Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 December 2006

Important Notice

This report is being distributed in fulfilment of a document, the Common Terms Agreement (CTA), which governs the company's obligations to its bond holders and other financial creditors. 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 (or any other information in this report, other than as set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. 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. For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in Article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as it relates to bonds which are already admitted to trading on a relevant market).

Contents

General overview & business update

This quarterly investor report covers the three month period ending 31 December 2006. 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 nine month period was broadly in line with expectations with gearing (net debt/regulatory capital value) at 31 December 2006 of some 76% (as compared to some 93% on the acquisition of Welsh Water in May 2001).

Summary financial results for the nine month period ended 31 December 2006 are as follows:

	Period to 31 December 2006 £m	Period to 31 December 2005 £m	Change
Turnover	434.0	414.3	+4.8%
Operating costs	177.6	161.5	+10.0%
EBITDA	**256.4**	**252.8**	+1.4%
Net interest (excluding indexation and amortisation)	99.5	97.1	
Capital expenditure (before grants and contributions)	183.2	167.0	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) increased by some 1.4% to £256 million (2005: £253 million) due primarily to the increase in prices of 6% allowed by the price control for the year, offset to some extent by higher operating costs for the period. Profit after taxation (but before the fair value movements on financial instruments) was £13.4 million (2005: £29.6 million).

Turnover in the nine months to 31 December 2006 was £434 million, as compared to £414 million in the nine months to 31 December 2005. The increase reflects the RPI+K increase in prices of 6% allowed by Ofwat less the increase in the 'customer dividend' for

the year from £18 per customer to £19 per customer. In the 9 month period to 31 December 2006, 18,000 domestic customers switched to metered charging (2005: 23,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £178 million (2005: £162 million). The increase is primarily due to higher power costs (£9 million) and higher rates charges (£3 million). Excluding these items, the increase is broadly in line with inflation.

Net interest payable in the period (excluding fair value movements) was £112 million (2005: £111 million), including an indexation charge on index-linked debt of £13million (2005: £12 million).

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 8 to 11). 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 reader's 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 2006 are given in the Annual Report and Accounts.

On 7 November 2006, 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 2006. On Ofwat's "Overall Performance Assessment" (OPA), Welsh Water was ranked third, the fifth year in a row that Welsh Water has been in the "top three".

Outsourcing of operations

On 1 January 2007, a new contract with Severn Trent Laboratories came into effect, following a competitive procurement process. This contract covers sampling and analytical laboratory services and will run for an initial period of five years.

Capital Investment Programme

Capital investment (including infrastructure renewals expenditure) was £183 million before grants and contributions (2005: £167million), bringing the total expenditure over the AMP4 period to £420 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

During the three months to December 2006 the company took advantage of market conditions and raised a further £150 million of index linked finance. On the 28 November, £50 million Class B5 bonds were issued via Lloyds TSB at an index linked interest rate of 1.375%. This was followed on the 7 December 2006, when £100 million Class A6 bonds were issued via Royal Bank of Scotland at an effective index linked interest rate of 1.35%. As at 31 December 2006, approximately 57% of the company's gross debt was index linked.

The additional finance raised has been used to repay revolving credit facility drawdowns and pre fund AMP4 financing requirements.

On 15 December 2006, a further £25 million of the loan facility with the European Investment Bank was drawn down. This was the fourth and final drawdown of the £100 million facility, which was agreed on 5 December 2005.

As at 31 December 2006, undrawn revolving credit facilities and cash amounted to £528 million, giving the company a high degree of liquidity.

Bond Prospectus

Dwr Cymru (Financing) Limited filed a new bond prospectus under its £3 billion asset-backed bond programme on 4 December 2006. Copies of the prospectus are available in electronic format through the company's website www.dwrcymru.com under "Investors", or in hard copy by e-mailing a request to investors@dwrcymru.com .

Corporate Governance

Glas Cymru held its regular half-year review meeting with members on 8 December 2006. There was no formal business conducted at the meeting.

Investor Meetings

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 31 Dec 2006 £m	9 months ended 31 Dec 2006 £m	*9 months ended 31 Dec 2005 £m*
Turnover	146.8	434.0	*414.3*
Less: operating expenses	(60.9)	(177.6)	*(161.5)*
Earnings before interest, taxation, depreciation and amortisation	85.9	256.4	*252.8*
Working capital movements	(4.9)	(25.6)	*(47.1)*
Non bond related interest received /(paid)	(0.1)	(0.3)	*(0.3)*
Interest received	1.6	4.3	*8.9*
Net operating cashflow and interest received	82.5	234.8	*214.3*
New borrowings:			
Class A6 Bonds	100.0	100.0	-
Class B5 Bonds	50.0	50.0	-
Finance leases	-	-	*109.4*
European Investment Bank	25.0	75.0	-
Authorised loan facilities (repayments)/drawdowns	(82.6)	(120.3)	*65.2*
Utilisation of reserves:			
Cash transferred to capex reserve	(36.6)	(111.9)	*(91.0)*
Cash utilised from capex reserve	34.2	109.5	*143.3*
Cash utilised from other reserves	6.2	18.5	*17.3*
Capital expenditure:			
Sale proceeds from disposal of assets	-	-	*0.6*
Infrastructure renewal expenditure	(18.1)	(51.1)	*(32.1)*
Non-infrastructure maintenance	(16.8)	(47.4)	*(35.5)*
Enhancement expenditure	(29.8)	(83.9)	*(101.2)*
Net cashflow after capital expenditure, new borrowings and reserve drawings	114.0	173.2	*290.3*
Transfer to debt service payment account	(33.8)	(90.5)	*(118.3)*
Principal repayments	(0.2)	(0.2)	*(425.1)*
Termination cost on early redemption of swap	-	-	-
Net cashflow after debt service	80.0	82.5	*(253.1)*
Free cash balances brought forward	(42.0)	(44.5)	*244.4*
Free cash balances carried forward	38.0	38.0	*(8.7)*

Consolidated debt service payments

	Payments due & made in 3 months ending 31 Dec 2006 £m	Amount accrued 31 Dec 2006 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Senior interest payments:		
Finance lease interest payments	-	44.5
A1 interest payments	-	15.9
A4 interest payments	-	2.7
A5 interest payments	-	0.9
A6 interest payments (**Note**)	-	0.1
B1 interest payments	-	17.0
B3 interest payments	-	1.6
B4 interest payments	-	1.0
B5 interest payments	-	0.1
EIB loan	1.4	0.3
Authorised loan interest	0.9	-
Authorised loan facilities' commitment fees	0.1	0.1
Miscellaneous fees	-	-
	2.5	84.3
Interest rate swaps	1.0	-
RPI swaps	-	3.3
MBIA fees	-	(0.9)
Finance lease, VAT on payment	-	-
Senior interest payments	3.5	86.7
Junior debt:		
C1 interest payments	-	7.7
Total debt service payments	3.5	94.4

Note
The interest accrual is based on the swapped index-liked interest rate of 1.35% (see note on page 6)

Glas notes principal balance reconciliation

	Credit rating	Opening balance 1 Oct 2006 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 31 Dec 2006 £m
Finance leases		740.1				740.1
A1 notes	AAA/Aaa/AAA	350.0				350.0
A4 notes		298.5			3.9	302.4
A5 notes		95.7			1.2	96.9
A6 notes (**Note**)		-	100.0		0.4	100.4
B1 notes	A-/A3/A	325.0				325.0
B3 notes		144.9			2.0	146.9
B4 notes		84.5			1.1	85.6
B5 notes		-	50.0		0.2	50.2
C1 notes	BBB/Baa2/BBB+	125.0				125.0
EIB Loan		110.0	25.0			135.0
Local authority loans		3.7		(0.2)		3.5
Authorised loan drawdowns		82.6		(82.6)		-
		2,360.0	175.0	(82.8)	8.8	2,461.0

Note

The class A6 notes were issued at a fixed rate of 4.473% but swapped into an effective index-linked rate of 1.35%.
The indexation of £0.4m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 Oct 2006 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 Dec 2006 £m
Free cash balances:					
Receipts account	48.6		148.8	(151.0)	46.4
Payments account	(93.5)		430.4	(348.3)	(11.4)
Other bank accounts	2.9	1.6	841.2	(842.7)	3.0
	(42.0)	1.6	1,420.4	(1,342.0)	38.0
Debt service payment account:					
Debt service ledger	45.8		33.8	(3.5)	76.1
	45.8		33.8	(3.5)	76.1
Capex reserve account	25.0		36.6	(34.2)	27.4
Customer payments account:					
Customer rebate ledger	12.4			(6.2)	6.2
	41.2	1.6	1,490.8	(1,385.9)	147.7

Interest cover ratio (ICR) – Actuals to 31 March 2006

	Actual			
	Year to 31 Mar 2003 £m	Year to 31 Mar 2004 £m	Year to 31 Mar 2005 £m	Year to 31 Mar 2006 £m
Income	462.9	481.2	505.6	576.5
Operating expenditure	(204.0)	(210.4)	(210.3)	(213.2)
Pre capital maintenance cashflows	258.9	270.8	295.3	363.3
Capital maintenance expenditure	(137.3)	(111.0)	(85.7)	(98.1)
Post capital maintenance cashflows	121.6	159.8	209.6	265.2
Net interest (excluding indexation)	(119.4)	(124.3)	(122.7)	(129.9)
Capital expenditure	(124.7)	(148.7)	(142.0)	(122.3)
Customer rebates	-	(11.5)	(11.5)	(23.0)
Pre-financing cashflows	(122.5)	(124.7)	(66.6)	(10.0)
Interest payable on senior debt:				
Finance leases	12.6	12.8	12.5	31.9
Class A	47.0	46.4	50.0	43.6
Class B	33.8	36.3	37.8	33.5
MBIA wrap fees	4.9	4.8	4.7	4.7
Interest & currency swaps	9.9	15.1	8.3	4.2
Authorised loans	-	-	0.5	5.4
Less interest receivable	(16.8)	(17.6)	(19.1)	(9.7)
Total net senior debt interest	91.4	97.8	94.7	113.7
Interest payable on junior debt:				
Class C	18.5	18.1	19.5	13.1
Class D	8.0	6.8	5.8	-
Other	1.5	1.6	2.7	3.1
Total interest payable	119.4	124.3	122.7	129.9
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	2.8	2.8	3.1	3.1
Total interest cover pre capital maintenance	2.2	2.2	2.4	2.8
Senior interest cover post capital maintenance (trigger 1.1)	1.3	1.6	2.2	2.3
Total interest cover post capital maintenance	1.0	1.3	1.7	2.0

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

(See important notice at the front of the document)	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	596	625	651	671
Operating expenditure	(232)	(231)	(236)	(241)
Pre capital maintenance cashflows	364	394	415	430
Capital maintenance expenditure	(146)	(130)	(145)	(99)
Post capital maintenance cashflows	218	264	271	331
Net interest (excluding indexation)	(130)	(135)	(136)	(137)
Capital expenditure	(134)	(153)	(92)	(92)
Customer rebates	(24)	(26)	(27)	(28)
Taxation				(23)
Pre-financing cashflows	(70)	(49)	15	51
Interest payable on senior debt:				
Finance leases	34	34	34	35
Class A	35	35	35	36
Class B	33	33	33	33
MBIA wrap fees	3	4	4	4
Interest & currency swaps	0	0	(1)	(1)
Authorised loans	15	19	22	22
Less interest receivable	(2)	(2)	(3)	(3)
Total net senior debt interest	118	123	124	125
Interest payable on junior debt:				
Class C	10	10	10	10
Class D	-	-	-	-
Other	2	2	2	2
Total interest payable	130	135	136	137
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.2	3.3	3.5
Total interest cover pre capital maintenance	2.8	2.9	3.0	3.2
Senior interest cover post capital maintenance (trigger 1.1)	1.9	2.1	2.2	2.7
Total interest cover post capital maintenance	1.7	2.0	2.0	2.4

Regulatory asset ratio (RAR) – Actuals to 31 March 2006

	Actual			
	As at 31 Mar 2003 £m	As at 31 Mar 2004 £m	As at 31 Mar 2005 £m	As at 31 Mar 2006 £m
Senior gross debt:				
Finance leases	382	440	632	740
Class A	1,009	1,020	1,031	742
Class B	563	640	646	553
Net interest accrual on senior debt	14	43	32	29
EIB Loan			35	60
Authorised loan facility	-	-	-	120
Total senior gross debt	1,968	2,143	2,376	2,244
Less: cash balances and authorised investments	(287)	(280)	(325)	(14)
Total senior net debt	1,681	1,863	2,051	2,230
Class C	250	250	250	125
Interest accrual on Class C	-	-	-	-
Class D	76	56	-	-
Interest accrual on junior debt	-	-	-	-
Local authority loans	5	4	4	4
Other interest accruals	1	-	-	-
Total net debt	2,013	2,173	2,305	2,359
Regulatory capital value (RCV)	2,362	2,594	2,843	3,042
Reserves (RCV less total net debt)	349	421	538	683
Regulatory asset ratio:				
RAR (Senior)	71%	72%	72%	73%
RAR (Senior + C) (trigger 90%; default 95%)	82%	82%	81%	77%
RAR (Total debt)	85%	84%	81%	78%

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

(See important notice at the front of the document)	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	736	732	726	719
Class A	750	758	766	774
Class B	557	562	567	572
Net interest accrual on senior debt	39	48	52	55
Authorised loans	403	388	420	396
Total senior gross debt	2,486	2,487	2,530	2,515
Less: cash balances and authorised investments	(90)	(20)	(35)	(38)
Total senior net debt	2,396	2,467	2,495	2,477
Class C	125	125	125	125
Interest accrual on Class C	-	-	-	-
Class D	-	-	-	-
Interest accrual on junior debt	-	-	-	-
Local authority loans	4	4	4	4
Total net debt	2,525	2,596	2,624	2,606
Regulatory capital value (RCV) [1]	3,222	3,376	3,500	3,590
Reserves (RCV less total net debt)	697	780	876	984
Regulatory asset ratio:				
RAR (Senior)	74%	73%	71%	69%
RAR (Senior + C) (trigger 90%; default 95%)	78%	77%	75%	73%
RAR (Total debt)	78%	77%	75%	73%

[1] **as published by Ofwat (RD 07/05) on 26 April 2006**

Income Statement

	3 months ended 31 Dec 2006 (unaudited)	9 months ended 31 Dec 2006 (unaudited)	*9 months ended 31 Dec 2005 (unaudited)*
	£m	£m	*£m*
Turnover	146.8	434.0	*414.3*
Operating expenditure	(60.9)	(177.6)	*(161.5)*
EBITDA	85.9	256.4	*252.8*
Infrastructure renewals expenditure	(18.3)	(49.3)	*(31.7)*
Depreciation	(26.6)	(74.8)	*(72.9)*
Profit on disposal of fixed assets	-	-	*0.8*
Operating profit	41.0	132.3	*149.0*
Interest payable	(44.5)	(116.5)	*(118.8)*
Interest receivable	1.8	4.3	*7.7*
Fair value (losses)/gains on financial instruments	7.9	21.8	*(52.1)*
Profit before tax	6.2	41.9	*(14.2)*
Taxation	-	(10.9)	*1.9*
Profit after tax	6.2	31.0	*(12.3)*

Balance sheet at 31 December 2006

	At 31 December 2006		At 31 March 2006	
	£m	£m	£m	£m
Tangible fixed assets		2,843.3		2,800.0
Current assets and liabilities:				
Debtors and prepayments	105.5		90.6	
Creditors and accruals	(92.2)		(118.5)	
		13.3		(27.9)
Total assets less current liabilities		2,856.6		2,772.1
Financing liabilities:				
Bonds	(1,582.4)		(1,419.7)	
Finance leases	(740.1)		(740.1)	
EIB Loan	(135.0)		(60.0)	
Authorised loan facilities	-		(120.3)	
Other	(3.5)		(3.7)	
	(2,461.0)		(2,343.8)	
Net interest accrual	(108.8)		(29.6)	
	(2,569.8)		(2,373.4)	
Cash and cash equivalents:				
Receipts account	46.4		64.5	
Payments account	(11.4)		(111.8)	
Capex reserves account	27.4		25.0	
Debt service payment account	76.1		9.1	
Customer payments account	6.2		24.7	
Other bank accounts	3.0		2.8	
	147.7		14.3	
Net debt		(2,422.1)		(2,359.1)
Derivative financial instruments		(79.8)		(101.6)
Provisions for liabilities and charges		(18.2)		(16.4)
Net assets before deferred tax		336.5		295.0
Deferred taxation		(384.7)		(374.2)
Net assets		(48.2)		(79.2)