



Investor Report

For the quarter ended 30 June 2009

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 unaudited 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. 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 June 2009. The Investor Report 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 3 months ended 30 June are as follows:

	Period to 30 June 2009 £m	Period to 30 June 2008 £m	Change
Turnover	165	163	+1%
Operating costs	66	63	+5%
EBITDA (before infrastructure renewals expenditure)	99	100	-1%
Net interest (excluding indexation and amortisation)	26	33	
Capital expenditure (before grants and contributions)	79	77	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the 3 months to 30 June 2009 is broadly in line with last year – in an increasingly challenging economic environment, price increases have been offset by increases in operating costs and bad debt charges.

Turnover in the 3 months to 30 June 2009 was £165 million, as compared to £163 million in the 3 months to 30 June 2008. The increase is a reflection of the overall price increase of 5.2% (being the RPI+K increase allowed by Ofwat less the increase in the 'customer dividend' for the year, from £21 per customer to £22 per customer). During the period, 5,000 domestic customers switched to metered charging (2008: 8,500).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £66 million (2008: £63 million).

Net interest payable in the period (excluding fair value movements) was £14 million (2008: £40 million), including an indexation credit on index-linked debt of £12 million (2008: charge of £7 million).

Since the year-end the company has taken advantage of market conditions to fix the interest rate on £155 million of finance leases previously at floating rates of interest. Consequently, as at 30 June 2009, nearly all borrowings are at fixed or index-linked rates of interest (in part through the use of RPI swaps), which means that the company is insulated from 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 June 2009	31 March 2009
Net debt	2,652	2,625
Regulatory capital value	3,667	3,626
Regulatory gearing	72%	72%

On Glas Cymru's acquisition of Welsh Water in May 2001, gearing stood at 93% (net debt/RCV). Since then, the financial position of the group has been steadily improved, such that gearing has fallen to 72% as at 30 June 2009 and 'financial reserves' (RCV less net debt) have exceeded £1 billion. The company's policy is to operate at a gearing level of around 70%.

General overview and business update cont'd

Capital investment programme

Capital investment (including infrastructure renewals expenditure) was £79 million before grants and contributions (2008: £77 million), bringing the total expenditure over the AMP4 period to date of £1,241 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 year to 31 March 2010 is likely to be around £350 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 2009 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 11 and 13). 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

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

As of 13 August 2009, the credit ratings of MBIA were B3 and BBB from Moody's and S&P respectively, and MBIA is no longer rated by Fitch.

General overview and business update cont'd

Credit ratings cont'd

The credit ratings of the company's Class A Bonds, which are guaranteed by MBIA, revert to their higher underlying ratings of A3/A/A by Moody's, S&P and Fitch respectively. 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. The current ratings of the company's debt are summarised by the following table:

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

Moody's corporate family rating of Dŵr Cymru Cyfyngedig is A3, one of the strongest ratings in the industry.

Financing and liquidity

As at 30 June 2009, undrawn revolving credit facilities, EIB loans and cash (excluding the debt service reserve account) amounted to £504 million, giving the company a high degree of liquidity. The company's next expected bond maturity is of its Class C1 Bonds (£125 million) in March 2011.

On 2 July 2009, Dŵr Cymru Cyfyngedig completed an authorised loan facility with KfW IPEX-Bank GmbH for £35 million. The loan is currently undrawn and must be fully drawn by 30 December 2009.

General overview and business update cont'd

PR09 Regulatory Price Review

Glas Cymru submitted to Ofwat its final business plan for the PR09 period on 7 April 2009, and on 23 July 2009 Ofwat published its draft determination of price limits. For further details, see the relevant section of the website, www.dwrcymru.com.

Investors

The company's annual investor meeting was held on 14 July 2009; the company delivered a presentation on its performance for the year to 31 March 2009 and investors were given the opportunity to ask questions of the Executive Directors.

If you have any queries in relation to the content of this report, or would like a one-to-one meeting with the Finance Director and/or Treasurer, please contact Gina Cardwell (telephone 01443 452768) or send an e-mail request to investors@dwrcymru.com.

Consolidated cash flow

	3 months ended 30 June 2009 £m	3 months ended 30 June 2008 £m
Turnover	165.2	162.8
Less: operating expenses	(66.4)	(62.9)
Earnings before interest, taxation, depreciation and amortisation	98.8	99.9
Working capital movements	(17.9)	(26.6)
Non bond-related interest paid	(0.3)	(0.7)
Interest received	0.3	2.6
Net operating cash flow and interest received	80.9	75.2
Utilisation of reserves:		
Cash transferred to capex reserve	(46.5)	(34.0)
Cash utilised from capex reserve	46.5	34.0
Net cash utilised from other reserves	7.2	6.8
Capital expenditure:		
Net proceeds from disposal of assets	0.1	-
Infrastructure renewals expenditure	(20.0)	(15.1)
Non-infrastructure maintenance	(28.0)	(20.1)
Enhancement expenditure	(41.3)	(25.9)
Net cash flow after capital expenditure, new borrowings and reserve drawings	(1.1)	20.9
Transfer to debt service payment account	(29.9)	(36.2)
Principal repayments	(2.1)	(2.2)
Net cash flow after debt service	(33.1)	(17.5)
Free cash balances brought forward	95.4	85.4
Free cash balances carried forward	62.3	67.9

Consolidated debt service payments

	Payments due & made in 3 months ending 30 June 2009 £m	Amount accrued 30 June 2009 £m
Liquidity facility:		
Liquidity facility commitment fee	0.1	0.1
Interest on senior debt:		
Finance lease interest payments	5.2	40.2
A1 interest payments	-	5.1
A4 interest payments	-	2.8
A5 interest payments	-	0.9
A6 interest payments	-	0.3
B1 interest payments	-	5.5
B3 interest payments	-	1.7
B4 interest payments	-	1.0
B5 interest payments	-	0.2
European Investment Bank loan interest payments	0.8	0.1
Revolving credit facility commitment fees	0.2	0.1
Miscellaneous fees	0.1	0.1
	6.4	58.1
Interest rate swaps	(0.4)	-
MBIA bond wrapping fee	4.0	-
VAT on finance lease payments	2.0	-
Senior interest payments	12.0	58.1
Interest on junior debt:		
C1 interest payments	-	2.5
	-	2.5
Total debt service payments	12.0	60.6

Glas notes principal balance reconciliation

	Credit rating ¹	Opening balance 1 April 2009 £m	Repayment £m	Indexation £m	Closing balance 30 June 2009 £m
Finance leases		892.1	-	-	892.1
Class A bonds²					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		334.1	-	(4.8)	329.3
A5 notes		107.1	-	(1.5)	105.6
A6 notes ³		111.1	-	(1.8)	109.3
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		162.2	-	(2.5)	159.7
B4 notes		94.5	-	(1.4)	93.1
B5 notes		55.5	-	(0.6)	54.9
Class C bonds					
C1 notes	Baa2/BBB+/BBB+	125.0	-	-	125.0
EIB Loan		151.2	(2.1)	-	149.1
Local authority loans		2.6	-	-	2.6
		2,710.4	(2.1)	(12.6)	2,695.7

¹ Moody's/S&P/Fitch ratings

² Guaranteed by MBIA rated B3/BBB/-. Class A bond ratings default to their higher underlying ratings of A3/A/A.

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 £9.3m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 April 2009 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 June 2009 £m
Free cash balances:					
Receipts account	78.5	-	172.5	(189.3)	61.7
Payments account	16.2	-	407.1	(423.7)	(0.4)
Other bank accounts	0.7	0.3	432.8	(432.8)	1.0
	95.4	0.3	1,012.4	(1,045.8)	62.3
Debt service payment account:					
Debt service ledger	14.9	-	29.9	(12.0)	32.8
Capex reserve account	-	-	46.5	(46.5)	-
Customer payments account:					
Customer rebate ledger	29.0	-	-	(7.2)	21.8
	139.3	0.3	1,088.8	(1,111.5)	116.9

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 1.0)	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 (year to 31 March 2010 based on 2009 business plan)

	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
(See important notice at the front of the document)					
Income	576.5	602.7	648.6	684.2	709
Operating expenditure	(213.2)	(228.6)	(230.8)	(266.9)	(276)
Pre capital maintenance cash flows	363.3	374.1	417.8	417.3	433
Capital maintenance expenditure	(98.1)	(150.2)	(146.2)	(189.1)	(167)
Post capital maintenance cash flows	265.2	223.9	271.6	228.2	266
Net interest (excluding indexation)	(129.9)	(127.0)	(127.5)	(124.3)	(115)
Capital expenditure	(122.3)	(96.7)	(136.7)	(152.3)	(183)
Customer rebates	(23.0)	(24.7)	(25.7)	(27.0)	(28)
Pre-financing cash flows	(10.0)	(24.5)	(18.3)	(75.4)	(60)
Interest payable on senior debt:					
Finance leases	31.9	33.7	45.8	42.6	22
Class A	43.6	36.9	36.4	41.2	38
Class B	33.5	32.4	33.2	34.0	34
MBIA financial guarantee fees	4.7	3.6	3.7	3.6	4
Interest rate swaps	4.2	7.7	(0.2)	(7.9)	4
Authorised loans	5.4	8.5	8.3	7.2	5
Less interest receivable	(9.7)	(7.4)	(12.2)	(8.6)	(3)
Total net senior debt interest	113.7	115.4	115.0	112.1	104
Interest payable on junior debt:					
Class C	13.1	10.2	10.2	10.3	10
Class D	-	-	-	-	-
Other	3.1	2.2	2.3	1.9	1
Total interest payable	129.9	127.8	127.5	124.3	115
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.3	3.6	3.7	4.2
Total interest cover pre capital maintenance	2.8	2.9	3.3	3.4	3.8
Senior interest cover post capital maintenance (trigger 1.0)	2.3	2.0	2.4	2.0	2.6
Total interest cover post capital maintenance	2.0	1.8	2.1	1.8	2.3

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 (year to 31 March 2010 based on 2009 business plan)

	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
(See important notice at the front of the document)					
Senior gross debt:					
Finance leases	740	767	842	892	884
Class A	742	856	875	902	898
Class B	553	611	623	637	647
Net interest accrual on senior debt	29	84	56	54	32
EIB loan	60	135	131	151	222
Authorised loan facility	120	-	-	-	76
Total senior gross debt	2,244	2,453	2,527	2,636	2,759
Less: cash balances and authorised investments	(14)	(158)	(124)	(139)	(150)
Total senior net debt	2,230	2,295	2,403	2,497	2,609
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	2,625	2,737
Regulatory capital value (RCV)	3,042	3,310	3,529	3,626^[1]	3,717
Reserves (RCV less total net debt)	683	876	998	1,001	980
Regulatory asset ratio:					
RAR (Senior)	73%	69%	68%	69%	70%
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	72%	72%	74%
RAR (Total debt)	78%	74%	72%	72%	74%

[1] as published by Ofwat (RD 06/09) on 14 May 2009 (incorporating amendments per Ofwat letter of 2 May 2008)

Income statement

	3 months ended 30 June 2009 £m	3 months ended 30 June 2008 £m
Turnover	165.2	162.8
Operating expenditure	(66.4)	(62.9)
EBITDA	98.8	99.9
Infrastructure renewals expenditure	(16.9)	(25.3)
Depreciation	(34.7)	(33.3)
Profit on disposal of fixed assets	0.1	-
Operating profit	47.3	41.3
Interest payable	(14.4)	(42.7)
Interest receivable	0.8	2.5
Fair value gains/(losses) on financial instruments	50.1	(19.4)
Profit/(loss) before tax	83.8	(18.3)
Taxation	-	-
Profit/(loss) after tax	83.8	(18.3)

Statement of recognised income and expense

	3 months ended 30 June 2009 £m	3 months ended 30 June 2008 £m
Profit/(loss) for the period	83.8	(18.3)
Actuarial loss in the pension scheme	-	-
Movement on related deferred tax asset	-	-
Total recognised gains/(losses) for the period	83.8	(18.3)

Balance sheet

	At 30 June 2009		At 31 March 2009	
	£m	£m	£m	£m
Fixed assets		3,050.1		3,026.2
Current assets and liabilities:				
Debtors and prepayments	124.2		107.1	
Creditors and accruals	(113.7)		(132.4)	
		10.5		(25.3)
Total assets less current liabilities		3,060.6		3,000.9
Financing liabilities:				
Bonds	(1,651.9)		(1,664.5)	
Finance leases	(892.1)		(892.1)	
European Investment Bank loan	(149.1)		(151.2)	
Other	(2.6)		(2.6)	
	(2,695.7)		(2,710.4)	
Net interest accrual	(72.9)		(54.5)	
	(2,768.6)		(2,764.9)	
Cash and cash equivalents:				
Receipts account	61.7		78.5	
Payments account	(0.4)		16.2	
Debt service payment account	32.8		14.9	
Customer payments account	21.8		29.0	
Other bank accounts	1.0		0.7	
	116.9		139.3	
Net debt		(2,651.7)		(2,625.6)
Derivative financial instruments		(107.7)		(157.8)
Provisions for liabilities and charges		(16.7)		(16.8)
Net assets before deferred tax		284.5		200.7
Deferred tax		(352.8)		(352.8)
Net liabilities		(68.3)		(152.1)