



Investor Report

For the quarter ended 30 June 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 & 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) – Period to 31 March 2005	8
Interest cover ratio (ICR) – 5 years to 31 March 2010	9
Regulatory asset ratio (RAR) – Period to 31 March 2005	10
Regulatory asset ratio (RAR) – 5 years to 31 March 2010	11
Income statement	12
Balance sheet	13

General overview & business update

This quarterly Investor Report covers the three month period ending 30 June 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 bond holders 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. It should be noted that the information in this report has not been reviewed by the company's auditors.

Financial performance

Summary financial results for the three month period ended 30 June 2007 are as follows:

	Period to 30 June 2007 £m	Period to 30 June 2006 £m	Change
Turnover	152.6	144.3	+5.8%
Operating costs	57.5	57.5	-
EBITDA (before infrastructure renewals expenditure)	95.1	86.8	+9.6%
Net interest (excluding indexation and amortisation)	30.9	31.3	
Capital expenditure (before grants and contributions)	59.7	52.2	

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) increased by some 10% to £95 million (2006: £87 million) due primarily to the increase in prices of 8% allowed by the price control for the year.

Turnover in the three months to 30 June 2007 was £153 million, as compared to £144 million in the three months to 30 June 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 3 month period to 30 June 2007, 8,000 domestic customers switched to metered charging (2006: 8,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £58 million (2006: £58 million), in line with the equivalent period last year.

Net interest payable in the period (excluding fair value movements) was £38 million (2006: £34 million), including an indexation charge on index linked debt of £6 million (2006: £2million).

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £60 million before grants and contributions (2006: £52 million), bringing the total expenditure over the AMP4 period to £567 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 9 to 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.

Credit ratings

On 14 June 2007, Moody's Investors Service ("Moody's") assigned an A3 corporate family rating to Dwr Cymru Cyfyngedig ("Welsh Water"), reflecting the increased credit quality of the company. A copy of Moody's press release is available on our website (www.dwrcymru.com) under "investors".

Financing

As at 30 June 2007, undrawn revolving credit facilities and cash (ignoring the debt service reserve account) amounted to £398 million, giving the company a high degree of liquidity.

In April 2007 Dwr Cymru Financing terminated £433 million of surplus floating to fixed interest swaps at a cost of £32.5 million.

Outsourcing of operations

Thames Water plc. have announced their intention to divest themselves of various non-regulated activities, including their contract to provide billing and income services to Welsh Water. This contract runs until 31 March 2012, although it contains various early termination and change of control provisions.

Corporate governance

The AGM for the members of Glas Cymru took place on 6 July 2007. All motions proposed by the Board were approved by members.

Investor meetings

Glas Cymru held a sixth annual meeting for investors in London on 16 July 2007. 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 2007	3 months ended 30 June 2006
	£m	£m
Turnover	152.6	144.3
Less: operating expenses	(57.5)	(57.5)
Earnings before interest, taxation, depreciation and amortisation	95.1	86.8
Working capital movements	(12.8)	(17.4)
Non bond related interest received /(paid)	(0.1)	-
Swap termination	(32.5)	-
Interest received	2.0	1.4
Net operating cashflow and interest received	51.7	70.8
New borrowings:		
Finance leases	-	-
European Investment Bank	-	25.0
Authorised loan facilities	-	-
Utilisation of reserves:		
Cash transferred to capex reserve	(33.2)	(37.2)
Cash utilised from capex reserve	33.2	37.2
Cash utilised from other reserves	6.7	6.1
Capital expenditure:		
Sale proceeds from disposal of assets	0.7	(0.1)
Infrastructure renewal expenditure	(17.4)	(11.6)
Non-infrastructure maintenance	(25.6)	(12.3)
Enhancement expenditure	(21.9)	(37.7)
Net cashflow after capital expenditure, new borrowings and reserve drawings	(5.8)	40.2
Transfer to debt service payment account	(38.6)	(22.7)
Principal repayments	(2.2)	(18.8)
Net cashflow after debt service	(46.6)	(1.3)
Free cash balances brought forward	78.9	(44.5)
Free cash balances carried forward	32.3	(45.8)

Consolidated debt service payments

	Payments due & made in 3 months ending 30 June 2007 £m	Amount accrued 30 June 2007 £m
Liquidity facility:		
Liquidity facility commitment fee	0.3	-
Senior interest payments:		
Finance lease interest payments	-	35.7
A1 interest payments	21.1	5.3
A4 interest payments		2.7
A5 interest payments		0.9
A6 interest payments	0.4	0.3
B1 interest payments	22.4	5.6
B3 interest payments	-	1.6
B4 interest payments	-	0.9
B5 interest payments	-	0.2
EIB loan	1.9	-
Authorised loan interest	-	-
Authorised loan facilities' commitment fees	0.2	0.1
Miscellaneous fees	-	-
	46.3	53.3
Interest rate swaps	0.8	-
RPI swaps	-	(0.4)
MBIA financial guarantee fees	-	(2.7)
Finance lease principal (Net)	-	-
Finance lease, VAT on payment	-	-
Senior interest payments	47.1	50.2
Junior debt:		
C1 interest payments	10.2	2.5
Total debt service payments	57.3	52.7

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 April 2007 £m	New Issues £m	Repayment £m	Indexation £m	Closing balance 30 June 2007 £m
Finance leases		766.8				766.8
A1 notes	AAA/Aaa/AAA	350.0				350.0
A4 notes		306.3			2.4	308.7
A5 notes		98.2			0.8	99.0
A6 notes (Note)		101.8			0.8	102.6
B1 notes	A-/A3/A	325.0				325.0
B3 notes		148.7			1.2	149.9
B4 notes		86.8			0.7	87.5
B5 notes		50.9			0.4	51.3
C1 notes	BBB/Baa2/BBB+	125.0				125.0
EIB Loan		135.0		(2.2)		132.8
Local authority loans		3.2				3.2
Authorised loan drawdowns		-				-
		2,497.7		(2.2)	6.3	2,501.8

*Standard and Poor's/Moody's/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 £0.8m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 April 2007 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2007 £m
Free cash balances:					
Receipts account	66.5		161.1	(174.7)	52.9
Payments account	9.2		368.6	(401.6)	(23.8)
Other bank accounts	3.2	2.0	431.1	(433.1)	3.2
	78.9	2.0	960.8	(1,009.4)	32.3
Debt service payment account:					
Debt service ledger	52.1	-	38.6	(57.3)	33.4
Capex reserve account	-		33.2	(33.2)	-
Customer payments account:					
Customer rebate ledger	27.0		-	(6.7)	20.3
	158.0	2.0	1,032.6	(1,106.6)	86.0

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

	Actual			
	Year 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
MBIA financial guarantee fees	4.3	4.9	4.8	4.7
Interest rate & 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

	Actual		Projections		
	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
(See important notice at the front of the document)					
Income	576.5	602.7	644	675	699
Operating expenditure	(213.2)	(228.6)	(239)	(242)	(250)
Pre capital maintenance cashflows	363.3	374.1	405	432	450
Capital maintenance expenditure	(98.1)	(150.2)	(167)	(137)	(110)
Post capital maintenance cashflows	265.2	223.9	239	295	340
Net interest (excluding indexation)	(129.9)	(127.0)	(135)	(134)	(135)
Capital expenditure	(122.3)	(96.7)	(125)	(151)	(110)
Customer rebates	(23.0)	(24.7)	(27)	(28)	(29)
Taxation	-	-	(1)	(1)	(25)
Pre-financing cashflows	(10.0)	(24.5)	(49)	(18)	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	2.2	2.5

Regulatory asset ratio (RAR) – Period 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
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

	Actual		Projections		
	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
(See important notice at the front of the document)					
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)	(20)	(27)	(13)
Total senior net debt	2,230	2,295	2,452	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	2,581	2,658	2,671
Regulatory capital value (RCV) ^[1]	3,042	3,310	3,486	3,632	3,743
Reserves (RCV less total net debt)	683	876	905	974	1,072
Regulatory asset ratio:					
RAR (Senior)	73%	69%	70%	70%	68%
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	74%	73%	71%
RAR (Total debt)	78%	74%	74%	73%	71%

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

Income statement

	3 months ended 30 June 2007	3 months ended 30 June 2006
	£m	£m
Turnover	152.6	144.3
Operating expenditure	(57.5)	(57.5)
EBITDA	95.1	86.8
Infrastructure renewals expenditure	(17.4)	(11.6)
Depreciation	(30.5)	(23.7)
Profit/(loss) on disposal of fixed assets	0.7	(0.1)
Operating profit	47.9	51.4
Interest payable	(39.4)	(34.4)
Interest receivable	1.9	0.7
Fair value gains/(losses) on financial instruments	38.5	38.9
Profit before tax	48.9	56.6
Taxation	-	-
Profit after tax	48.9	56.6

Balance sheet

	At 30 June 2007		At 31 March 2007	
	£m	£m	£m	£m
Fixed assets		2,859.4		2,853.9
Current assets and liabilities:				
Debtors and prepayments	111.4		96.4	
Creditors and accruals	(102.3)		(104.0)	
		9.1		(7.6)
Total assets less current liabilities		2,868.5		2,846.3
Financing liabilities:				
Bonds	(1,599.0)		(1,592.7)	
Finance leases	(766.8)		(766.8)	
EIB Loan	(132.8)		(135.0)	
Authorised loan facilities	-		-	
Other	(3.2)		(3.2)	
	(2,501.8)		(2,497.7)	
Net interest accrual	(66.1)		(94.1)	
	(2,567.9)		(2,591.8)	
Cash and cash equivalents:				
Receipts account	52.9		66.5	
Payments account	(23.8)		9.2	
Capex reserves account	-		-	
Debt service payment account	33.4		52.1	
Customer payments account	20.3		27.0	
Other bank accounts	3.2		3.2	
	86.0		158.0	
Net debt		(2,481.9)		(2,433.8)
Derivative financial instruments		15.1		(55.9)
Provisions for liabilities and charges		(10.3)		(14.1)
Net assets before deferred tax		391.4		342.5
Deferred tax		(388.4)		(388.4)
Net liabilities		3.0		(45.9)