



Investor Report

For the quarter ended 30 June 2005



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 three month period ending 30 June 2005. 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 stipulated by the CTA.

The data in this report is drawn from the company's 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.

Financial Performance

Summary financial results for the three month period ended 30 June 2005 are as follows:

	Period to 30 June 2005 £m	Period to 30 June 2004 £m	Change
Turnover	139.2	120.2	+16%
Operating costs	53.5	51.2	+4%
EBITDA	85.7	69.0	+24%
Net interest (excluding indexation)	34.6	35.7	
Capital expenditure (before grants and contributions)	44.7	65.0	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) increased by some 24% to £86 million (2004: £69 million) due primarily to the increase in prices of 17.6% allowed by the price control for the year, offset to some extent by the higher 'customer dividend' for the year of £18 per customer (2004: £9 per customer).

A key measure of Glas Cymru's 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 2005 was £2,305 million, up by £132 million over the year. The Regulatory Capital Value (RCV), at 31 March 2005 as published by Ofwat, increased over the year by £249 million to £2,843 million. As a consequence, the ratio of net debt to RCV was reduced to 81% (as compared to 84% at the previous year end).

	31 March 2005 £m	31 March 2004 £m
Regulatory Capital Value (RCV)	2,843	2,594
Net Debt (CTA definition)	2,305	2,173
Financial "Reserves" (RCV less net debt)	538	421
Regulatory Asset Ratio	81%	84%

By reducing the level of net debt from 93% on the acquisition of Welsh Water in May 2001 to some 81% as at 31 March 2005, the Company has comfortably outperformed the financial forecasts made in the 2001 bond prospectus. This outperformance is due primarily to improved operating cash flow, reduced financing costs, ongoing capital efficiencies and higher than expected RPI inflation.

Full details of the financial performance of Glas Cymru during the year to 31 March 2005 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.

'Customer Dividend'

Glas Cymru has announced an increased 'customer dividend' of £18 per customer for each year from 2005/06 to 2009/10 (2004: £9 per customer). In accordance with the CTA, £23 million has been set-aside in the Customer Rebate Ledger to fund this 'customer dividend' in 2005/06.

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.

Prospective Financial Ratio Tests

As required by the CTA to demonstrate compliance with prospective financial ratio tests, this report includes projected ratios up to 31 March 2010. These projected ratios 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 prospective financial ratios exceed the "trigger levels" as defined in the CTA (see page 13). It should be noted that the company's business plan and the projected ratios have not been reviewed by the company's auditors and the readers attention is drawn to the important notice at the front of this document.

Operational Performance

Overall, measures of customer service and environmental quality have continued to achieve high levels, during the period. Full details of operational performance during the year to March 2005 are given in the Annual Report and Accounts.

In September 2004, Ofwat published its annual report on levels of service for the water and sewerage industry in England and Wales for the year to 31 March 2004. On Ofwat's "Overall Performance Assessment" (OPA), Welsh Water was ranked second, the same as in the previous year. Ofwat also published its OPA for the last two years (2002/03 and 2003/04) combined. On this basis, Welsh Water was ranked first in the industry.

Outsourcing of Operations

No material contractual issues have occurred during the period. Contracts for operations, income and billing and capital investment, worth some £350 million a year, came into effect from 1 April 2005.

Contracts have been awarded to the following companies:

Operations & Capital Maintenance	
Water supply & shared services	United Utilities
Wastewater services (North Wales)	United Utilities
Wastewater services (South Wales)	Kelda Water Services
Income & Billing	Thames Water
Capital Investment	
Water mains rehabilitation	Laing Utilities
Civil engineering	Amec Morrison Construction Ltd Costain Ltd
Process engineering	Meica Process Ltd Black & Veatch Contracting Ltd

Regulatory Price Review

In December 2004 Ofwat published its final determination of price limits for the five years 2005 to 2010. The final price limits and average household bills for Wales determined by Ofwat were as follows:

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Price limit – k factor (%)	-	14.2	3.6	4.1	3.3	2.2
Average household bill (£)	286	323	329	339	347	352

Capital Investment Programme

Capital expenditure by Welsh Water during period was £45 million (before capital grants and contributions), bringing the total expenditure over the AMP4 period to £45 million.

Ofwat have allowed for an investment programme by Welsh Water of £1,145 million (at 2002/03 prices) in order to meet its regulatory requirements over the period. These requirements include the maintenance of current service levels, further significant improvements in the protection of the environment as required by Government and a major programme to address the sewage flooding of properties.

Financing

On 31 March 2005, following approval by the Security Trustee, Dwr Cymru (Financing) Ltd (DCFL) called and cancelled the £100 million Class D1 bonds.

On 15 April 2005 Moody's announced an upgrade to the rating of the Class C1 and Class C2 bonds from Baa3 to Baa2.

On 29 April 2005, DCFL entered into a seven year financing facility with Fortis Bank for £75 million. DCFL followed this on 9 May 2005 by signing a five year financing facility for £305 million with a group of banks comprising The Royal Bank of Scotland, Barclays, HSBC, Bayerische Landesbank, ING and Sumitomo Mitsui Banking Corporation (Europe). These banking facilities give the Company flexible access to funds at rates competitive with the prevailing rates available in the bond market. The previous £150 million syndicated bank facilities were cancelled on the same day.

Given the strong liquidity position of the Company and the change in the prevailing rates of interest in the capital markets since May 2001, notice was given on 16 May 2005 for the call and early redemption on 30 June 2005 of the following bond series:

- US\$286 million (£200 million) Class A3, expected maturity March 2008
- £100 million Class B2, expected maturity March 2008
- £125 million Class C2, expected maturity March 2008

This repurchase of bonds was financed from existing cash resources and by an initial draw-down under the financing facilities of £192 million.

As at 30 June 2005 undrawn bank and leasing facilities amounted to £188 million and £14 million respectively.

On 22 July 2005 the Group agreed a new £30 million long life asset lease facility with a leasing subsidiary of Lloyds TSB. £22 million of this facility was drawn down on 29 July 2005

International Financial Reporting Standards (IFRS)

Glas Cymru will implement IFRS for the financial year ending 31 March 2006 (including restating the comparatives for 2005). This means that the results for the six months to 30 September 2005 will be reported under IFRS. The adoption of IFRS will impact on the group's reported results and balance sheet but represents an accounting change only and will not affect the underlying cashflows or financial position of the group. A commentary on the most significant areas of change is included in the Annual Report and Accounts.

Corporate Governance

The AGM for the members of Glas Cymru took place on 8 July 2005. All motions proposed by the Board were approved by members. The appointment of Jim O'Sullivan as Operations Director of Glas Cymru and Welsh Water was announced on 25 July 2005. He will join the Boards in September 2005. Mr O'Sullivan, aged 46, was previously Safety and Engineering Director of NGT.

Investor Meetings

Glas Cymru held a fourth annual meeting for investors in London on 13 July 2005. At the meeting, Directors presented a review of performance during the last year and their objectives for the future.

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

Consolidated cashflow

	3 months ended 30 June 2005	3 months ended 30 June 2004
	£m	£m
Turnover	139.2	120.2
Less: operating expenses	(53.5)	(51.2)
Earnings before interest, taxation, depreciation and amortisation	85.7	69.0
Working capital movements	(22.8)	(6.3)
Non bond related interest received /(paid)	(0.1)	-
Interest received	6.0	1.8
Net operating cashflow and interest received	68.8	64.5
New borrowings:		
Finance leases	6.1	14.5
Authorised loan facility	192.0	-
Utilisation of reserves:		
Cash transferred to capex reserve	(20.0)	(19.4)
Cash utilised from capex reserve	41.4	42.9
Cash utilised from other reserves	5.8	2.9
Capital expenditure:		
Sale proceeds from disposal of assets	0.2	0.1
Infrastructure renewal expenditure	(12.3)	(11.0)
Non-infrastructure maintenance	(10.1)	(13.4)
Enhancement expenditure	(33.6)	(33.7)
Net cashflow after capital expenditure, new borrowings and reserve drawings	238.3	47.4
Transfer to debt service payment account	(42.5)	(36.0)
Principal repayments	(425.1)	-
Termination cost on early redemption of swap	-	(6.9)
Net cashflow after debt service	(229.3)	4.5
Free cash balances brought forward	244.4	139.1
Free cash balances carried forward	15.1	143.6

Consolidated debt service payments

	Payments due & made in 3 months ending 30 June 2005 £m	Amount accrued 30 June 2005 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Senior interest payments:		
Finance lease interest payments	4.0	21.1
A1 interest payments	-	5.5
A2 interest payments	1.4	-
A3 interest payments	2.6	-
A4 interest payments	-	2.6
A5 interest payments	-	0.8
B1 interest payments	-	5.8
B2 interest payments	1.6	-
B3 interest payments	-	1.5
B4 interest payments	-	0.9
EIB loan	0.5	0.1
Swap break costs	0.5	-
Authorised loan facilities' commitment fees	0.1	0.1
Authorised loan facilities' arrangement fees	0.6	-
Miscellaneous fees	0.1	-
	11.4	38.4
Interest rate swaps	1.2	-
MBIA fees	4.7	(3.5)
Finance lease, VAT on payment	0.7	-
Senior interest payments	18.2	35.0
Junior debt:		
C1 interest payments	-	2.7
C2 interest payments	2.3	-
Total debt service payments	20.5	37.7

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 April 2005 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 June 2005 £m
Finance leases		631.5	6.1			637.6
A1 notes	AAA/Aaa	350.0				350.0
A2 notes		100.0				100.0
A3 notes		200.0		(200.0)		-
A4 notes		288.3			1.7	290.0
A5 notes		92.5			0.4	92.9
B1 notes	A-/A3	325.0				325.0
B2 notes		100.0		(100.0)		-
B3 notes		139.9			1.0	140.9
B4 notes		81.6			0.4	82.0
C1 notes	BBB/Baa2	125.0				125.0
C2 notes		125.0		(125.0)		-
D notes	n/a	-				-
Local authority loans		4.1		(0.1)		4.0
Authorised loan facility		35.0	192.0			227.0
		2,597.9	198.1	(425.1)	3.5	2,374.4

Glas bank account movements

	Opening balance 1 April 2005 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2005 £m
Free cash balances:					
Receipts account	59.6		154.4	(212.4)	1.6
Payments account	172.4		477.3	(639.9)	9.8
Other bank accounts	12.4	6.0	1,301.4	(1,316.1)	3.7
	244.4	6.0	1,933.1	(2,168.4)	15.1
Debt service payment account:					
Debt service ledger	1.6		42.5	(20.5)	23.6
	1.6		42.5	(20.5)	23.6
Capex reserve account	56.0		20.0	(41.4)	34.6
Customer payments account:					
Customer rebate ledger	23.1		0.0	(5.8)	17.3
	325.1	6.0	1,995.6	(2,236.1)	90.6

Interest cover ratio (ICR) – Actuals to 31 March 2005

	Actual			
	Period to 31 Mar 2002	Year to 31 Mar 2003	Year to 31 Mar 2004	Year to 31 Mar 2005
	£m	£m	£m	£m
Income	406.1	462.9	481.2	505.6
Operating expenditure	(183.8)	(204.0)	(210.4)	(210.3)
Pre capital maintenance cashflows	222.3	258.9	270.8	295.3
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(85.7)
Post capital maintenance cashflows	140.2	121.6	159.8	209.6
Net interest (excluding indexation)	(104.8)	(119.4)	(124.3)	(122.7)
Capital expenditure	(98.0)	(124.7)	(148.7)	(142.0)
Customer rebates	-	-	(11.5)	(11.5)
Pre-financing cashflows	(62.6)	(122.5)	(124.7)	(66.6)
Interest payable on senior debt:				
Finance leases	8.7	12.6	12.8	12.5
Class A	43.2	47.0	46.4	50.0
Class B	30.5	33.8	36.3	37.8
New debt	-	-	-	-
MBIA wrap fees	4.3	4.9	4.8	4.7
Interest & currency swaps	2.9	9.9	15.1	8.3
Authorised loans	-	-	-	0.5
Less interest receivable	(12.9)	(16.8)	(17.6)	(19.1)
Total net senior debt interest	76.7	91.4	97.8	94.7
Interest payable on junior debt:				
Class C	16.9	18.5	18.1	19.5
Class D	9.0	8.0	6.8	5.8
Other	2.2	1.5	1.6	2.7
Total interest payable	104.8	119.4	124.3	122.7
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.9	2.8	2.8	3.1
Total interest cover pre capital maintenance	2.1	2.2	2.2	2.4
Senior interest cover post capital maintenance (trigger 1.1)	1.8	1.3	1.6	2.2
Total interest cover post capital maintenance	1.3	1.0	1.3	1.7

Interest cover ratio (ICR) – Projections to 31 March 2010

(See important notice at the front of the document)

	Year to 31 Mar 2005 £m	Year to 31 Mar 2006 £m	Year to 31 Mar 2007 £m	Year to 31 Mar 2008 £m	Year to 31 Mar 2009 £m	Year to 31 Mar 2010 £m
Income	505.6	560	584	612	636	656
Operating expenditure	(210.3)	(226)	(225)	(228)	(232)	(238)
Pre capital maintenance cashflows	295.3	334	359	384	404	418
Capital maintenance expenditure	(85.7)	(107)	(107)	(123)	(122)	(112)
Post capital maintenance cashflows	209.6	227	252	261	282	306
Net interest (excluding indexation)	(122.7)	(138)	(132)	(136)	(137)	(136)
Capital expenditure	(142.0)	(110)	(145)	(136)	(114)	(112)
Customer rebates	(11.5)	(23)	(23)	(23)	(23)	(23)
Pre-financing cashflows	(66.6)	(44)	(48)	(34)	8	35
Interest payable on senior debt:						
Finance leases	12.5	29	30	30	30	30
Class A	50.0	51	35	35	36	36
Class B	37.8	38	32	36	36	36
New debt	0.0	0	0	0	0	0
MBIA wrap fees	4.7	5	4	4	4	4
Interest & currency swaps	8.3	4	4	4	2	2
Authorised loans	0.5	4	17	20	20	19
Less interest receivable	(19.1)	(14)	(2)	(4)	(3)	(3)
Total net senior debt interest	94.7	117	120	125	125	124
Interest payable on junior debt:						
Class C	19.5	19	10	10	10	10
Class D	5.8	-	-	-	-	-
Other	2.7	2	2	2	2	2
Total interest payable	122.7	138	132	137	137	136
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	2.9	3.0	3.1	3.2	3.4
Total interest cover pre capital maintenance	2.4	2.4	2.7	2.8	2.9	3.1
Senior interest cover post capital maintenance (trigger 1.1)	2.2	1.9	2.1	2.1	2.3	2.5
Total interest cover post capital maintenance	1.7	1.6	1.9	1.9	2.1	2.2

Regulatory asset ratio (RAR) – Actuals to 31 March 2005

	Actual			
	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	632
Class A	1,003	1,009	1,020	1,031
Class B	561	563	640	646
Net interest accrual on senior debt	49	14	43	32
Authorised loans	-	-	-	35
Total senior gross debt	1,902	1,968	2,143	2,376
Less: cash balances and authorised investments	(383)	(287)	(280)	(325)
Total senior net debt	1,519	1,681	1,863	2,051
Class C	250	250	250	250
Interest accrual on Class C	10	-	-	-
Class D	100	76	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	2,305
Regulatory capital value (RCV)	2,125	2,362	2,594	2,843
Reserves (RCV less total net debt)	241	349	421	538
Regulatory asset ratio:				
RAR (Senior)	71%	71%	72%	72%
RAR (Senior + C) (trigger 90%; default 95%)	83%	82%	82%	81%
RAR (Total debt)	89%	85%	84%	81%

Regulatory asset ratio (RAR) – Projections to 31 March 2010

(See important notice at the front of the document)

	As at 31 Mar 2005 £m	As at 31 Mar 2006 £m	As at 31 Mar 2007 £m	As at 31 Mar 2008 £m	As at 31 Mar 2009 £m	As at 31 Mar 2010 £m
Senior gross debt:						
Finance leases	632	629	625	621	616	609
Class A	1,031	738	746	754	762	770
Class B	646	551	605	610	614	619
Net interest accrual on senior debt	32	37	41	45	47	49
Authorised loans	35	365	364	414	412	386
Total senior gross debt	2,376	2,320	2,382	2,443	2,451	2,433
Less: cash balances and authorised investments	(325)	(26)	(21)	(20)	(20)	(20)
Total senior net debt	2,051	2,294	2,361	2,423	2,431	2,413
Class C	250	125	125	125	125	125
Interest accrual on Class C	-	-	-	-	-	-
Class D	-	-	-	-	-	-
Interest accrual on junior debt	-	-	-	-	-	-
Local authority loans	4	4	4	4	4	4
Total net debt	2,305	2,423	2,490	2,552	2,560	2,542
Regulatory capital value (RCV) ^[1]	2,843	3,031	3,210	3,364	3,487	3,577
Reserves (RCV less total net debt)	538	608	720	812	927	1,035
Regulatory asset ratio:						
RAR (Senior)	72%	76%	73%	72%	70%	67%
RAR (Senior + C) (trigger 90%; default 95%)	81%	80%	77%	76%	73%	71%
RAR (Total debt)	81%	80%	78%	76%	73%	71%

^[1] as published by Ofwat (RD 07/05) On 22 April 2005

Profit and loss account (UK GAAP)

	3 months ended 30 June 2005	3 months ended 30 June 2004
	£m	£m
Turnover	139.2	120.2
Operating expenditure	(53.5)	(51.2)
EBITDA	85.7	69.0
Infrastructure renewals charge	(12.4)	(11.5)
Goodwill amortisation	-	11.7
Depreciation	(18.2)	(18.3)
Operating profit	55.1	50.9
Profit on disposal of assets	0.2	0.1
Profit before interest and tax	55.3	51.0
Interest payable	(43.0)	(39.3)
Interest receivable	4.8	3.6
Profit before tax	17.1	15.3
Taxation	-	-
Profit after tax	17.1	15.3
Reserves b/fwd	264.1	179.0
Reserves c/fwd	281.2	194.3

Balance sheet at 30 June 2005 (UK GAAP)

	At 30 June 2005		At 31 March 2005	
	£m	£m	£m	£m
Tangible fixed assets		2,755.0		2,744.7
		2,755.0		2,744.7
Current assets and liabilities:				
Debtors and prepayments	94.1		75.6	
Creditors and accruals	(106.0)		(125.3)	
		(11.9)		(49.7)
Total assets less current liabilities		2,743.1		2,695.0
Financing liabilities:				
Bonds	(1,505.8)		(1,927.3)	
Finance leases	(637.6)		(631.5)	
Authorised loan facility	(227.0)		(35.0)	
Other	(4.0)		(4.1)	
	(2,374.4)		(2,597.9)	
Net interest accrual	(52.6)		(32.0)	
	(2,427.0)		(2,629.9)	
Cash and cash equivalents:				
Receipts account	1.6		59.6	
Payments account	9.8		172.4	
Capex reserves account	34.6		56.0	
Debt service payment account	23.6		1.6	
Customer payments account	17.3		23.1	
Other bank accounts	3.7		12.4	
	90.6		325.1	
Net debt		(2,336.4)		(2,304.8)
Deferred income		(34.0)		(33.5)
Provisions for liabilities and charges		(19.4)		(20.5)
Deferred taxation		(72.1)		(72.1)
Net assets		281.2		264.1