



Investor Report

For the quarter ended 31 March 2004

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 2004. 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 company's statutory accounting records, applying the accounting policies as per 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 2003/04

Summary financial results for the year are as follows:

	2003/04 £m	2002/03 £m	Change
Turnover	469.7	462.9	+1%
Operating costs	210.4	204.0	+3%
EBITDA	259.3	258.9	
Net interest (excluding indexation)	124.0	120.0	
Capital expenditure (before grants and contributions)	271.0	271.0	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) was £259 million, virtually unchanged from the previous year, despite the impact of the payment of the first customer rebates during the year at a cost of some £12 million.

Glas Cymru's turnover in the year to 31 March 2004 was £470 million (2003: £463 million). This increase reflects the RPI+K price increase of 4.6% allowed by Ofwat, partially offset by the payment of customer rebates at a cost of some £12 million and the impact of domestic customers switching to metered charging. Around 32,000 domestic customers switched to metered charging during the year, as compared to some 31,000 in the previous year.

Customer debt recovery remains subject to very close attention by Welsh Water and several successful operational initiatives were carried out during the year by Thames Water, the billing and income services contract partner. Despite a difficult environment, not least because water companies are not allowed to disconnect domestic customers for non payment, cash collection performance in the year was improved. The bad debt charge for the year of £9 million (2003: £10 million) constitutes some 2% of annual turnover.

Glas Cymru's operating costs (excluding depreciation and exceptional items) were £210 million (2003: £204 million). Allowing for inflation and the operating cost impact of new quality standards, this represents an improvement in underlying cost efficiency of around 2% in real terms, continuing the trend over the two previous years. Around three quarters of Glas Cymru's operating costs now result from outsourced service contracts, which came into effect on 1 April 2001.

Capital expenditure by Welsh Water during the year was £271 million, before capital grants and contributions. Total forecast expenditure over the five years of the AMP3 investment programme is unchanged at £1,175 million. Over the first four years of the AMP3 capital investment programme, expenditure has totalled £955 million, or some 81% of the five year total.

Glas Cymru's key measure of financial performance is its level of gearing – the ratio of net debt to Regulatory Capital Value (RCV). Net debt (as defined in the CTA) as at 31 March 2004 was £2,173 million, up by £160 million over the year. The Regulatory Capital Value (RCV), as published by Ofwat, increased over the year by £232 million to £2,594 million. As a consequence, the ratio of net debt to RCV was reduced to 84% (as compared to 85% at the previous year end).

	31 March 2004 £m	31 March 2003 £m
Regulatory Capital Value (RCV)	2,594	2,362
Net Debt (CTA definition)	2,173	2,013
Financial "Reserves" (RCV less net debt)	421	349
Regulatory Asset Ratio	84%	85%

By reducing the level of net debt from 93% on the acquisition of Welsh Water in May 2001 to some 84% as at 31 March 2004, the Company has comfortably outperformed the financial forecasts made in the bond prospectus. The Company now has financial "reserves" (RCV less net debt) of £421 million, achieving a year ahead of schedule its published target of having "reserves" of £400 million by 31 March 2005. This outperformance is due primarily to improved operating cash flow, ongoing capital efficiencies and higher than expected RPI inflation.

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) or by request to the Company Secretary.

Pension Scheme

Following the first formal valuation of the Welsh Water pension scheme, the employers' contribution rate has been fixed at 21.7% - resulting in a total pension cost for the year of £1 million. The Welsh Water pension scheme currently has 138 members.

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.

As expected, ratios of interest cover post capital maintenance expenditure returned to trend levels in 2003/04, following the unusually high proportion of assessed maintenance expenditure within the overall capital expenditure programme in the previous year.

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. 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 11).

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 2002/03, Welsh Water achieved its best ever score of 405 points in Ofwat's published Overall Performance Assessment (OPA), the second highest result for the water and sewerage companies. The Company currently believes that its OPA score for 2003/04 is likely to be at least as high as that in the previous year. The final results will not be known for certain until they are published by Ofwat in the Autumn.

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).

Progress in letting these contracts is in line with the Company's programme. Shortlists of bidders for each of the three types of contract have been drawn up and Welsh Water expects to be able to choose "preferred bidders" in each case later in 2004.

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 £955 million, or 81% 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 further customer rebate worth £9 per customer for 2004/05 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 April 2003, Glas Cymru successfully carried out an £85 million tap issue of index linked bonds (Class B3 and B4), at a yield of 3.1% (plus RPI or LPI respectively).

During the quarter, following approval from the Security Trustee, Welsh Water purchased a further £20 million of Class D bonds, taking its total holding to £44 million. In addition, Welsh Water holds £55 million of Class A2 bonds in an authorised investment.

As at 31 March 2004, Glas Cymru had cash on deposit and authorised investments totalling £280 million. These funds, together with undrawn finance lease facilities of £16 million and undrawn bank facilities of £150 million, give the company a high level of financial liquidity, totalling some £446 million.

Corporate Governance

The AGM for the members of Glas Cymru will take place on 9 July 2004. The company's "Compliance Certificate" required by the CTA is included as page 14 of this document.

Investor Meetings

Glas Cymru will hold a third annual meeting for investors in London on 21 July 2004. 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@dwrwymru.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 2004	12 months ended 31 March 2004
	£m	£m
Turnover	119.0	469.7
Less: operating expenses	(53.7)	(210.4)
Earnings before interest, taxation, depreciation and amortisation	65.3	259.3
Working capital movements	18.6	(7.0)
Interest received	9.7	21.0
Net operating cashflow and interest received	93.6	273.3
New borrowings:		
Principal	17.6	131.5
Net premium on bond issue	-	14.6
Utilisation of reserves:		
Cash transferred to capex reserve	(79.9)	(136.8)
Cash utilised from capex reserve	50.8	180.2
Cash utilised from other reserves	(8.5)	0.1
Capital expenditure:		
Sale proceeds from disposal of assets	1.1	2.8
Infrastructure renewal expenditure	(8.6)	(50.6)
Non-infrastructure maintenance	(11.0)	(61.2)
Enhancement expenditure	(46.0)	(154.5)
Net cashflow after capital expenditure, new borrowings and reserve drawings	9.1	199.4
Transfer to debt service payment account	(37.4)	(146.8)
Principal repayments	(20.2)	(20.5)
Net cashflow after debt service	(48.5)	32.1
Free cash balances brought forward	187.6	107.0
Free cash balances carried forward	139.1	139.1

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2004 £m	Amount accrued 31 March 2004 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.2
Senior interest payments:		
Finance lease interest payments	5.8	19.7
A1 interest payments	21.1	0.1
A2 interest payments	1.1	-
A3 interest payments	2.2	0.1
A4 interest payments	4.9	-
A5 interest payments	1.6	-
B1 interest payments	22.5	0.1
B2 interest payments	1.3	-
B3 interest payments	3.0	-
B4 interest payments	1.7	-
Authorised loan facilities' commitment fees	0.1	0.1
	<hr/> 65.3	<hr/> 20.1
Interest rate swaps	2.6	9.1
Finance lease principal (net)	2.5	-
Finance lease, VAT on payment	0.4	-
Reimbursement of insurance	0.4	-
Junior debt:		
C1 interest payments	10.2	-
C2 interest payments	2.0	-
D interest payments	2.4	-
Total debt service payments	<hr/> 85.9	<hr/> 29.4

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 Jan 2004 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2004 £m
Finance leases		425.2	17.6	(2.5)	-	440.3
A1 notes	AAA/Aaa	350.0	-	-	-	350.0
A2 notes		100.0	-	-	-	100.0
A3 notes		200.0	-	-	-	200.0
A4 notes		277.5	-	-	2.3	279.8
A5 notes		89.0	-	-	1.0	90.0
B1 notes	A-/A3	325.0	-	-	-	325.0
B2 notes		100.0	-	-	-	100.0
B3 notes		134.5	-	-	1.0	135.5
B4 notes		78.6	-	-	0.7	79.3
C1 notes	BBB/Baa3	125.0	-	-	-	125.0
C2 notes		125.0	-	-	-	125.0
D notes	N/a	76.0	-	(20.0)	-	56.0
Local authority loans		4.6	-	(0.2)	-	4.4
		2,410.4	17.6	(22.7)	5.0	2,410.3

Glas bank account movements

	Opening balance 1 Jan 2004 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2004 £m
Debt service payment account:					
Debt service ledger	58.6		37.4	(85.5)	10.5
Insurance proceeds ledger	-		0.4	(0.4)	-
	58.6		37.8	(85.9)	10.5
Capex reserve account	90.2		79.9	(50.8)	119.3
Customer payments account:					
Customer rebate ledger	2.9		11.4	(2.9)	11.4
General ledger	-		7.0	(7.0)	-
Receipts account	39.5		137.3	(113.2)	63.6
Payments account	164.4		196.0	(252.3)	108.1
Other bank accounts	(16.3)	9.7	727.8	(753.8)	(32.6)
	339.3	9.7	1,197.2	(1,265.9)	280.3

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	481.2	489.9
Operating expenditure	(183.8)	(204.0)	(210.4)	(205.3)
Pre capital maintenance cashflows	222.3	258.9	270.8	284.6
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(75.0)
Post capital maintenance cashflows	140.2	121.6	159.8	209.6
Net interest (excluding indexation)	(104.8)	(119.4)	(124.3)	(131.4)
Capital expenditure	(98.0)	(124.7)	(148.7)	(163.0)
Customer rebates	-	-	(11.5)	(11.5)
Pre-financing cashflows	(62.6)	(122.5)	(124.7)	(96.3)
Interest payable on senior debt:				
Finance leases	8.7	12.6	12.8	20.2
Class A	43.2	47.0	46.4	50.4
Class B	30.5	33.8	36.3	38.3
New debt	-	-	-	-
MBIA wrap fees	4.3	4.9	4.8	4.9
Interest & currency swaps	2.9	9.9	15.1	3.7
Authorised loans	-	-	-	-
Less interest receivable	(12.9)	(16.8)	(17.6)	(13.2)
Total net senior debt interest	76.7	91.4	97.8	104.3
Interest payable on junior debt:				
Class C	16.9	18.5	18.1	19.6
Class D	9.0	8.0	6.8	5.9
Other	2.2	1.5	1.6	1.6
Total interest payable	104.8	119.4	124.3	131.4
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.8	2.7
Total interest cover pre capital maintenance	2.1	2.2	2.2	2.2
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.3	1.6	2.0
Total interest cover post capital maintenance	1.3	1.0	1.3	1.6

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

Regulatory asset ratio (RAR)

	Actual			Forecast ²
	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	382	440	453
Class A	1,003	1,009	1,020	1,029
Class B	561	563	640	645
Net interest accrual on senior debt	49	14	43	32
Authorised loans	-	-	-	-
Total senior gross debt	1,902	1,968	2,143	2,159
Less: cash balances and authorised investments	(383)	(287)	(280)	(160)
Total senior net debt	1,519	1,681	1,863	1,999
Class C	250	250	250	250
Interest accrual on Class C	10	-	-	-
Class D	100	76	56	56
Interest accrual on junior debt	-	-	-	-
Local authority loans	5	5	4	4
Other interest accruals	-	1	-	-
Total net debt	1,884	2,013	2,173	2,309
Regulatory capital value (RCV) ^[3]	2,125	2,362	2,594	2,770
Reserves (RCV less total net debt)	241	349	421	461
Regulatory asset ratio:				
RAR (Senior)	71%	71%	72%	72%
RAR (Senior + C) (trigger 90%; default 95%)	83%	82%	81%	81%
RAR (Total debt)	89%	85%	84%	83%

² See the Important Notice at the front of the Investor Report

³ As published by Ofwat (RD05/04) on 10 March 2004

Profit and loss account

	3 months ended 31 March 2004 £m	12 months ended 31 March 2004 £m
Turnover	119.0	469.7
Operating expenditure	(53.7)	(210.4)
Infrastructure renewals charge	(4.7)	(46.0)
Goodwill amortisation	12.1	47.1
Depreciation	(22.0)	(74.7)
Operating profit	50.7	185.7
Profit on disposal of assets	0.6	1.4
Profit before interest and tax	51.3	187.1
Interest payable	(40.7)	(160.8)
Interest receivable	6.3	17.6
Profit before tax	16.9	43.9
Taxation	(3.1)	1.7
Profit after tax	13.8	45.6
Reserves b/fwd	165.1	133.3
Reserves c/fwd	178.9	178.9

Balance sheet at 31 March 2004

	At 31 March 2004		At 31 March 2003	
	£m	£m	£m	£m
Tangible fixed assets		2,636.7		2,500.7
Negative goodwill		(46.9)		(94.0)
		2,589.8		2,406.7
Current assets and liabilities:				
Debtors and prepayments	71.8		69.9	
Creditors and accruals	(158.9)		(164.6)	
		(87.1)		(94.7)
Total assets less current liabilities		2,502.7		2,312.0
Financing liabilities:				
Bonds	(1,965.6)		(1,897.9)	
Finance leases	(440.3)		(381.6)	
Other	(4.4)		(4.9)	
Net interest accrual	(43.0)		(16.1)	
	(2,453.3)		(2,300.5)	
Cash and cash equivalents:				
Receipts account	63.6		63.1	
Payments account	108.1		62.2	
Capex reserves account	119.3		162.7	
Debt service payment account	10.5		6.2	
Customer payments account	11.4		11.5	
Other bank accounts	(32.6)		(18.3)	
	280.3		287.4	
Net debt		(2,173.0)		(2,013.1)
Deferred income		(35.9)		(37.5)
Provisions for liabilities and charges		(32.8)		(44.3)
Deferred taxation		(82.1)		(83.8)
Net assets		178.9		133.3

Compliance certificate

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

Date: 9 June 2004

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 10 and 11 of the Investors Report issued on today's date.

We also confirm that, in the period from 12 November 2003 (being the date of the last published Compliance Certificate) to 9 June 2004 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