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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 30 September 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.

Contents

General overview & business update

This quarterly investor report covers the three month period ending 30 September 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

Financial performance over the six month period was broadly in line with expectations with gearing (net debt/regulatory capital value) at 30 September 2005 of some 80% (as compared to some 93% on the acquisition of Welsh Water in may 2001).

Summary financial results for the six month period ended 30 September 2005 are as follows:

	Period to 30 September 2005 £m	Period to 30 September 2004 £m	Change
Turnover	275.2	245.2	+12%
Operating costs	106.2	104.0	+2%
EBITDA	**169.0**	**141.2**	+20%
Net interest (excluding indexation)	66.5	66.2	
Capital expenditure (before grants and contributions)	106.5	121.0	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) increased by some 20% to £169 million (2004: £141 million) due primarily to the increase in prices of 17.3% 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). Profit after taxation (but before the fair value movements on financial instruments) was £19.4 million (2004: £9 million).

Turnover in the six months to 30 September 2005 was £275 million, as compared to £245 million in the six months to 30 September 2004. The increase reflects the RPI+K increase in prices of 17.3% allowed by Ofwat less the increase in the 'customer dividend' for the year from £9 per customer to £18 per customer. In the 12 months period to 30 September 2005, 29,000 domestic customers switched to metered charging (2004: 31,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £106 million (2004: £104 million), slightly less than last year in real terms. Around 70% of operating costs are accounted for by the competitively procured operating contracts, which came into effect on 1 April 2005.

Net interest payable in the period (excluding fair value movements) was £73 million (2004: £72 million), including an indexation charge on index linked debt of £7 million (2004: £6 million).

Full details of the financial performance of Glas Cymru during the six months to 30 September 2005 can be found in the Interim Accounts, which is available on the website (www.glascymru.com) or by request to the Company Secretary.

Prospective Financial Ratio Tests

As required by the CTA to demonstrate compliance with prospective financial ratio tests (regulatory asset ratio and interest cover ratios), 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 pages 10 and 12). 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.

Customer service, water quality and environmental quality

In September, Ofwat published its Annual Report on Levels of Service for the Water Industry in England and Wales for the year to 31 March 2005. On Ofwat's "Overall Performance Assessment", Welsh Water was ranked joint first, with Yorkshire Water, compared to second last year. This outstanding performance reflects a sustained commitment to improving services for customers. Prior to its acquisition by Glas Cymru, Welsh Water was ranked just seventh in 2000/01.

Outsourcing of operations

No material contractual issues have occurred during the period.

Capital Investment Programme

Capital investment (including infrastructure renewals expenditure) was £107 million before grants and contributions (2004: £121 million). Expenditure to date is in-line with Welsh Water's £1.2 billion AMP4 capital investment programme to deliver regulatory targets for service and environmental improvements.

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.

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.

As at 30 September 2005 undrawn bank and leasing facilities amounted to £264 million and £18 million respectively.

On 20 October 2005 further lease facilities of £30 million and £10 million were agreed with leasing subsidiaries of The Royal Bank of Scotland and Alliance & Leicester respectively.

International Financial Reporting Standards (IFRS)

On 22 September 2005, Glas Cymru published its “IFRS adoption document”. The main effects of the adoption of IFRS are on non cash items, including deferred tax, changes in the current value of derivatives and the depreciation of infrastructure assets.

Glas Cymru purchases financial instruments to achieve economic hedges in respect of its borrowings so that a high proportion of its borrowings are at fixed interest rates. The introduction of the new International Accounting Standards (IFRS) requires specific tests to be met in order to achieve hedge accounting for purposes of the financial statements. As the current hedges achieve economic effectiveness and comply with our hedging policy, the financial instruments have not been reconfigured to satisfy the requirements of IFRS. Accordingly, the balance sheet includes the fair market value of swaps with the change in value between balance sheet dates recognised in the income statement. For the six months ended 30 September 2005, this means that a £34 million non-cash “book loss” (2004: £3.4 million profit) has been charged to the income statement. Over the life of the interest rate swaps, these fair value adjustments will reverse and reduce to zero.

At 30 September 2005, the balance sheet includes a provision for deferred tax of £379 million (Sept 2004: £379 million) reflecting the temporary differences between the carrying value and tax base of the group’s assets and liabilities. IFRS, unlike UK GAAP, does not permit the discounting of deferred tax liabilities. Consequently, IFRS has increased the reported deferred tax provision by some £300 million. The Group does not expect these provisions to crystallise into significant actual tax liabilities in the foreseeable future.

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. In September 2005 Jim O’Sullivan joined the Board as Operations Director of Glas Cymru and Welsh Water. 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 Sept 2005 £m	6 months ended 30 Sept 2005 £m	*6 months ended 30 Sept 2004 £m*
Turnover	136.0	275.2	*245.2*
Less: operating expenses	(52.7)	(106.2)	*(104.0)*
Earnings before interest, taxation, depreciation and amortisation	83.3	169.0	*141.2*
Working capital movements	(18.1)	(40.9)	*(19.2)*
Non bond related interest received /(paid)	(0.1)	(0.2)	*(0.4)*
Interest received	1.7	7.7	*6.6*
Net operating cashflow and interest received	66.8	135.6	*128.2*
New borrowings:			
Finance leases	49.3	55.4	*14.5*
Authorised loan facilities	(76.6)	115.4	-
Utilisation of reserves:			
Cash transferred to capex reserve	(35.9)	(55.9)	*(19.8)*
Cash utilised from capex reserve	63.2	104.6	*90.1*
Cash utilised from other reserves	5.7	11.5	*5.7*
Capital expenditure:			
Sale proceeds from disposal of assets	(0.1)	0.1	*0.3*
Infrastructure renewal expenditure	(8.5)	(20.8)	*(22.8)*
Non-infrastructure maintenance	(12.9)	(23.0)	*(27.8)*
Enhancement expenditure	(32.0)	(65.6)	*(75.9)*
Net cashflow after capital expenditure, new borrowings and reserve drawings	19.0	257.3	*92.5*
Transfer to debt service payment account	(52.8)	(95.3)	*(72.0)*
Principal repayments	0.0	(425.1)	*(0.1)*
Termination cost on early redemption of swap	-	-	*(6.9)*
Net cashflow after debt service	(33.8)	(263.1)	*13.5*
Free cash balances brought forward	15.1	244.4	*139.1*
Free cash balances carried forward	(18.7)	(18.7)	*152.6*

Consolidated debt service payments

	Payments due & made in 3 months ending 30 Sept 2005 £m	Amount accrued 30 Sept 2005 £m
Liquidity facility:		
Liquidity facility commitment fee	-	0.1
Senior interest payments:		
Finance lease interest payments	-	21.1
A1 interest payments	-	10.6
A2 interest payments	1.3	-
A4 interest payments	5.1	-
A5 interest payments	1.7	-
B1 interest payments	-	11.3
B3 interest payments	3.1	-
B4 interest payments	1.8	-
EIB loan	0.4	0.1
Authorised loan interest	1.8	-
Authorised loan facilities' commitment fees	0.1	0.1
Miscellaneous fees	0.2	-
	15.5	43.3
nterest rate swaps	1.5	-
MBIA fees	-	(2.3)
Finance lease Principal (Nett)	0.6	-
Finance lease, VAT on payment	0.1	-
Senior interest payments	17.7	41.0
Junior debt:		
C1 interest payments	-	5.2
Total debt service payments	17.7	46.2

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 July 2005 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 Sept 2005 £m
Finance leases		637.6	50.0	(0.7)		686.9
A1 notes	AAA/Aaa	350.0				350.0
A2 notes		100.0				100.0
A3 notes		-				-
A4 notes		290.0			1.6	291.6
A5 notes		92.9			0.4	93.3
B1 notes	A-/A3	325.0				325.0
B2 notes		-				-
B3 notes		140.9			1.0	141.9
B4 notes		82.0			0.3	82.3
C1 notes	BBB/Baa2	125.0				125.0
C2 notes		-				-
D notes	n/a	-				-
Local authority loans		4.0				4.0
Authorised loan drawdowns		227.0		(76.6)		150.4
		2,374.4	50.0	(77.3)	3.3	2,350.4

Glas bank account movements

	Opening balance 1 July 2005 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 Sept 2005 £m
Free cash balances:					
Receipts account	1.6		132.0	(129.3)	4.3
Payments account	9.8		267.7	(304.1)	(26.6)
Other bank accounts	3.7	1.7	915.0	(916.8)	3.6
	15.1	1.7	1,314.7	(1,350.2)	(18.7)
Debt service payment account:					
Debt service ledger	23.6		52.8	(17.7)	58.7
	23.6		52.8	(17.7)	58.7
Capex reserve account	34.6		35.9	(63.2)	7.3
Customer payments account:					
Customer rebate ledger	17.3		-	(5.7)	11.6
	90.6	1.7	1,403.4	(1,436.8)	58.9

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

	Actual			
	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	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%	74%	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**

Income Statement

	3 months ended 30 Sept 2005	6 months ended 30 Sept 2005	*6 months ended 30 Sept 2004*
	£m	£m	*£m*
Turnover	136.0	275.2	*245.2*
Operating expenditure	(52.7)	(106.2)	*(104.0)*
EBITDA	83.3	169.0	*141.2*
Infrastructure renewals expenditure	(10.5)	(19.7)	*(18.1)*
Depreciation	(24.3)	(48.6)	*(45.6)*
Profit on disposal of fixed assets	0.1	0.3	*0.3*
Operating profit	48.6	101.0	*77.8*
Interest payable	(36.3)	(79.6)	*(77.8)*
Interest receivable	1.5	6.3	*5.9*
Fair value (losses)/gains on financial instruments	0.7	(33.9)	*3.4*
Profit before tax	14.5	(6.2)	*9.3*
Taxation	(4.4)	1.9	*2.6*
Profit after tax	10.1	(4.3)	*11.9*

Balance sheet at 30 September 2005

	At 30 Sept 2005		At 31 March 2005	
	£m	£m	£m	£m
Non current assets		2,757.3		2,725.3
		2,757.3		2,725.3
Current assets and liabilities:				
Debtors and prepayments	94.7		75.6	
Creditors and accruals	(101.1)		(125.2)	
		(6.4)		(49.6)
Total assets less current liabilities		2,750.9		2,675.7
Financing liabilities:				
Bonds	(1,509.1)		(1,878.8)	
Finance leases	(686.9)		(631.5)	
Authorised loan facilities	(150.4)		(35.0)	
Other	(4.0)		(4.1)	
	(2,350.4)		(2,549.4)	
Net interest accrual	(68.3)		(32.0)	
	(2,418.7)		(2,581.4)	
Cash and cash equivalents:				
Receipts account	4.3		59.6	
Payments account	(26.6)		172.4	
Capex reserves account	7.3		56.0	
Debt service payment account	58.7		1.6	
Customer payments account	11.6		23.1	
Other bank accounts	3.6		12.4	
	58.9		325.1	
Net debt		(2,359.8)		(2,256.3)
Derivative financial instruments		(102.2)		(116.8)
Provisions for liabilities and charges		(10.0)		(17.5)
Net assets before deferred tax		278.9		285.1
Deferred tax		(378.5)		(380.4)
Net liabilities		(99.6)		(95.3)

Compliance Certificate

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

Date: 11 November 2005

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 12 of the Investors Report issued on today's date.

We also confirm that, in the period from 8 June 2005 (being the date of the last published Compliance Certificate) to 11 November 2005 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
Director

N C Annett
Director