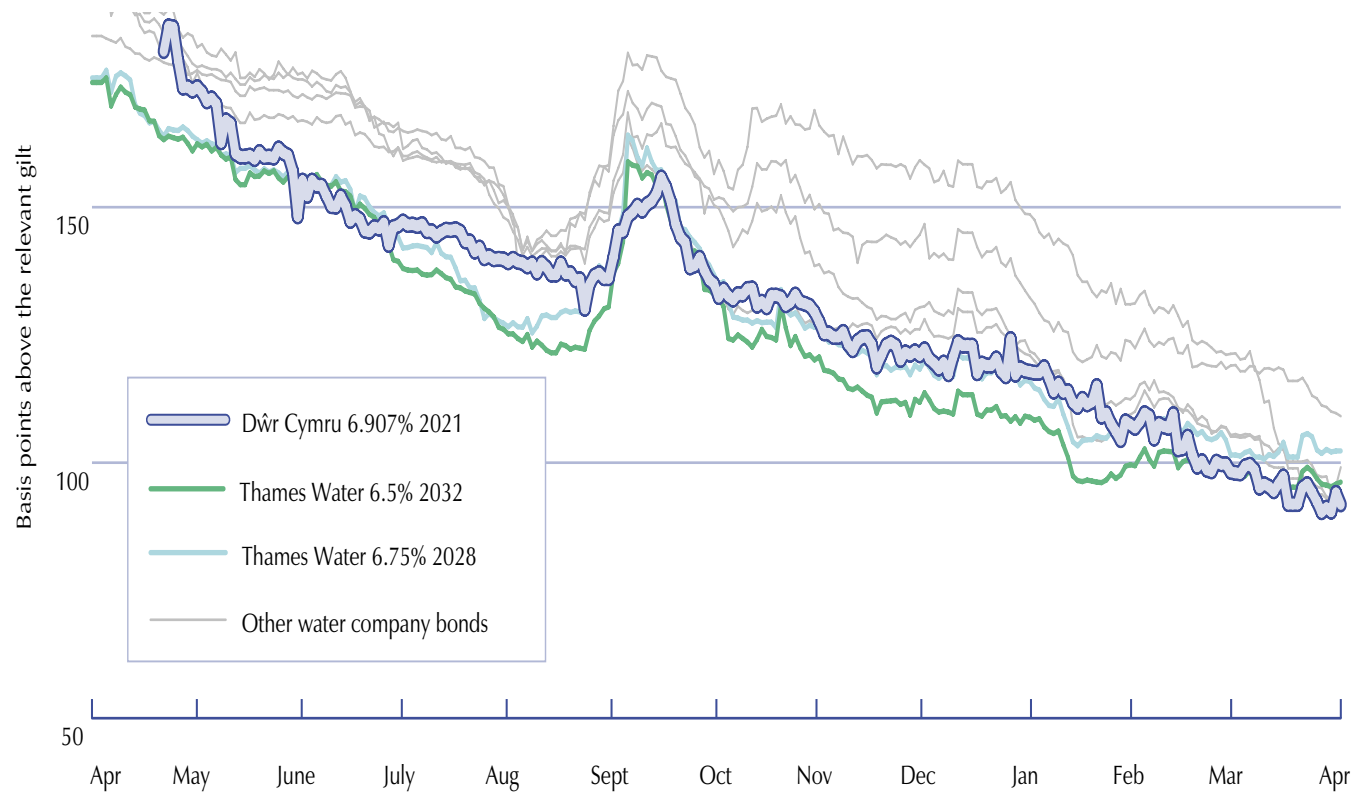
Ofwat's OSPM model is being replaced by a new "OPA" model; impact is unlikely to be material on Welsh Water's league table position

Glas Cymru strategy



Appendix 1

Bond trading since May 2001



Appendix 2

Reconciliation of net debt as at 31 March 2002

		£m	
Original bond issue		1,910.0	
Indexation		4.5	
Finance leases		288.6	
Local authority loans		5.4	
Total debt per CTA		2,208.5	<i>Investor Report page 6</i>
Less: class A bonds held as investment	(15.0)		
Less: unamortised bond issue costs	(12.5)		
Less: finance leases	(288.6)		
Total long term loans per accounts	1,892.4		<i>Note 14(c) to Report and Accounts</i>
Add: interest accrual		59.0	
Less: cash balances and authorised investments		(383.0)	
Total net debt per CTA		1,884.0	<i>Investor Report page 9</i>

Appendix 3

Summary of bond issue in May 2001

Rating	Class	Nominal amount	Type	Interest rate	Expected maturity
AAA/Aaa	A1	£350m	Fixed	6.015%	2028
	A2	£100m	FRN	Libor+37.5bps	2006
	A3	\$286m	FRN	Libor+42bps	2008
	A4	£265m	RPI	3.514%	2030
	A5	£85m	LPI	3.512%	2031
A-/A3	B1	£325m	Fixed	6.907%	2021
	B2	£100m	FRN	Libor+130bps	2008
	B3	£100m	RPI	4.377%	2026
	B4	£35m	LPI	4.375%	2027
BBB/Baa3	C1	£125m	Fixed	8.174%	2011
	C2	£125m	FRN	Libor+250bps	2008
n/a	D	£100m	FRN	Libor+550bps	2008
		£1,910m			