



## **Investor Report**

**For the quarter ended 31 March 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.

# Investor Report

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## General overview & business update

This quarterly investor report covers the 3 month period ending 31 March 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

2002/03 was the first full year of trading for Glas Cymru. Since Glas Cymru only acquired Welsh Water on 11 May 2001, the effective trading period in 2001/02 was only 324 days. Comparator figures shown below therefore gross up the results for 2001/02 to give an equivalent figure for a full-year.

Summary financial results for the year are as follows:

	2002/03	Annualised 2001/02	Change
	£m	£m	
Turnover	463	458	+1%
Operating costs	(203)	(208)	-2%
EBITDA	260	250	+4%
Net interest (excluding indexation)	(120)	(118)	+2%
Capital expenditure (before grants and contributions)	(271)	(214)	+27%

Net debt (as defined in the CTA) as at 31 March 2003 was £2,013 million, up by £129 million over the year. The Regulatory Capital Value (RCV), as published by Ofwat, increased over the year by £237 million to £2,362 million. As a consequence, the ratio of net debt to RCV was reduced to 85% (as compared to 89% at the previous year end).

	31 March 2003 £m	31 March 2002 £m
Regulatory Capital Value (RCV)	2,362	2,125
Net Debt (CTA definition)	2,013	1,884
Financial “Reserves” (RCV less net debt)	349	241
Regulatory Asset Ratio	85%	89%

This result means that Glas Cymru has succeeded in reducing its level of gearing to below the forecasts made in the Bond Prospectus in May 2001, two years ahead of schedule.

Full details of the financial performance of Glas Cymru during the year can be found in the Annual Report and Accounts, which is available on the website ([www.dwrcymru.com](http://www.dwrcymru.com)) or by request to the Company Secretary.

### **Pension Scheme**

On 29 April 2003, the transfer of employees’ past benefits to the new Dwr Cymru Pension Scheme was substantially completed. The membership of the scheme consists of 136 active members, 1 deferred pensioner and 1 pensioner. The first formal valuation of the new scheme is due in September 2003. The pension cost during the year was £0.9m, representing a company contribution rate of 12% but this will be revisited when the formal valuation is complete.

### **Financial Ratios**

As required by the CTA, 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. In all cases, the financial ratios exceed the “trigger levels” as defined in the CTA.

Ratios of interest cover post capital maintenance expenditure were lower in 2002/03, due to the unusually high proportion of assessed maintenance expenditure within the overall capital expenditure programme for the year. This ratio is forecast to return to trend levels in 2003/04 (see page 9).

## Financial Forecasts

As required by the CTA to demonstrate compliance with prospective financial ratio tests, this report includes revised forecasts of financial performance and key financial ratios up to 31 March 2005, the start of the next 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 (see page 10).

The company is confident that it will meet or exceed its published target of achieving financial "reserves" (RCV less net debt) of £400 million 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](http://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 year was £271 million (before grants and capital contributions). The planned total investment during the 5 year AMP3 period to 31 March 2005 remains £1,175 million. The total invested during the period to date is

£685 million, or 58% of the AMP3 total. Overall, the capital investment programme is on track to deliver 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 of the bonds issued by Dwr Cymru (Financing) Limited since their issue on 10 May 2001.

During the year, new finance lease facilities were completed for £100 million with Bayerische Landesbank and for £75 million with Sovereign Finance. These were on similar terms to the previous finance lease with Lombard Leasing.

During April 2003, Glas Cymru successfully carried out an £85 million tap issue of index linked bonds (series B3 and B4), at a yield of 3.1% (plus RPI or LPI respectively).

As at 31 March 2003, Glas Cymru had cash on deposit and authorised investments totalling £287 million. These funds, together with undrawn finance lease facilities of £77 million and undrawn bank facilities of £150 million, give the company a high level of financial liquidity, totalling some £514 million.

### **Corporate Governance**

The AGM for the members of Glas Cymru will take place on 4 July 2003. The company's "Compliance Certificate" required by the CTA is included as page 13 of this document.

### **Investor Meetings**

Glas Cymru will hold a second annual meeting for investors in London in 14 July 2003. At the meeting, Directors will present a review of performance during the last year and their objectives for the future. Investors are invited to register to attend the meeting by contacting the company (e-mail to [investors@dwrcymru.com](mailto:investors@dwrcymru.com)).

The company is also happy to meet with any individual investor on request to discuss these financial results and operating performance during the year to date.

## Consolidated cashflow

	3 months ended 31 March 2003	12 months ended 31 March 2003
	£m	£m
Turnover	114.9	462.9
Less: operating expenses	(52.1)	(202.6)
<b>Earnings before interest, taxation, depreciation and amortisation</b>	<b>62.8</b>	<b>260.3</b>
Working capital movements	23.6	(13.4)
Non bond related interest paid	(3.2)	(4.5)
Interest received	8.9	19.0
<b>Net operating cashflow and interest received</b>	<b>92.1</b>	<b>261.4</b>
<b>New borrowings</b>	<b>29.4</b>	<b>99.0</b>
<b>Utilisation of reserves:</b>		
Cash transferred to capex reserve	(41.3)	(151.8)
Cash utilised from capex reserve	36.1	165.4
Cash utilised from other reserves	-	0.7
<b>Capital expenditure:</b>		
SPA Adjustment	-	2.9
Sale proceeds from disposal of assets	2.4	2.8
Infrastructure renewal expenditure	(21.1)	(54.7)
Non-infrastructure maintenance	(16.8)	(74.6)
Enhancement expenditure	(26.9)	(119.4)
<b>Net cashflow after capital expenditure, new borrowings and reserve drawings</b>	<b>53.9</b>	<b>131.7</b>
Transfer to debt service payment account	(36.7)	(144.8)
Principal repayments	-	(24.3)
Transfer to customer payment account	(11.5)	(11.5)
<b>Net cashflow after debt service</b>	<b>5.7</b>	<b>(48.9)</b>
Free cash balances brought forward	101.3	155.9
<b>Free cash balances carried forward</b>	<b>107.0</b>	<b>107.0</b>



## Consolidated debt service payments

	Amount accrued 31 March 2003 £m	Payments due & made in 3 months ending 31 March 2003 £m
<b>Liquidity facility:</b>		
Liquidity facility commitment fee	0.2	0.2
<b>Senior interest payments:</b>		
Finance lease interest payments	15.8	7.4
A1 interest payments		21.1
A2 interest payments		1.1
A3 interest payments	0.1	2.2
A4 interest payments		4.8
A5 interest payments		1.5
B1 interest payments		22.5
B2 interest payments		1.3
B3 interest payments		2.2
B4 interest payments		0.8
Authorised loan facilities' commitment fees	0.1	0.1
	16.2	65.0
<b>Interest rate swaps</b>	1.6	2.6
<b>MBIA Fees</b>		
<b>Finance Lease Principal (net)</b>		3.4
<b>Finance Lease, VAT on payment</b>		1.0
<b>Reimbursement of insurance</b>		0.3
<b>Other fees</b>		
<b>Junior debt:</b>		
C1 interest payments		10.2
C2 interest payments		2.0
D interest payments		2.3
<b>Total debt service payments</b>	17.8	87.0

## Glas notes principal balance reconciliation

	Opening balance 1 Jan 2003 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2003 £m
Finance leases	355.6	29.4	(3.4)		381.6
A1 notes	350.0				350.0
A2 notes	100.0				100.0
A3 notes	200.0				200.0
A4 notes	269.5			2.0	271.5
A5 notes	86.5			0.6	87.1
B1 notes	325.0				325.0
B2 notes	100.0				100.0
B3 notes	101.6			0.8	102.4
B4 notes	35.6			0.2	35.8
Authorised loan facilities					
C1 notes	125.0				125.0
C2 notes	125.0				125.0
D notes	76.0				76.0
Local Authority Loans	5.1		(0.2)		4.9
	2,254.9	29.4	(3.6)	3.6	2,284.3

## Glas bank account movements

	Opening balance 1 Jan 2003 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2003 £m
Debt service payment account:					
Debt service ledger	56.2		36.7	(86.7)	6.2
Insurance proceeds ledger	0.0		0.3	(0.3)	0.0
	56.2		37.0	(87.0)	6.2
Capex reserve account	157.5		41.3	(36.1)	162.7
Customer payments account:					
Customer rebate ledger	0.0		11.5	0.0	11.5
Receipts account	37.4		130.4	(104.7)	63.1
Payments account	86.3		162.4	(186.5)	62.2
Other bank accounts	(22.4)	8.9	447.3	(452.1)	(18.3)
	315.0	8.9	829.9	(866.4)	287.4

## Interest cover ratio (ICR)

	Actual		Forecast <sup>1</sup>	
	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)
<b>Pre capital maintenance cashflows</b>	<b>222.3</b>	<b>260.3</b>	<b>273.5</b>	<b>288.6</b>
Capital maintenance expenditure	(82.1)	(137.3)	(90.9)	(89.7)
<b>Post capital maintenance cashflows</b>	<b>140.2</b>	<b>123.0</b>	<b>182.6</b>	<b>198.9</b>
Net interest	(104.8)	(119.4)	(130.1)	(132.0)
Capital expenditure	(98.0)	(124.7)	(166.1)	(134.3)
Customer rebates	0.0	0.0	(11.5)	(11.5)
<b>Pre-financing cashflows</b>	<b>(62.6)</b>	<b>(121.1)</b>	<b>(125.1)</b>	<b>(78.9)</b>
<b>Interest payable on senior debt:</b>				
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
MBIA wrap fees	4.3	4.9	4.9	4.9
Interest & currency swaps	2.9	9.8	13.2	6.8
Authorised loans	0.0	0.0	0.0	0.0
Less interest receivable	(12.9)	(16.7)	(13.8)	(11.2)
<b>Total net senior debt interest</b>	<b>76.7</b>	<b>91.4</b>	<b>103.0</b>	<b>103.8</b>
<b>Interest payable on junior debt:</b>				
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
<b>Total interest payable</b>	<b>104.8</b>	<b>119.4</b>	<b>130.1</b>	<b>132.0</b>
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

<sup>1</sup> See the Important Notice at the front of the Investor Report

## Regulatory asset ratio (RAR)

	Actual		Forecast <sup>1</sup>	
	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	382	408	433
Class A	1,003	1,009	1,016	1,023
Class B	561	563	652	656
Net interest accrual on senior debt	49	15	17	17
Authorised loans	0	0	0	0
<b>Total senior gross debt</b>	<b>1,902</b>	<b>1,968</b>	<b>2,093</b>	<b>2,129</b>
<b>Less: cash balances and authorised investments</b>	<b>(383)</b>	<b>(287)</b>	<b>(231)</b>	<b>(171)</b>
<b>Total senior net debt</b>	<b>1,519</b>	<b>1,681</b>	<b>1,862</b>	<b>1,958</b>
Class C	250	250	250	250
Interest accrual on Class C	9	0	0	0
Class D	100	76	76	76
Interest accrual on junior debt	0	0	0	0
Local authority loans	5	5	5	5
Other interest accruals	0	1	0	0
<b>Total net debt</b>	<b>1,884</b>	<b>2,013</b>	<b>2,193</b>	<b>2,289</b>
Regulatory capital value (RCV) <sup>2</sup>	<b>2,125</b>	<b>2,362</b>	<b>2,578</b>	<b>2,754</b>
<b>"Reserves" (RCV less total net debt)</b>	<b>241</b>	<b>349</b>	<b>385</b>	<b>465</b>
<b>Regulatory asset ratio:</b>				
RAR (Senior)	71%	71%	72%	71%
RAR (Senior + C) (trigger 90%; default 95%)	83%	82%	82%	80%
RAR (total debt)	89%	85%	85%	83%

<sup>1</sup> See the Important Notice at the front of the Investor Report

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

## Profit and loss account

	3 months ended 31 March 2003 £m	12 months ended 31 March 2003 £m
Turnover	114.9	462.9
Operating expenditure	(52.1)	(202.6)
Infrastructure renewals charge	(28.2)	(55.1)
Goodwill amortisation	11.7	46.9
Depreciation	(15.8)	(60.1)
<b>Operating profit</b>	30.5	192.0
Profit on disposal of assets	1.0	4.2
<b>Profit before interest and tax</b>	31.5	196.2
Interest payable	(35.6)	(144.7)
Interest receivable	3.9	16.7
<b>Profit before tax</b>	(0.2)	68.2
Taxation	(0.7)	(7.4)
<b>Profit after tax</b>	(0.9)	60.8
Reserves b/fwd	134.2	72.5
<b>Reserves c/fwd</b>	133.3	133.3

## Balance sheet at 31 March 2003

	At 31 March 2003		At 31 March 2002	
	£m	£m	£m	£m
<b>Tangible fixed assets</b>		2,500.7		2,358.1
<b>Negative goodwill</b>		(94.0)		(138.0)
<b>Investments</b>		0.0		0.2
		<u>2,406.7</u>		<u>2,220.3</u>
<b>Current assets and liabilities:</b>				
Debtors and prepayments	69.9		69.9	
Creditors and accruals	(164.6)		(164.2)	
		(94.7)		(94.3)
<b>Total assets less current liabilities</b>		<u>2,312.0</u>		<u>2,126.0</u>
<b>Financing liabilities:</b>				
Bonds	(1,897.9)		(1,914.5)	
Finance leases	(381.6)		(288.6)	
Other	(4.9)		(5.4)	
Net interest accrual	(16.1)		(60.0)	
		<u>(2,300.5)</u>		<u>(2,268.5)</u>
<b>Cash and cash equivalents:</b>				
Receipts account	63.1		57.6	
Payments account	62.2		66.8	
Capex reserves account	162.7		176.3	
Debt service payment account	6.2		49.8	
Customer payments account	11.5		0.7	
Other bank accounts	(18.3)		31.5	
		<u>287.4</u>		<u>382.7</u>
<b>Net debt</b>		<b>(2,013.1)</b>		<b>(1,885.8)</b>
Deferred income		(37.5)		(38.6)
Provisions for liabilities and charges		(44.3)		(52.7)
Deferred taxation		(83.8)		(76.4)
<b>Net assets</b>		<u><b>133.3</b></u>		<u><b>72.5</b></u>

## Compliance certificate

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

Date: 13 June 2003

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 9 and 10 of the Investors Report issued on today's date.

We also confirm that, in the period from 13 November 2002 (being the date of the last published Compliance Certificate) to 13 June 2003 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