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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 30 June 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).

Investor Report

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General overview & business update

This quarterly investor report covers the three-month period ending 30 June 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

Summary financial results for the three month period ended 30 June 2006 are as follows:

	Period to 30 June 2006 £m	Period to 30 June 2005 £m	Change
Turnover	144.3	139.2	3.7%
Operating costs	57.5	53.5	7.5%
EBITDA	**86.8**	**85.7**	1.3%
Net interest (excluding indexation)	31.3	34.6	
Capital expenditure (before grants and contributions)	52.2	44.7	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) increased by some 1% to £87 million (2005: £86 million) due primarily to the increase in prices of 6.3% allowed by the price control for the year, offset to some extent by the higher 'customer dividend' for the year of £19 per customer (2005: £18 per customer) and a 7.5% increase in operating costs. The increase in operating costs is due largely to increased power prices. In addition, prior year operating costs benefited from a "one-off" rates refund, which is not repeated in the current period.

Net interest (excluding indexation) during the quarter is some £3 million lower than the equivalent period last year, reflecting the £525 million of bonds redeemed on 30 June 2005 and 31 March 2006.

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 2006 was £2,359 million, up by £54 million over the year. The Regulatory Capital Value (RCV), at 31 March 2006 as published by Ofwat, increased over the year by £199 million to £3,042 million. As a consequence, the ratio of net debt to RCV was reduced to 78% (as compared to 81% at the previous year end).

	31 March 2006 £m	31 March 2005 £m
Regulatory Capital Value (RCV)	3,042	2,843
Net Debt (CTA definition)	2,359	2,305
Financial "Reserves" (RCV less net debt)	683	538
Regulatory Asset Ratio	78%	81%

By reducing the level of net debt from 93% on the acquisition of Welsh Water in May 2001 to some 78% as at 31 March 2006, 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 investment efficiencies, the phasing of the investment programme and higher than expected RPI inflation.

Full details of the financial performance of Glas Cymru during the year to 31 March 2006 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 £19 per customer for the year 2006/07 (2005: £18 per customer). In accordance with the CTA, £24.7 million has been set-aside in the Customer Rebate Ledger to fund this 'customer dividend' in 2006/07.

Financial Ratios

As required by the CTA, covenanted financial ratios (regulatory asset ratio and interest cover ratios) are reported for the last financial year. 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 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 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.

In September 2005, 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 2005. On Ofwat’s “Overall Performance Assessment” (OPA), Welsh Water was ranked joint first, with Yorkshire Water, compared to second in the previous year. OPA performance for 2005/06 is expected to be published by Ofwat in September 2006.

Outsourcing of Operations

In June 2006, following a competitive procurement process, Information and Communication Technology (ICT) contracts were awarded to Capgemini UK plc, Logica CMG UK Ltd and Tata Consultancy Services.

Directors

On 31 July, the company announced that Jim O'Sullivan, Operations Director, had resigned from the Board and will be leaving the business at the end of September. This follows the outcome of a strategic review regarding the future organisational shape of the business. Jim leaves with the best wishes of the Board. He is succeeded as Operations Director by Peter Perry, previously Chief Operating Officer of United Utilities Operational Services. Peter joined the Board of both Glas Cymru and Dwr Cymru Welsh Water on 1 August 2006.

Capital Investment Programme

Capital expenditure by Welsh Water during period was £52 million (before capital grants and contributions), bringing the total expenditure over the AMP4 period to £289 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 15 June 2006 a further £25 million of the loan facility with the European Investment Bank was drawn down. This was the second drawdown of the £100 million facility, which was agreed on 5 December 2005. The remaining £50 million will be drawn down in two separate tranches on 15 September 2006 and 15 December 2006.

As at 30 June 2006 undrawn EIB, revolving credit facilities and cash amounted to £354 million, giving the company a high degree of liquidity.

Corporate Governance

The AGM for the members of Glas Cymru took place on 7 July 2005. All motions proposed by the Board were approved by members.

Investor Meetings

Glas Cymru held a fifth annual meeting for investors in London on 17 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 2006 £m	3 months ended 30 June 2005 £m
Turnover	144.3	139.2
Less: operating expenses	(57.5)	(53.5)
Earnings before interest, taxation, depreciation and amortisation	86.8	85.7
Working capital movements	(17.4)	(22.8)
Non bond related interest received /(paid)	-	(0.1)
Interest received	1.4	6.0
Net operating cashflow and interest received	70.8	68.8
New borrowings:		
Finance leases	-	6.1
European Investment Bank	25.0	-
Authorised loan facilities drawdowns/(repayments)	(18.8)	192.0
Utilisation of reserves:		
Cash transferred to capex reserve	(37.2)	(20.0)
Cash utilised from capex reserve	37.2	41.4
Cash utilised from other reserves	6.1	5.8
Capital expenditure:		
Sale proceeds from disposal of assets	(0.1)	0.2
Infrastructure renewal expenditure	(11.6)	(12.3)
Non-infrastructure maintenance	(12.3)	(10.1)
Enhancement expenditure	(37.7)	(33.6)
Net cashflow after capital expenditure, new borrowings and reserve drawings	21.4	238.3
Transfer to debt service payment account	(22.7)	(42.5)
Principal repayments	-	(425.1)
Termination cost on early redemption of swap	-	-
Net cashflow after debt service	(1.3)	(229.3)
Free cash balances brought forward	(44.5)	244.4
Free cash balances carried forward	(45.8)	15.1

Consolidated debt service payments

	Payments due & made in 3 months ending 30 June 2006 £m	Amount accrued 30 June 2006 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	-
Senior interest payments:		
Finance lease interest payments	-	27.6
A1 interest payments	-	5.4
A4 interest payments	-	2.7
A5 interest payments	-	0.9
B1 interest payments	-	5.8
B3 interest payments	-	1.6
B4 interest payments	-	1.0
EIB loan	0.7	0.2
Authorised loan interest	1.2	0.1
Authorised loan facilities' commitment fees	0.5	-
Miscellaneous fees	-	-
	2.5	45.3
Interest rate swaps	1.7	-
RPI Swaps	-	(1.6)
MBIA fees	-	(2.7)
Finance lease, VAT on payment	-	-
Senior interest payments	4.2	41.0
Junior debt:		
C1 interest payments	-	2.6
Total debt service payments	4.2	43.6

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 April 2006 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 June 2006 £m
Finance leases		740.1				740.1
A1 notes	AAA/Aaa/AAA	350.0				350.0
A4 notes		296.6			0.9	297.5
A5 notes		95.1			0.3	95.4
B1 notes	A-/A3/A	325.0				325.0
B3 notes		144.0			0.5	144.5
B4 notes		84.0			0.3	84.3
C1 notes	BBB/Baa2/BBB+	125.0				125.0
EIB loan		60.0	25.0			85.0
Local authority loans		3.7				3.7
Authorised loan facilities		120.3		(18.8)		101.5
		2,343.8	25.0	(18.8)	2.0	2,352.0

***** Standard and Poors/Moody's/Fitch Ratings

Glas bank account movements

	Opening balance 1 April 2006 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2006 £m
Free cash balances:					
Receipts account	64.5		204.5	(222.0)	47.0
Payments account	(111.8)		321.7	(305.5)	(95.6)
Other bank accounts	2.8	1.4	352.9	(354.3)	2.8
	(44.5)	1.4	879.1	(881.8)	(45.8)
Debt service payment account:					
Debt service ledger	9.1		22.7	(4.2)	27.6
	9.1		22.7	(4.2)	27.6
Capex reserve account	25.0		37.2	(37.2)	25.0
Customer payments account:					
Customer rebate ledger	24.7			(6.1)	18.6
	14.3	1.4	939.0	(929.3)	25.4

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 08/06) 0n 26 April 2006**

Income statement (IFRS)

	3 months ended 30 June 2006	*3 months ended 30 June 2005*
	£m	*£m*
Turnover	144.3	*139.2*
Operating expenditure	(57.5)	*(53.5)*
EBITDA	86.8	*85.7*
Infrastructure renewals expenditure	(11.6)	*(9.9)*
Depreciation	(23.7)	*(24.3)*
Operating profit	51.5	*51.5*
(Loss) / profit on disposal of assets	(0.1)	*0.2*
Profit before interest and tax	51.4	*51.7*
Interest payable	(34.4)	*(43.2)*
Interest receivable	0.7	*4.8*
Profit before fair value movements	17.7	*13.3*
Movements in fair value of derivative financial instruments	38.9	*10.6*
Profit before tax	56.6	*23.9*
Taxation	-	*-*
Profit after tax	56.6	*23.9*
Reserves b/fwd	(79.2)	*(95.3)*
Reserves c/fwd	(22.6)	*(71.4)*

Balance sheet at 30 June 2006 (IFRS)

	At 30 June 2006		At 31 March 2006	
	£m	£m	£m	£m
Tangible fixed assets		2,811.9		2,800.0
Current assets and liabilities:				
Debtors and prepayments	106.0		90.6	
Creditors and accruals	(104.4)		(118.5)	
		1.6		(27.9)
Total assets less current liabilities		2,813.5		2,772.1
Financing liabilities:				
Bonds	(1,421.7)		(1,419.7)	
Finance leases	(740.1)		(740.1)	
EIB Loan	(85.0)		(60.0)	
Authorised loan facilities	(101.5)		(120.3)	
Other	(3.7)		(3.7)	
	(2,352.0)		(2,343.8)	
Net interest accrual	(58.3)		(29.6)	
	(2,410.3)		(2,373.4)	
Cash and cash equivalents:				
Receipts account	47.0		64.5	
Payments account	(95.6)		(111.8)	
Capex reserves account	25.0		25.0	
Debt service payment account	27.6		9.1	
Customer payments account	18.6		24.7	
Other bank accounts	2.8		2.8	
	25.4		14.3	
Net debt		(2,384.9)		2,359.1
Derivative financial instruments		(62.7)		(101.6)
Provisions for liabilities and charges		(14.3)		(16.4)
Net assets before deferred tax		351.6		295.0
Deferred taxation		(374.2)		(374.2)
Net assets		(22.6)		(79.2)