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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 30 September 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).

Contents

General overview and business update

This quarterly Investor Report covers the three month period ending 30 September 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 6 months ended 30 September are as follows:

	Period to 30 September 2009 £m	Period to 30 September 2008 £m	Change
Turnover	339	328	+3%
Operating costs	129	131	-1%
EBITDA (before infrastructure renewals expenditure)	**210**	**197**	**+6%**
Net interest (excluding indexation and amortisation)	58	66	
Capital expenditure (before grants and contributions)	170	168	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the 6 months to 30 September 2009 is slightly higher than last year – while the economic environment remains challenging, resulting in demand reductions and increased bad debt charges, the effect of these has been outweighed by the impact of price increases and falling power costs.

Turnover in the 6 months to 30 September 2009 was £339 million, as compared to £328 million in the 6 months to 30 September 2008. The increase is a reflection of the overall price increase of 5.4% (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, 11,500 domestic customers switched to metered charging (2008: 13,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £129 million (2008: £131 million); the major variances result from power cost reductions (£4 million) offset by bad and doubtful debt charges (£3 million).

Net interest payable in the period (excluding fair value movements) was £58 million (2008: £66 million), including an indexation credit on index-linked debt of £25 million (2008: charge of £15 million). Indexation for the 6 months to September 2009 is based on the movement in the Retail Prices Index (RPI) from July 2008 (216.5) to January 2009 (210.1). As inflation was negative over this period, this results in a credit to the income statement of £25m. RPI in the prior period rose from 206.1 to 209.8, resulting in a charge of £15m.

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 September 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 September 2009**	**31 March 2009**
Net debt	2,654	2,625
Regulatory capital value	3,704	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 September 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 £170 million before grants and contributions (2008: £168 million), bringing the total expenditure over the AMP4 period to date of £1,332 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 for the full year to 31 March 2010 will be around £350 million. This is 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 11 November 2009, the credit ratings of MBIA were B3 and BB+ 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 September 2009, undrawn revolving credit facilities, EIB loans and cash (excluding the debt service reserve account) amounted to £526 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

Ofwat is currently engaged in its Price Review for the period 2010-2015 ('PR09'), which will determine the price limits, investment allowances and service targets for each of the water companies. 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. The Final Determination will be published on 26 November 2009. In the event that Welsh Water does not accept Ofwat's Final Determination, it has the option to appeal to the Competition Commission within the following two months. For further details, see the relevant section of the website, www.dwrcymru.com.

New non-executive director

On 26 October 2009, Professor Stephen Palmer, Head of Profession for Epidemiology at the Health Protection Agency, was appointed a non-executive director of Glas Cymru Cyfyngedig and Dŵr Cymru Cyfyngedig.

Investors

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 September 2009 £m	6 months ended 30 September 2009 £m	6 months ended 30 September 2008 £m
Turnover	173.3	338.5	327.9
Less: operating expenses	(63.0)	(129.4)	(133.1)
Earnings before interest, taxation, depreciation and amortisation	110.3	209.1	194.8
Working capital movements	(5.3)	(23.2)	11.4
Non bond-related interest received/(paid)	(1.9)	(2.2)	(0.8)
Interest received	2.2	2.5	5.8
Net operating cash flow and interest received	105.3	186.2	211.2
Utilisation of reserves:			
Cash transferred to capex reserve	(57.3)	(103.8)	(80.8)
Cash utilised from capex reserve	57.3	103.8	80.8
Net cash (transferred to)/utilised from other reserves	7.3	14.5	13.7
Capital expenditure:			
Net (costs of)/proceeds from disposal of assets	-	0.1	(0.1)
Infrastructure renewals expenditure	(16.7)	(36.7)	(37.5)
Non-infrastructure maintenance	(28.8)	(56.8)	(52.9)
Enhancement expenditure	(42.5)	(83.8)	(72.5)
Net cash flow after capital expenditure, new borrowings and reserve drawings	24.6	23.5	61.9
Transfer to debt service payment account	(30.3)	(60.2)	(72.9)
Principal repayments	(0.1)	(2.2)	(2.4)
Net cash flow after debt service	(5.8)	(38.9)	(13.4)
Free cash balances brought forward	62.3	95.4	85.4
Free cash balances carried forward	56.5	56.5	72.0

Consolidated debt service payments

	Payments due & made in 3 months ending 30 September 2009 £m	Amount accrued 30 September 2009 £m
Liquidity facility:		
Liquidity facility commitment fee	0.5	0.3
Interest on senior debt:		
Finance lease interest payments	-	46.0
A1 interest payments	-	10.4
A4 interest payments	5.7	-
A5 interest payments	1.8	-
B1 interest payments	-	11.1
B3 interest payments	3.5	3.4
B4 interest payments	2.0	2.0
B5 interest payments	0.4	0.4
European Investment Bank loan interest payments	0.6	-
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	0.4	0.3
	15.0	73.9
Interest rate swaps	4.1	-
RPI bond swap	0.7	-
VAT on finance lease payments	-	-
Senior interest payments	19.8	73.9
Interest on junior debt:		
C1 interest payments	-	-
	-	-
Total debt service payments	19.8	73.9

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 July 2009 £m	Repayment £m	Indexation £m	Closing balance 30 September 2009 £m
Finance leases		892.1	-	-	892.1
Class A bonds[2]					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		329.3	-	(5.0)	324.3
A5 notes		105.6	-	(1.6)	104.0
A6 notes[3]		109.3	-	(1.6)	107.7
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		159.7	-	(2.3)	157.4
B4 notes		93.1	-	(1.3)	91.8
B5 notes		54.9	-	(1.0)	53.9
Class C bonds					
C1 notes	Baa2/BBB+/BBB+	125.0	-	-	125.0
EIB Loan		149.1	-	-	149.1
Local authority loans		2.6	(0.1)	-	2.5
		2,695.7	(0.1)	(12.8)	2,682.8

[1] *Moody's/S&P/Fitch ratings*

[2] *Guaranteed by MBIA rated B3/BB+/-. 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 July 2009 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 30 September 2009 £m
Free cash balances:					
Receipts account	61.7	-	174.9	(179.7)	56.9
Payments account	(0.4)	-	562.2	(563.1)	(1.3)
Other bank accounts	1.0	2.2	483.6	(485.9)	0.9
	62.3	2.2	1,220.7	(1,228.7)	56.5
Debt service payment account:					
Debt service ledger	32.8	-	30.3	(19.8)	43.3
Capex reserve account	-	-	57.3	(57.3)	-
Customer payments account:					
Customer rebate ledger	21.8	-	-	(7.3)	14.5
	116.9	2.2	1,308.3	(1,313.1)	114.3

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)

(See important notice at the front of the document)	Actual Year to 31 March 2006 £m	Actual Year to 31 March 2007 £m	Actual Year to 31 March 2008 £m	Actual Year to 31 March 2009 £m	*Projections Year to 31 March 2010 £m*
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)

(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	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 (unaudited)

	3 months ended 30 September 2009 £m	6 months ended 30 September 2009 £m	*6 months ended 30 September 2008 £m*
Turnover	173.3	338.5	327.9
Operating expenditure	(63.0)	(129.4)	(131.0)
EBITDA	110.3	209.1	196.9
Infrastructure renewals expenditure	(25.5)	(42.3)	(47.7)
Depreciation	(35.1)	(69.8)	(65.9)
Profit on disposal of fixed assets	-	0.1	(0.1)
Operating profit	49.7	97.1	83.2
Interest payable	(20.5)	(35.0)	(86.3)
Interest receivable	1.7	2.5	5.5
Fair value losses on financial instruments	(30.5)	19.6	(71.0)
(Loss)/profit before tax	0.4	84.2	(68.6)
Deferred taxation			
Adjustment in respect of prior years	(0.6)	(0.6)	2.2
Credit/(charge) at 28%	(23.9)	(23.9)	18.9
Effect of abolition of Industrial Buildings Allowances	-	-	(34.4)
Taxation	(24.5)	(24.5)	(13.3)
(Loss)/profit after tax	(24.1)	59.7	(81.9)

Statement of comprehensive income (unaudited)

	3 months ended 30 September 2009 £m	6 months ended 30 September 2009 £m	*6 months ended 30 September 2008 £m*
(Loss)/profit for the period	(24.1)	59.7	(81.9)
Actuarial loss in the pension scheme	(1.1)	(1.1)	(2.0)
Movement on related deferred tax asset	0.3	0.3	0.6
Total recognised (losses)/gains for the period	(24.9)	58.9	(83.3)

Balance sheet (unaudited)

	At 30 September 2009		At 31 March 2009	
	£m	£m	£m	£m
Fixed assets		3,078.4		3,026.2
Current assets and liabilities:				
Debtors and prepayments	127.2		107.1	
Creditors and accruals	(110.8)		(132.4)	
		16.4		(25.3)
Total assets less current liabilities		3,094.8		3,000.9
Financing liabilities:				
Bonds	(1,639.1)		(1,664.5)	
Finance leases	(892.1)		(892.1)	
European Investment Bank loan	(149.1)		(151.2)	
Other	(2.5)		(2.6)	
	(2,682.8)		(2,710.4)	
Net interest accrual	(85.7)		(54.5)	
	(2,768.5)		(2,764.9)	
Cash and cash equivalents:				
Receipts account	56.9		78.5	
Payments account	(1.3)		16.2	
Debt service payment account	43.3		14.9	
Customer payments account	14.5		29.0	
Other bank accounts	0.9		0.7	
	114.3		139.3	
Net debt		**(2,654.2)**		**(2,625.6)**
Derivative financial instruments		(138.2)		(157.8)
Provisions for liabilities and charges		(18.8)		(16.8)
Net assets before deferred tax		**283.6**		**200.7**
Deferred tax		(377.0)		(352.8)
Net liabilities		**(93.4)**		**(152.1)**

Compliance Certificate

To: Deutsche Trustee Company Limited **11 November 2009**

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 Investor Report issued on today's date.

We also confirm that, in the period from 5 June 2009 (being the date of the last published Compliance Certificate) to 11 November 2009 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