



Investor Report

For the quarter ended 30 September 2008

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).

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General overview and business update

This quarterly Investor Report covers the three month period ending 30 September 2008. 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 report and accounts. These are available on the company's website (www.dwrcymru.com).

Financial performance

Summary financial results for the six month period ended 30 September are as follows:

	Period to 30 September 2008 £m	Period to 30 September 2007 £m	Change
Turnover	328	308	+6%
Operating costs	133	114	+17%
EBITDA (before infrastructure renewals expenditure)	195	194	+0%
Net interest (excluding indexation and amortisation)	66	64	
Capital expenditure (before grants and contributions)	168	131	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the six months to 30 September 2008 is in line with that for the same period last year – in an increasingly challenging economic environment, price increases have been offset by increased power costs, bad debt provisioning and an actuarial loss on the pension scheme, as well as the impact on costs of general inflation.

Turnover in the six months to 30 September 2008 was £328 million, as compared to £308 million in the six months to 30 September 2007. The increase is a reflection of the overall price increase of 7.56% (being the RPI+K increase allowed by Ofwat less the increase in the 'customer dividend' for the year, from £20 per customer to £21 per customer). During the period, 13,000 domestic customers switched to metered charging (2007: 11,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £133 million (2007: £114 million); the increase is predominantly the result of higher power prices (£7 million), an increased bad debt charge (by £3 million) and an actuarial loss in the pension scheme (£2 million), as well as general inflation (£6 million).

Net interest payable in the period (excluding fair value movements) was £81 million (2007: £77 million), including an indexation charge on index-linked debt of £15 million (2007: £13 million). Around 97% of borrowings are at fixed or index-linked rates of interest, in part through the use of RPI swaps, which means that the company has been relatively unaffected by recent volatility in market interest rates.

The regulatory gearing (the ratio of net debt to regulatory capital value) of the company was as follows:

£m	30 September 2008	31 March 2008	30 September 2007
Net debt	2,566	2,531	2,495
Regulatory capital value	3,634	3,529	3,415
Regulatory gearing	71%	72%	73%

The company objective is to reduce regulatory gearing to around 70% and to maintain it at such a level going forward.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £168 million before grants and contributions (2007: £131 million), bringing the total expenditure over the AMP4 period to £976 million.

Ofwat have allowed for an investment programme by the company 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's capital investment over the two years to 31 March 2010 is likely to be at or above £600 million. 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 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.

Credit ratings

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

On 5 June 2008, S&P downgraded the AAA ratings of MBIA to AA and placed the ratings on CreditWatch with negative implications. On 26 June 2008, Fitch withdrew all of its outstanding ratings on MBIA. On 18 September 2008, Moody's placed MBIA's A2 rating on review for possible downgrade.

The underlying ratings of the company's Class A Bonds are unaffected by these reviews and remain at A/A3/A for S&P, Moody's and Fitch respectively. Also the ratings of the company's Class B and C Bonds and the Moody's corporate family rating of Dŵr Cymru Cyfyngedig also remain unaffected and are stable, reflecting the stand alone credit quality of the company.

General overview and business update cont'd

Credit ratings cont'd

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

Bond Class	Moody's	S&P	Fitch
A ¹	A2	AA	A
B	A3	A	A
C	Baa2	BBB+	BBB+

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

Financing and liquidity

As at 30 September 2008, undrawn revolving credit facilities and cash (excluding the debt service reserve account) amounted to £485 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.

On 23 October 2008, the company completed a £100 million loan agreement with the European Investment Bank, which will be used to help finance certain water and waste water capital schemes in the three years to March 2010.

PR09 Business Plan

Glas Cymru submitted to Ofwat its draft business plan for the PR09 period on 11 August 2008. For further details, see the relevant section of the website, www.dwrcymru.com.

Corporate governance

The AGM for the members of Glas Cymru took place on 4 July 2008. All motions proposed by the Board were approved by members.

¹ Guaranteed by MBIA

General overview and business update cont'd

Investors

Glas Cymru held a seventh annual meeting for investors in London on 14 July 2008. At the meeting, the company presented a review of performance during the previous year and their objectives for the future.

If you would like to attend the annual meeting for investors, or would like a one-to-one meeting with the Finance Director and/or Treasurer, please contact Mary Mountjoy (telephone 01443 452353) or send an e-mail request to investors@dwrcymru.com.

Consolidated cash flow

	3 months ended 30 September 2008 £m	6 months ended 30 September 2008 £m	6 months ended 30 September 2007 £m
Turnover	165.1	327.9	307.3
Less: operating expenses	(70.2)	(133.1)	(113.8)
Earnings before interest, taxation, depreciation and amortisation	94.9	194.8	193.5
Working capital movements	38.0	11.4	(31.8)
Non bond-related interest received/(paid)	(0.1)	(0.8)	(0.6)
Swap termination	-	-	(32.5)
Interest received	3.2	5.8	5.0
Net operating cash flow and interest received	136.0	211.2	133.6
New borrowings:			
Finance leases	-	-	-
Class A bonds	-	-	-
Class B bonds	-	-	-
European Investment Bank	-	-	-
Authorised loan facilities (repayments)/drawdowns	-	-	-
Utilisation of reserves:			
Cash transferred to capex reserve	(46.8)	(80.8)	(68.0)
Cash utilised from capex reserve	46.8	80.8	68.0
Cash utilised from other reserves	6.9	13.7	13.5
Capital expenditure:			
Sale proceeds from/(costs of) disposal of assets	(0.1)	(0.1)	0.7
Infrastructure renewals expenditure	(22.4)	(37.5)	(29.6)
Non-infrastructure maintenance	(32.8)	(52.9)	(37.8)
Enhancement expenditure	(46.6)	(72.5)	(50.8)
Net cash flow after capital expenditure, new borrowings and reserve drawings	41.0	61.9	29.6
Transfer to debt service payment account	(36.7)	(72.9)	(75.2)
Principal repayments	(0.2)	(2.4)	(2.2)
Net cash flow after debt service	4.1	(13.4)	(47.8)
Free cash balances brought forward	67.9	85.4	78.9
Free cash balances carried forward	72.0	72.0	31.1

Consolidated debt service payments

	Payments due & made in 3 months ending 30 September 2008 £m	Amount accrued 30 September 2008 £m
Liquidity facility:		
Liquidity facility commitment fee	-	0.2
Senior interest payments:		
Finance lease interest payments	-	54.0
A1 interest payments	-	10.6
A4 interest payments	5.7	-
A5 interest payments	1.8	-
A6 interest payments	-	0.7
B1 interest payments	-	11.2
B3 interest payments	3.4	-
B4 interest payments	2.0	-
B5 interest payments	0.4	-
European Investment Bank loan	2.0	0.3
RCF interest	-	-
RCF commitment fees	0.1	0.1
Miscellaneous fees	0.1	0.8
	15.5	77.9
Interest rate swaps	0.4	-
Senior interest payments	15.9	77.9
Junior debt:		
C1 interest payments	-	5.1
Total debt service payments	15.9	83.0

Glas notes principal balance reconciliation

	Credit rating*	Opening balance 1 July 2008 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 30 September 2008 £m
Finance leases		842.4	-	-	-	842.4
A1 notes	AA/A2/A	350.0	-	-	-	350.0
A4 notes		320.8	-	-	3.0	323.8
A5 notes		102.8	-	-	1.1	103.9
A6 notes (Note)		106.5	-	-	1.1	107.6
B1 notes	A/A3/A	325.0	-	-	-	325.0
B3 notes		155.8	-	-	1.3	157.1
B4 notes		91.0	-	-	0.6	91.6
B5 notes		53.4	-	-	0.4	53.8
C1 notes	BBB+/Baa2/BBB+	125.0	-	-	-	125.0
EIB Loan		128.4	-	-	-	128.4
Local authority loans		3.0	-	(0.2)	-	2.8
Authorised loan draw-downs		-	-	-	-	-
		2,604.1	-	(0.2)	7.5	2,611.4

¹ S&P/Moody's/Fitch ratings

² Guaranteed by MBIA

³ The class A6 notes (£100m) were issued at a fixed rate of 4.473% but swapped into an effective index-linked rate of 1.35%. Cumulative indexation of £7.5m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 July 2008 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2008 £m
Free cash balances:					
Receipts account	54.5	-	163.6	(161.7)	56.4
Payments account	12.2	-	394.4	(391.9)	14.7
Other bank accounts	1.2	3.2	366.5	(370.0)	0.9
	67.9	3.2	924.5	(923.6)	72.0
Debt service payment account:					
Debt service ledger	33.3	-	36.7	(15.9)	54.1
Capex reserve account	-	-	46.8	(46.8)	-
Customer payments account:					
Customer rebate ledger	20.7	-	-	(6.9)	13.8
	121.9	3.2	1,008.0	(993.2)	139.9

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	648.6	694	725
Operating expenditure	(213.2)	(228.6)	(230.8)	(254)	(262)
Pre capital maintenance cash flows	363.3	374.1	417.8	440	463
Capital maintenance expenditure	(98.1)	(150.2)	(146.2)	(152)	(162)
Post capital maintenance cash flows	265.2	223.9	271.6	288	301
Net interest (excluding indexation)	(129.9)	(127.0)	(127.5)	(134)	(135)
Capital expenditure	(122.3)	(96.7)	(136.7)	(165)	(150)
Customer rebates	(23.0)	(24.7)	(25.7)	(27)	(28)
Pre-financing cash flows	(10.0)	(24.5)	(18.3)	(38)	(12)
Interest payable on senior debt:					
Finance leases	31.9	33.7	45.8	48	41
Class A	43.6	36.9	36.4	38	38
Class B	33.5	32.4	33.2	34	35
MBIA financial guarantee fees	4.7	3.6	3.7	4	4
Interest rate swaps	4.2	7.7	(0.2)	(5)	(4)
Authorised loans	5.4	8.5	8.3	13	17
Less interest receivable	(9.7)	(7.4)	(12.2)	(9)	(7)
Total net senior debt interest	113.7	115.4	115.0	123	124
Interest payable on junior debt:					
Class C	13.1	10.2	10.2	10	10
Class D	-	-			
Other	3.1	2.2	2.3	1	1
Total interest payable	129.9	127.8	127.5	134	135
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.3	3.6	3.6	3.7
Total interest cover pre capital maintenance	2.8	2.9	3.3	3.3	3.4
Senior interest cover post capital maintenance (trigger 1.1)	2.3	2.0	2.4	2.3	2.4
Total interest cover post capital maintenance	2.0	1.8	2.1	2.1	2.2

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%	81%	81%
RAR (Total debt)	89%	85%	84%	81%

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	842	837	831
Class A	742	856	875	896	909
Class B	553	611	623	634	641
Net interest accrual on senior debt	29	84	56	55	57
EIB Loan	60	135	131	127	123
Authorised loan facility	120	-	-	120	159
Total senior gross debt	2,244	2,453	2,527	2,669	2,720
Less: cash balances and authorised investments	(14)	(158)	(124)	(150)	(150)
Total senior net debt	2,230	2,295	2,403	2,519	2,570
Class C	125	125	125	125	125
Interest accrual on junior debt	-	10	-	-	-
Local authority loans	4	4	3	3	3
Total net debt	2,359	2,434	2,531	2,647	2,698
Regulatory capital value (RCV) ^[1]	3,042	3,310	3,529	3,695	3,808
Reserves (RCV less total net debt)	683	876	998	1,048	1,110
Regulatory asset ratio:					
RAR (Senior)	73%	69%	68%	68%	67%
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	72%	72%	71%
RAR (Total debt)	78%	74%	72%	72%	71%

[1] as published by Ofwat (RD 07/08) on 21 April 2008

Income statement

	3 months ended 30 September 2008 £m	6 months ended 30 September 2008 £m	<i>6 months ended 30 September 2007 £m</i>
Turnover	165.1	327.9	307.3
Operating expenditure	(70.2)	(133.1)	(113.8)
EBITDA	94.9	194.8	193.5
Infrastructure renewals expenditure	(22.4)	(47.7)	(43.0)
Depreciation	(32.6)	(65.9)	(60.9)
Profit on disposal of fixed assets	(0.1)	(0.1)	0.7
Operating profit	39.8	81.1	90.3
Interest payable	(43.5)	(86.2)	(81.3)
Interest receivable	3.0	5.5	4.3
Fair value (losses)/gains on financial instruments	(51.6)	(71.0)	2.3
(Loss)/profit before tax	(52.3)	(70.6)	15.6
Current taxation	-	-	-
Deferred taxation			
Adjustment in respect of prior periods	2.2	2.2	-
Credit/(charge) at 28%	19.5	19.5	(6.0)
Effect of rate change	-	-	25.9
Effect of industrial buildings allowance abolition	(34.4)	(34.4)	-
	(12.7)	(12.7)	19.9
Taxation	(12.7)	(12.7)	19.9
(Loss)/profit after tax	(65.0)	(83.3)	35.5

Balance sheet

	At 30 September 2008		At 31 March 2008	
	£m	£m	£m	£m
Fixed assets		2,962.7		2,918.5
Current assets and liabilities:				
Debtors and prepayments	130.5		117.0	
Creditors and accruals	(138.2)		(120.4)	
		(7.7)		(3.4)
Total assets less current liabilities		2,955.0		2,915.1
Financing liabilities:				
Bonds	(1,637.8)		(1,623.0)	
Finance leases	(842.4)		(842.4)	
EIB Loan	(128.4)		(130.6)	
Authorised loan facilities	-		-	
Other	(2.8)		(3.0)	
	(2,611.4)		(2,599.0)	
Net interest accrual	(95.3)		(54.0)	
	(2,706.7)		(2,653.0)	
Cash and cash equivalents:				
Receipts account	56.4		74.5	
Payments account	14.7		7.6	
Capex reserves account	-		-	
Debt service payment account	54.1		11.2	
Customer payments account	13.8		27.5	
Other bank accounts	0.9		3.3	
	139.9		124.1	
Net debt		(2,566.8)		(2,528.9)
Derivative financial instruments		(142.3)		(71.3)
Provisions for liabilities and charges		(8.1)		(6.5)
Net assets before deferred tax		237.8		308.4
Deferred tax		(362.8)		(350.1)
Net liabilities		(125.0)		(41.7)

Compliance Certificate

To: Deutsche Trustee Company Limited

12 November 2008

Dear Sirs

Common Terms Agreement dated 10 May 2001 between Dŵr 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 10 to 13 of the Investors Report issued on today's date.

We also confirm that, in the period from 11 June 2008 (being the date of the last published Compliance Certificate) to 12 November 2008 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
Dŵr Cymru Cyfyngedig

C A Jones
Director

N C Annett
Director