AC/08/17

glas
Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 December 2007

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 and business update

This quarterly Investor Report covers the three month period ending 31 December 2007. The Investor Report is a requirement of (and has been prepared to comply with the specific requirements of) the Common Terms Agreement (CTA), which governs the company's obligations to its bondholders and other financial creditors.

The financial information 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.

Business performance including key performance indicators (KPIs) for operations and customer service are reported in the company's annual and interim report and accounts. These are available on the company's website (www.dwrcymru.com).

Financial performance

Financial performance over the period was slightly ahead of expectations with gearing (net debt/regulatory capital value) at 31 December 2007 of some 73% (2006: 76%).

Summary financial results for the nine month period ended 31 December 2007 are as follows:

	Period to 31 December 2007 £m	Period to 31 December 2006 £m	Change
Turnover	465.5	434.0	+7%
Operating costs	176.5	177.6	-1%
EBITDA (before infrastructure renewals expenditure)	**289.0**	**256.4**	+13%
Net interest (excluding indexation and amortisation)	95.1	99.5	
Capital expenditure (before grants and contributions)	207.0	183.2	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) increased by some 13% to £289 million (2006: £256 million) due primarily to the increase in prices of 8% allowed by the price control for the year.

General overview and business update (cont'd)

Turnover in the nine months to 30 December 2007 was £466 million, as compared to £434 million in the nine months to 31 December 2006. The increase reflects the RPI+K increase in prices of 8% allowed by Ofwat less the increase in the 'customer dividend' for the year from £19 per customer to £20 per customer. In the nine-month period to 31 December 2007, 14,500 domestic customers switched to metered charging (2006: 18,000). The exceptionally wet summer saw a 2% (circa £2 million) reduction in consumption by our metered customers.

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £177 million (2006: £178 million), partly reflecting the impact of lower power prices on power costs, down by £2 million in the period.

Net interest payable in the period (excluding fair value movements) was £117 million (2006: £112 million), including an indexation charge on index linked debt of £21 million (2006: £13 million).

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £207 million before grants and contributions (2006: £183 million), bringing the total expenditure over the AMP4 period to £713 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.

Welsh Water will be investing at an even higher rate over the two years to 31 March 2009, with capital investment likely to be at or above £600 million over that period. This will be a major challenge for the company and its alliance of capital investment partners.

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.

General overview and business update (cont'd)

Credit ratings

On 18 December 2007 Standard & Poor's ("S&P") raised the rating of the company's Class B Bonds from A- to A, and the Class C Bonds from BBB to BBB+. The rating action reflects Glas' continued trend of deleveraging, its public commitment to a target gearing of 70% and Glas' unique not-for-profit ownership structure. A copy of S&P's press release is available from the "Investors" section of the company's website (www.dwrcymru.com).

S&P, Fitch Ratings ("Fitch") and Moody's Investor Service ("Moody's") have all instituted reviews of their rating of MBIA and, as a consequence, their rating of the company's Class A Bonds, which are guaranteed by MBIA.

As of the date of this report, both MBIA and the Class A Bonds have been placed on Credit Watch Negative, Ratings Watch Negative and on review for possible downgrade by S&P, Fitch and Moody's respectively.

The ratings of the company's Class B and C Bonds, and Moody's corporate family rating of Dŵr Cymru Cyfyngedig are unaffected by these reviews and remain stable.

The current ratings of the company's debt are therefore summarised by the following table:

Bond class	Moody's	S&P	Fitch
A	Aaa	AAA	AAA
B	A3	A	A
C	Baa2	BBB+	BBB+

In addition, Moody's corporate family rating of Dŵr Cymru Cyfyngedig is A3.

General overview and business update (cont'd)

Financing and liquidity

On 5 October 2007, Welsh Water entered into a £85 million finance lease of refurbished water mains with a leasing subsidiary of The Royal Bank of Scotland.

As at 31 December 2007, undrawn revolving credit facilities and cash (ignoring the debt service reserve account) amounted to £451 million, giving the company a high degree of liquidity. As a result, the company has been insulated from the recent turmoil in credit markets and our bonds continue to trade well relative to our peers. The company's next expected bond maturity is of its Class C1 Bonds (£125 million) in March 2011.

Outsourcing of operations

Thames Water plc has sold various non-regulated activities to Veolia UK, including the contract to provide billing and income services to Welsh Water amounting to some £19 million a year. This contract runs until 31 March 2012, although it contains various early termination and change of control provisions.

The acquisition of the Kelda Group by the Citigroup-led consortium, Saltaire Water, is due to complete in February 2007. Kelda Water Services ("KWS") holds the contract to manage Welsh Water's waste water service for South Wales and Herefordshire. This contract runs until 2020 with break clauses in 2010 and 2015. It also contains various early termination and change of control provisions.

Corporate governance

Glas Cymru held its regular half-year review meeting with members on 7 December 2007. 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. Investors can e-mail a request to investors@dwrcymru.com or else contact the company's treasurer, Neil Webb, on 01443 452780.

Consolidated cash flow

	3 months ended 31 December 2007 £m	9 months ended 31 December 2007 £m	9 months ended 31 December 2006 £m
Turnover	158.2	465.5	434.0
Less: operating expenses	(62.7)	(176.5)	(177.6)
Earnings before interest, taxation, depreciation and amortisation	95.5	289.0	256.4
Working capital movements	(1.2)	(33.0)	(25.6)
Non bond related interest received/(paid)	(0.3)	(0.9)	(0.3)
Swap termination	-	(32.5)	-
Interest received	2.9	7.9	4.3
Net operating cash flow and interest received	96.9	230.5	234.8
New borrowings:			
Finance leases	85.0	85.0	50.0
Class A bonds	-	-	100.0
European Investment Bank	-	-	75.0
Authorised loan facilities (repayments)/drawdowns	-	-	(120.3)
Utilisation of reserves:			
Cash transferred to capex reserve	(32.3)	(100.3)	(111.9)
Cash utilised from capex reserve	32.3	100.3	109.5
Cash utilised from other reserves	6.8	20.3	18.5
Capital expenditure:			
Sale proceeds from disposal of assets	0.2	0.9	-
Infrastructure renewal expenditure	(19.0)	(48.6)	(51.1)
Non-infrastructure maintenance	(24.4)	(62.2)	(47.4)
Enhancement expenditure	(32.7)	(83.5)	(83.9)
Net cash flow after capital expenditure, new borrowings and reserve drawings	112.8	142.4	173.2
Transfer to debt service payment account	(42.0)	(117.2)	(90.5)
Principal repayments	(2.3)	(4.5)	(0.2)
Net cash flow after debt service	68.5	20.7	82.5
Free cash balances brought forward	31.1	78.9	(44.5)
Free cash balances carried forward	99.6	99.6	38.0

Consolidated debt service payments

	Payments due & made in 3 months ending 31 December 2007 £m	Amount accrued 31 December 2007 £m
Liquidity facility:		
Liquidity facility commitment fee	-	0.3
Senior interest payments:		
Finance lease interest payments	-	58.7
A1 interest payments	-	15.8
A4 interest payments	-	2.7
A5 interest payments	-	0.9
A6 interest payments	-	1.0
B1 interest payments	-	16.8
B3 interest payments	-	1.6
B4 interest payments	-	1.0
B5 interest payments	-	0.2
European Investment Bank loan	2.3	0.4
Authorised loan interest	-	-
Authorised loan facilities' commitment fees	0.1	0.1
Miscellaneous fees	-	-
	2.4	99.5
Interest rate swaps	-	-
RPI swaps	0.7	(0.4)
MBIA financial guarantee fees	-	(1.0)
Finance lease principal (net)	2.3	-
Finance lease, VAT on payment	0.4	-
Senior interest payments	5.8	98.1
Junior debt:		
C1 interest payments	-	7.6
Total debt service payments	5.8	105.7

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 October 2007 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 31 December 2007 £m
Finance leases		766.8	85.0	(2.3)	-	849.5
A1 notes	Aaa/AAA/AAA	350.0	-	-	-	350.0
A4 notes		311.1	-	-	3.5	314.6
A5 notes		99.7	-		1.1	100.8
A6 notes ***(Note)***		103.4	-	-	1.1	104.5
B1 notes	A3/A/A	325.0	-	-	-	325.0
B3 notes		151.0	-	-	1.7	152.7
B4 notes		88.2	-	-	1.0	89.2
B5 notes		51.7	-	-	0.6	52.3
C1 notes	Baa2/BBB+/BBB+	125.0	-	-	-	125.0
EIB Loan		132.8	-	(2.2)	-	130.6
Local authority loans		3.2	-	-	-	3.2
Authorised loan draw-downs		-	-	-	-	-
		2,507.9	85.0	(4.5)	9.0	2,597.4

*Moody's/S&P/Fitch ratings.

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%. Indexation of £1.1m reflects the principal accrual on the index-linked swap.*

Glas bank account movements

	Opening balance 1 October 2007 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 December 2007 £m
Free cash balances:					
Receipts account	48.4	-	151.4	(149.6)	50.2
Payments account	(20.4)	-	305.2	(239.6)	45.2
Other bank accounts	3.1	2.9	367.0	(368.8)	4.2
	31.1	2.9	823.6	(758.0)	99.6
Debt service payment account:					
Debt service ledger	55.2	-	42.0	(5.8)	91.4
Capex reserve account	-	-	32.3	(32.3)	-
Customer payments account:					
Customer rebate ledger	13.5	-	-	(6.8)	6.7
	99.8	2.9	897.9	(802.9)	197.7

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

	Actual			
	Year to 31 March 2002 £m	Year to 31 March 2003 £m	Year to 31 March 2004 £m	Year to 31 March 2005 £m
Income	406.1	462.9	481.2	505.6
Operating expenditure	(183.8)	(204.0)	(210.4)	(210.3)
Pre capital maintenance cash flows	222.3	258.9	270.8	295.3
Capital maintenance expenditure	(82.1)	(137.3)	(111.0)	(85.7)
Post capital maintenance cash flows	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 cash flows	(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
MBIA financial guarantee fees	4.3	4.9	4.8	4.7
Interest rate and 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) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual		Projections		
	Year to 31 March 2006 £m	Year to 31 March 2007 £m	Year to 31 March 2008 £m	Year to 31 March 2009 £m	Year to 31 March 2010 £m
Income	576.5	602.7	644	675	699
Operating expenditure	(213.2)	(228.6)	(239)	(242)	(250)
Pre capital maintenance cash flows	363.3	374.1	405	432	450
Capital maintenance expenditure	(98.1)	(150.2)	(162)	(142)	(110)
Post capital maintenance cash flows	265.2	223.9	243	290	340
Net interest (excluding indexation)	(129.9)	(127.0)	(135)	(134)	(135)
Capital expenditure	(122.3)	(96.7)	(120)	(156)	(110)
Customer rebates	(23.0)	(24.7)	(27)	(28)	(29)
Taxation	-	-	(1)	(1)	(25)
Pre-financing cash flows	(10.0)	(24.5)	(40)	(29)	41
Interest payable on senior debt:					
Finance leases	31.9	33.7	41	41	41
Class A	43.6	36.9	37	38	38
Class B	33.5	32.4	35	36	36
MBIA financial guarantee fees	4.7	3.6	3	4	4
Interest rate swaps	4.2	7.7	(1)	(6)	(6)
Authorised loans	5.4	8.5	12	13	12
Less interest receivable	(9.7)	(7.4)	(3)	(3)	(3)
Total net senior debt interest	113.7	115.4	124	123	124
Interest payable on junior debt:					
Class C	13.1	10.2	10	10	10
Class D	-	-			
Other	3.1	2.2	2	2	2
Total interest payable	129.9	127.8	136	135	136
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.3	3.4	3.6	3.6
Total interest cover pre capital maintenance	2.8	2.9	3.1	3.3	3.3
Senior interest cover post capital maintenance (trigger 1.1)	2.3	2.0	2.0	2.4	2.7
Total interest cover post capital maintenance	2.0	1.8	1.8	2.1	2.5

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

	Actual			
	As at 31 March 2002 £m	As at 31 March 2003 £m	As at 31 March 2004 £m	As at 31 March 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
EIB Loan	-	-	-	35
Authorised loan facility	-	-	-	-
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	-
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%	89%	85%	84%

Regulatory asset ratio (RAR) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual		Projections		
	As at 31 March 2006 £m	As at 31 March 2007 £m	As at 31 March 2008 £m	As at 31 March 2009 £m	As at 31 March 2010 £m
Senior gross debt:					
Finance leases	740	767	762	756	749
Class A	742	856	877	890	903
Class B	553	611	623	630	638
Net interest accrual on senior debt	29	84	41	48	51
EIB Loan	60	135	131	127	123
Authorised loan facility	120	-	39	105	91
Total senior gross debt	2,244	2,453	2,472	2,556	2,555
Less: cash balances and authorised investments	(14)	(158)	(40)	(27)	(13)
Total senior net debt	2,230	2,295	2,432	2,529	2,542
Class C	125	125	125	125	125
Interest accrual on junior debt	-	10	-	-	-
Local authority loans	4	4	4	4	4
Total net debt	2,359	2,434	2,561	2,658	2,671
Regulatory capital value (RCV) [1]	3,042	3,310	3,504	3,650	3,762
Reserves (RCV less total net debt)	683	876	943	992	1,091
Regulatory asset ratio:					
RAR (Senior)	73%	69%	69%	69%	68%
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	73%	73%	71%
RAR (Total debt)	78%	74%	73%	73%	71%

[1] as published by Ofwat (RD 09/07) on 26 April 2007

Income statement

	3 months ended 31 December 2007 £m	*9 months ended 31 December 2007 £m*	*9 months ended 31 December 2006 £m*
Turnover	158.2	465.5	434.0
Operating expenditure	(62.7)	(176.5)	(177.6)
EBITDA	95.5	289.0	256.4
Infrastructure renewals expenditure	(23.0)	(66.0)	(49.3)
Depreciation	(30.4)	(91.3)	(74.8)
Profit on disposal of fixed assets	0.2	0.9	-
Operating profit	42.3	132.6	132.3
Interest payable	(43.9)	(125.2)	(116.5)
Interest receivable	3.9	8.2	4.3
Fair value (losses)/gains on financial instruments	(25.8)	(23.5)	21.8
(Loss)/profit before tax	(23.5)	(7.9)	41.9
Taxation	-	19.9	(10.9)
(Loss)/profit after tax	(23.5)	12.0	31.0

Balance sheet

	At 31 December 2007 £m	£m	At 31 March 2007 £m	£m
Fixed assets		2,887.8		2,853.9
Current assets and liabilities:				
Debtors and prepayments	119.8		96.4	
Creditors and accruals	(99.4)		(104.0)	
		20.4		(7.6)
Total assets less current liabilities		2,908.2		2,846.3
Financing liabilities:				
Bonds	(1,614.1)		(1,592.7)	
Finance leases	(849.5)		(766.8)	
EIB Loan	(130.6)		(135.0)	
Authorised loan facilities	-		-	
Other	(3.2)		(3.2)	
	(2,597.4)		(2,497.7)	
Net interest accrual	(117.2)		(94.1)	
	(2,714.6)		(2,591.8)	
Cash and cash equivalents:				
Receipts account	50.2		66.5	
Payments account	45.2		9.2	
Capex reserves account	-		-	
Debt service payment account	91.4		52.1	
Customer payments account	6.7		27.0	
Other bank accounts	4.2		3.2	
	197.7		158.0	
Net debt		**(2,516.9)**		**(2,433.8)**
Derivative financial instruments		(46.9)		(55.9)
Provisions for liabilities and charges		(10.3)		(14.1)
Net assets before deferred tax		**334.1**		**342.5**
Deferred tax		(368.5)		(388.4)
Net liabilities		**(34.4)**		**(45.9)**