



Investor Report

For the quarter ended 30 September 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	1
Consolidated cashflow	4
Consolidated debt service payments	5
Glas notes principal balance reconciliation	6
Glas bank account movements	7
Interest cover ratio (ICR) – Actuals to 31 March 2006	8
Interest cover ratio (ICR) – Projections to 31 March 2010	9
Regulatory asset ratio (RAR) – Actuals to 31 March 2006	10
Regulatory asset ratio (RAR) – Projections to 31 March 2010	11
Income statement	12
Balance sheet at 30 June 2006	13

General overview & business update

This quarterly investor report covers the three month period ending 30 September 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 six month period was broadly in line with expectations with gearing (net debt/regulatory capital value) at 30 September 2006 of some 77% (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 2006 are as follows:

	Period to 30 September 2006 £m	Period to 30 September 2005 £m	Change
Turnover	287.2	275.2	+4%
Operating costs	116.7	106.2	+10%
EBITDA	170.5	169.0	+1%
Net interest (excluding indexation)	65.6	66.5	
Capital expenditure (before grants and contributions)	115.0	106.5	

Operating profit before interest, tax, depreciation and amortisation (EBITDA) increased by some 1% to £171 million (2005: £169 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 of £116.7 million (2005: £106.2 million). Profit after taxation (but before the fair value movements on financial instruments) was £15.1 million (2005: £19.4 million).

Turnover in the six months to 30 September 2006 was £287 million, as compared to £275 million in the six months to 30 September 2005. The increase reflects the RPI+K increase in prices of 6% allowed by Ofwat less a reduction caused by factors such as meter optants. In the 12 months period to 30 September 2006, 24,000 domestic customers switched to metered charging (2005: 29,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £117 million (2005: £106 million). The increase is primarily due to higher power costs (£5 million) and higher rates charges (£2 million). Excluding these items, the increase is broadly in line with inflation.

Net interest payable in the period (excluding fair value movements) was £70 million (2005: £73 million), including an indexation charge on index linked debt of £4 million (2004: £7 million).

Full details of the financial performance of Glas Cymru during the six months to 30 September 2006 can be found in the Interim Accounts, which is available on the website (<http://www.dwrcymru.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 9 and 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 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 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

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 he left the business at the end of September. 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 investment (including infrastructure renewals expenditure) was £115 million before grants and contributions (2005: £107 million), bringing the total expenditure over the AMP4 period to £352 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 September 2006 a further £25 million of the loan facility with the European Investment Bank was drawn down. This was the third drawdown of the £100 million facility, which was agreed on 5 December 2005.

As at 30 September 2006 undrawn EIB, revolving credit facilities and cash amounted to £370 million, giving the company a high degree of liquidity.

Corporate Governance

The AGM for the members of Glas Cymru took place on 7 July 2006. 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 2006. 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 2006 £m	6 months ended 30 Sept 2006 £m	6 months ended 30 Sept 2005 £m
Turnover	142.9	287.2	275.2
Less: operating expenses	(59.2)	(116.7)	(106.2)
Earnings before interest, taxation, depreciation and amortisation	83.7	170.5	169.0
Working capital movements	(3.3)	(20.7)	(40.9)
Non bond related interest paid	(0.2)	(0.2)	(0.2)
Interest received	1.3	2.7	7.7
Net operating cashflow and interest received	81.5	152.3	135.6
New borrowings:			
Finance leases	-	-	55.4
European Investment Bank	25.0	50.0	
Authorised loan facilities (repayments)/drawdowns	(18.9)	(37.7)	115.4
Utilisation of reserves:			
Cash transferred to capex reserve	(38.1)	(75.3)	(55.9)
Cash utilised from capex reserve	38.1	75.3	104.6
Cash utilised from other reserves	6.2	12.3	11.5
Capital expenditure:			
Sale proceeds from disposal of assets	0.1	-	0.1
Infrastructure renewal expenditure	(21.4)	(33.0)	(20.8)
Non-infrastructure maintenance	(18.3)	(30.6)	(23.0)
Enhancement expenditure	(16.4)	(54.1)	(65.6)
Net cashflow after capital expenditure, new borrowings and reserve drawings	37.8	59.2	257.3
Transfer to debt service payment account	(34.0)	(56.7)	(95.3)
Principal repayments	-	-	(425.1)
Termination cost on early redemption of swap	-	-	-
Net cashflow after debt service	3.8	2.5	(263.1)
Free cash balances brought forward	(45.8)	(44.5)	244.4
Free cash balances carried forward	(42.0)	(42.0)	(18.7)

Consolidated debt service payments

	Payments due & made in 3 months ending 30 Sept 2006 £m	Amount accrued 30 Sept 2006 £m
Liquidity facility:		
Liquidity facility commitment fee	-	-
Senior interest payments:		
Finance lease interest payments	-	36.1
A1 interest payments	-	10.7
A4 interest payments	5.2	-
A5 interest payments	1.7	-
B1 interest payments	-	11.4
B3 interest payments	3.2	-
B4 interest payments	1.9	-
EIB loan	1.0	0.2
Authorised loan interest	1.1	-
Authorised loan facilities' commitment fees	0.2	0.1
Miscellaneous fees	-	0.1
	14.3	58.6
Interest rate swaps	1.5	-
RPI swaps		1.1
MBIA fees	-	(1.8)
Finance lease, VAT on payment	-	-
Senior interest payments	15.8	57.9
Junior debt:		
C1 interest payments	-	5.2
Total debt service payments	15.8	63.1

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 July 2006 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 Sept 2006 £m
Finance leases		740.1				740.1
A1 notes	AAA/Aaa/AAA	350.0				350.0
A4 notes		297.5			1.0	298.5
A5 notes		95.4			0.3	95.7
B1 notes	A-/A3/A	325.0				325.0
B3 notes		144.5			0.4	144.9
B4 notes		84.3			0.2	84.5
C1 notes	BBB/Baa2/BBB+	125.0				125.0
EIB Loan		85.0	25.0			110.0
Local authority loans		3.7				3.7
Authorised loan drawdowns		101.5		(18.9)		82.6
		2,352.0	25.0	(18.9)	1.9	2,360.0

* Standard and Poors/Moody's/Fitch Ratings

Glas bank account movements

	Opening balance 1 July 2006 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 Sept 2006 £m
Free cash balances:					
Receipts account	47.0		142.5	(140.9)	48.6
Payments account	(95.6)		348.7	(346.6)	(93.5)
Other bank accounts	2.8	1.3	435.2	(436.4)	2.9
	(45.8)	1.3	926.4	(923.9)	(42.0)
Debt service payment account:					
Debt service ledger	27.6		34.0	(15.8)	45.8
	27.6		34.0	(15.8)	45.8
Capex reserve account	25.0		38.1	(38.1)	25.0
Customer payments account:					
Customer rebate ledger	18.6			(6.2)	12.4
	25.4	1.3	998.5	(984.0)	41.2

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

	Actual			
	Year to	Year to	Year to	Year to
	31 Mar 2003	31 Mar 2004	31 Mar 2005	31 Mar 2006
	£m	£m	£m	£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	Year to 31 Mar 2008	Year to 31 Mar 2009	Year to 31 Mar 2010
	£m	£m	£m	£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 30 Sept 2006	6 months ended 30 Sept 2006	6 months ended 30 Sept 2005
	£m	£m	£m
Turnover	142.9	287.2	275.2
Operating expenditure	(59.2)	(116.7)	(106.2)
EBITDA	83.7	170.5	169.0
Infrastructure renewals expenditure	(19.4)	(31.0)	(19.7)
Depreciation	(24.5)	(48.2)	(48.6)
Profit on disposal of fixed assets	0.1	-	0.3
Operating profit	39.9	91.3	101.0
Interest payable	(37.6)	(72.0)	(79.6)
Interest receivable	1.8	2.5	6.3
Fair value (losses)/gains on financial instruments	(25.0)	13.9	(33.9)
Profit before tax	(20.9)	35.7	(6.2)
Taxation	(10.9)	(10.9)	1.9
Profit after tax	(31.8)	24.8	(4.3)

Balance sheet at 30 September 2006

	At 30 September 2006		At 31 March 2006	
	£m	£m	£m	£m
Tangible fixed assets		2,824.4		2,800.0
Current assets and liabilities:				
Debtors and prepayments	108.4		90.6	
Creditors and accruals	(104.9)		(118.5)	
		7.5		(27.9)
Total assets less current liabilities		2,832.4		2,772.1
Financing liabilities:				
Bonds	(1,423.6)		(1,419.7)	
Finance leases	(740.1)		(740.1)	
EIB Loan	(110.0)		(60.0)	
Authorised loan facilities	(82.6)		(120.3)	
Other	(3.7)		(3.7)	
	(2,360.0)		(2,343.8)	
Net interest accrual	(77.2)		(29.6)	
	(2,437.2)		(2,373.4)	
Cash and cash equivalents:				
Receipts account	48.6		64.5	
Payments account	(93.5)		(111.8)	
Capex reserves account	25.0		25.0	
Debt service payment account	45.8		9.1	
Customer payments account	12.4		24.7	
Other bank accounts	2.9		2.8	
	41.2		14.3	
Net debt		(2,396.0)		2,359.1
Derivative financial instruments		(87.7)		(101.6)
Provisions for liabilities and charges		(17.9)		(16.4)
Net assets before deferred tax		330.3		295.0
Deferred taxation		(384.7)		(374.2)
Net assets		(54.4)		(79.2)

Compliance Certificate

To: Deutsche Trustee Company Limited

Date 9 November 2006

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 11 and 13 of the Investors Report issued on today's date.

We also confirm that, in the period from 8 June 2006 (being the date of the last published Compliance Certificate) to 9 November 2006 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