



Investor Report

For the quarter ended 30 June 2003



Important Notice

This report is being distributed in fulfilment of a finance document, the Common Terms Agreement. It is directed to, and intended for existing investors in the company. No other persons should act or rely on it. The company makes no representation as to the accuracy of forecast information. This report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the company. It should be noted that the information in this report has not been reviewed by the company's auditors.

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General overview & business update

This quarterly investor report covers the 3 month period ending 30 June 2003. The Investor Report is a requirement of the Common Terms Agreement (CTA), which governs the company's obligations to its bond holders and other financial creditors. The report enables assessment of the company's past financial performance, 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. Readers should note that the information in this report has not been reviewed by the company's auditors.

Financial Performance in 2002/03

Earnings before interest, tax and depreciation (EBITDA) for the quarter were £65.9 million (£65.6 million). Financial performance continues to be in line with published forecasts.

Profit before tax in the quarter (unaudited) was £10.7 million. This is below the level in the first quarterly investor report for 2002-03, due primarily to the payment of customer rebates from April 2003 and the introduction of higher charges for depreciation and infrastructure renewals, which were reflected in the full-year accounts for 2002-03.

Financial Ratios

As required by the CTA, covenanted financial ratios (regulatory asset ratio and interest cover ratios) are reported for the previous financial year and for the two remaining years until the end of the current 5 year regulatory period. In all cases, the financial ratios comfortably exceed the "trigger levels" as defined in the CTA.

Financial Forecasts

As required by the CTA to demonstrate compliance with prospective financial ratio tests, this report includes forecasts of financial performance and financial ratios up to 31 March 2005, the end of the current regulatory period. These forecasts are derived from Glas Cymru's business plan (which has been prepared by the company) and are in the format specified by the CTA. It is assumed that the annual rate of RPI inflation over the period will be 2%. On this basis, the ratio of total net debt to RCV (RAR) is currently forecast to be reduced to 83% by 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.

In 2001/02, Welsh Water achieved its best ever score of 381 points in Ofwat's published Overall Performance Assessment (OPA), the third best result of the water and sewerage companies. Welsh Water estimates that its OPA score for 2002/03 will have improved even further, although the final results will not be known for certain until they are published by Ofwat later in the year.

Full details of operational performance during the year are given in the Annual Report and Accounts.

Outsourcing of Operations

No material contractual issues have occurred during the period. Welsh Water published an updated version of its Procurement Plan in April 2003, which set out details of its proposed approach to the retendering during 2004 of the operations contract, the customer services contract and the delivery of the capital investment programme. These new contracts, worth some £350 million a year, will come into effect from 1 April 2005. Copies of the Procurement Plan are available on the website (www.dwrcymru.com).

Calls for Competition for these three main contracts were published in the European Journal (OJEC) on 15 May 2003.

Capital Investment Programme

Capital expenditure by Welsh Water during the quarter was £57m, before grants and contributions, which bring the total invested since 1 April 2000 to £742m. Overall, the capital investment programme is on track to deliver the required regulatory outputs by their due dates.

Customer Rebate

Glas Cymru has implemented a customer rebate worth £9 per customer for 2003/04 in accordance with its plans announced in the bond prospectus. In accordance with the CTA, £11.5m has been set-aside in the Customer Rebate Ledger to fund this rebate.

Financing

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

During April 2003, Dwr Cymru (Financing) Limited carried out a first tap issue of index linked bonds (series B3 and B4), at an effective yield of 3.1% (plus RPI or LPI respectively). Net proceeds were around £85 million.

£15.2 million was drawn down under the finance lease facilities on 30 June 2003. This leaves £62.3 million remaining undrawn under these facilities.

Corporate Governance

The third AGM for the members of Glas Cymru took place on 4 July 2003. All resolutions proposed were approved by the members.

Investor Meetings

Glas Cymru held a second annual meeting for investors in London on 14 July 2003.

The company is happy to meet with any investor on request to discuss this investor report and the performance of the company in general.

Consolidated cashflow

	3 months ended 30 June 2003	Year to date 30 June 2003
	£m	£m
Turnover	116.0	116.0
Less: operating expenses	(50.1)	(50.1)
Earnings before interest, taxation, depreciation and amortisation	65.9	65.9
Working capital movements	(9.7)	(9.7)
Interest received	3.9	3.9
Net operating cashflow and interest received	60.1	60.1
New borrowings:		
Principal	85.5	85.5
Net premium on bond issue	14.6	14.6
Utilisation of reserves:		
Cash transferred to capex reserve	(22.5)	(22.5)
Cash utilised from capex reserve	58.2	58.2
Cash utilised from other reserves	3.8	3.8
Capital expenditure:		
Infrastructure renewal expenditure	(15.3)	(15.3)
Non-infrastructure maintenance	(21.0)	(21.0)
Enhancement expenditure	(33.3)	(33.3)
Net cashflow after capital expenditure, new borrowings and reserve drawings	130.1	130.1
Transfer to debt service payment account	(49.0)	(49.0)
Principal repayments	(0.1)	(0.1)
Net cashflow after debt service	81.0	81.0
Free cash balances brought forward	107.0	107.0
Free cash balances carried forward	188.0	188.0

Consolidated debt service payments

	Amount accrued 30 June 2003 £m	Payments due & made in 3 months ending 30 June 2003 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Senior interest payments:		
Finance lease interest payments	16.2	3.0
A1 interest payments	5.2	-
A2 interest payments	-	1.0
A3 interest payments	-	2.0
A4 interest payments	2.4	-
A5 interest payments	0.8	-
B1 interest payments	5.5	-
B2 interest payments	-	1.2
B3 interest payments	1.4	-
B4 interest payments	0.8	-
Authorised loan facilities' commitment fees	0.2	0.1
	32.7	7.4
Interest rate swaps	0.5	4.8
MBIA Fees	(3.6)	4.8
Finance Lease Principal (net)	-	-
Finance Lease, VAT on payment	-	0.5
Reimbursement of insurance	-	-
Other fees	0.3	0.2
Junior debt:		
C1 interest payments	2.5	-
C2 interest payments	-	1.9
D interest payments	-	2.3
Total debt service payments	32.4	21.9

Glas notes principal balance reconciliation

	Opening balance 1 Apr 2003 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 June 2003 £m
Finance leases	381.6	15.2	-	-	396.8
A1 notes	350.0	-	-	-	350.0
A2 notes	100.0	-	-	-	100.0
A3 notes	200.0	-	-	-	200.0
A4 notes	271.5	-	-	1.9	273.4
A5 notes	87.1	-	-	0.6	87.7
B1 notes	325.0	-	-	-	325.0
B2 notes	100.0	-	-	-	100.0
B3 notes	102.4	29.3	-	0.9	132.6
B4 notes	35.8	41.0	-	0.6	77.4
C1 notes	125.0	-	-	-	125.0
C2 notes	125.0	-	-	-	125.0
D notes	76.0	-	-	-	76.0
Local authority loans	4.9	-	(0.1)	-	4.8
	2,284.3	85.5	(0.1)	4.0	2,373.7

Glas bank account movements

	Opening balance 1 Apr 2003 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2003 £m
Debt service payment account:					
Debt service ledger	6.2		49.0	(21.9)	33.3
Insurance proceeds ledger	-		-	-	-
	6.2		49.0	(21.9)	33.3
Capex reserve account	162.7		22.5	(58.2)	123.7
Customer payments account:					
Customer rebate ledger	11.5		-	(3.8)	7.7
General ledger	-		7.0	(7.0)	-
Receipts account	63.1		119.9	(146.9)	36.1
Payments account	62.2		335.9	(222.8)	175.3
Other bank accounts	(18.3)	3.9	1,176.4	(1,185.4)	(23.4)
	287.4	3.9	1,710.7	(1,646.0)	356.0

Interest cover ratio (ICR)

	Actual		Forecast ¹	
	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	462.9	475.6	489.4
Operating expenditure	(183.8)	(202.6)	(202.1)	(200.8)
Pre capital maintenance cashflows	222.3	260.3	273.5	288.6
Capital maintenance expenditure	(82.1)	(137.3)	(90.9)	(89.7)
Post capital maintenance cashflows	140.2	123.0	182.6	198.9
Net interest (excluding indexation)	(104.8)	(119.4)	(130.1)	(132.0)
Capital expenditure	(98.0)	(124.7)	166.1	(134.3)
Customer rebates	-	-	(11.5)	11.5
Pre-financing cashflows	(62.6)	(121.1)	(125.1)	(78.9)
Interest payable on senior debt:				
Finance leases	8.7	12.6	14.7	17.0
Class A	43.2	47.0	47.0	48.8
Class B	30.5	33.8	37.0	37.5
New debt				
MBIA wrap fees	4.3	4.9	4.9	4.9
Interest & currency swaps	2.9	9.9	13.2	6.8
Authorised loans	-	-	-	-
Less interest receivable	(12.9)	(16.7)	(13.8)	(11.2)
Total net senior debt interest	76.7	91.4	103.0	103.8
Interest payable on junior debt:				
Class C	16.9	18.5	18.3	19.0
Class D	9.0	8.0	7.2	7.6
Other	2.2	1.5	1.6	1.6
Total interest payable	104.8	119.4	130.1	132.0
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.7	2.8
Total interest cover pre capital maintenance	2.1	2.2	2.1	2.2
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.3	1.8	1.9
Total interest cover post capital maintenance	1.3	1.0	1.4	1.5

¹ See the Important Notice at the front of the Investor Report

Regulatory asset ratio (RAR)

	Actual		Forecast ¹	
	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	289.0	382.0	408.0	433.0
Class A	1,003.0	1,009.0	1,016.0	1,023.0
Class B	561.0	563.0	652.0	656.0
Net interest accrual on senior debt	49.0	15.0	17.0	17.0
Authorised loans	-	-	-	-
Total senior gross debt	1,902.0	1,968.0	2,093.0	2,129.0
Less: cash balances and authorised investments	(383.0)	(287.0)	(231.0)	(171.0)
Total senior net debt	1,519.0	1,681.0	1,862.0	1,958.0
Class C	250.0	250.0	250.0	250.0
Interest accrual on Class C	9.0	-	-	-
Class D	100.0	76.0	76.0	76.0
Interest accrual on junior debt	-	-	-	-
Local authority loans	5.0	5.0	5.0	5.0
Other interest accruals	-	1.0	-	-
Total net debt	1,884.0	2,013.0	2,193.0	2,289.0
Regulatory capital value (RCV)²	2,125.0	2,362.0	2,578.0	2,754.0
Reserves (RCV less total net debt)	241.0	349.0	385.0	465.0
Regulatory asset ratio:				
RAR (Senior)	71%	71%	72%	71%
RAR (Senior + C) (trigger 90%; default 95%)	83%	82%	82%	80%
RAR (Total debt)	89%	85%	85%	83%

¹ See the Important Notice at the front of the Investor Report

² As published by Ofwat (RD08/03) on 18 March 2003

Profit and loss account

	3 months ended 30 June 2003 (Unaudited) £m	3 months ended 30 June 2002 (Unaudited) £m
Turnover	116.0	115.0
Operating expenses	(50.1)	(49.4)
Infrastructure renewals charge	(13.8)	(9.0)
Goodwill amortisation	11.6	11.7
Depreciation	(16.0)	(14.0)
Operating profit	47.7	54.3
Profit on disposal of assets	-	0.2
Profit before interest and tax	47.7	54.5
Interest payable	(40.2)	(34.0)
Interest receivable	3.2	4.4
Profit before tax	10.7	24.9
Taxation	-	-
Profit after tax	10.7	24.9
Reserves b/fwd	133.3	72.5
Reserves c/fwd	144.0	97.4

Balance sheet at 30 June 2003

	At 30 June 2003		At 31 March 2003	
	£m	£m	£m	£m
Tangible fixed assets		2,525.7		2,500.7
Negative goodwill		(82.4)		(94.0)
Investments		0.0		0.0
		2,443.3		2,406.7
Current assets and liabilities:				
Debtors and prepayments	93.3		69.9	
Creditors and accruals	(165.4)		(164.6)	
		(72.1)		(94.7)
Total assets less current liabilities		2,371.2		2,312.0
Financing liabilities:				
Bonds	(1,972.1)		(1,897.9)	
Finance leases	(396.8)		(381.6)	
Other	(4.8)		(4.9)	
Net interest accrual	(46.9)		(16.1)	
	(2,420.6)		(2,300.5)	
Cash and cash equivalents:				
Receipts account	36.1		63.1	
Payments account	175.3		62.2	
Capex reserves account	127.0		162.7	
Debt service payment account	33.3		6.2	
Customer payments account	7.7		11.5	
Other bank accounts	(23.4)		(18.3)	
	356.0		287.4	
Net debt		(2,064.6)		(2,013.1)
Deferred income		(36.4)		(37.5)
Provisions for liabilities and charges		(42.4)		(44.3)
Deferred taxation		(83.8)		(83.8)
Net assets		144.0		133.3