

19 November 2004

NEWS FROM DWR CYMRU WELSH WATER

**GLAS CYMRU INTERIM RESULTS PUBLISHED
FOR THE SIX MONTHS TO 30 SEPTEMBER 2004**

Glas Cymru has today published its interim results for the six months to 30 September 2004, highlighting that Dwr Cymru Welsh Water's customer service levels and environmental performance remain among the highest in the industry.

The company is also announcing today that Mike Brooker, the Managing Director, has advised of his intention to retire at the end of the financial year and that it has appointed Nigel Annett as his successor.

Glas Cymru is the company that has owned Dwr Cymru Welsh Water since May 2001, with the single purpose of delivering high quality services to customers. Glas Cymru has no shareholders and reinvests all financial surpluses for the benefit of Dwr Cymru Welsh Water customers.

Interim Results

Highlights of the interim results include:

- Dwr Cymru Welsh Water was the best performing water and sewerage company in industry regulator Ofwat's "Overall Performance Assessment" over the last two years combined. Prior to its acquisition by Glas Cymru, Welsh Water was ranked seventh.
- Profit after tax (before the amortisation of negative goodwill) of £8 million, which will be reinvested in the company for the benefit of its customers.
- For the second year running, Welsh Water is the only water and sewerage company to give rebates on bills – worth £9 per customer (at an annual cost of some £12 million).
- Key regulatory measures for levels of service, water quality and environmental quality continuing to show very good performance.
- Capital investment continuing at a high level, with £121 million being spent over the six months, contributing to an improving environment in Wales.
- Recent confirmation from the Welsh Assembly Government shows that 100% of bathing waters passed the "mandatory" standard this year and 86% passed the higher "Guideline" standard.
- Financial gearing (net debt to Regulatory Capital Value) reduced to 83% - down from 93% in 2001.

Commenting on the performance and financial results, Glas Cymru chairman Lord Burns said, "Our financial performance is on track and service to our customers continues to be amongst the best in the industry."

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“As part of the Regulatory Price Review, in August 2004 Ofwat published its draft determination of price limits for the five year period 2005-2010. Throughout the process we have consulted with all our stakeholders to seek views on the right balance between the investment required for environmental quality and service improvements, and the consequent increase in customers’ bills to finance that investment. We will receive Ofwat’s final determination in December, after which we will be able to decide how best to respond to the challenges that will face Welsh Water and its customers.”

Management Changes

The board of Glas Cymru has also announced today that Nigel Annett will become Managing Director with effect from 1 January 2005. Nigel, currently Executive Director, will succeed Mike Brooker who will be retiring at the end of the financial year.

Chris Jones will continue as Finance Director and it has been decided that a new post of Operations Director will be created in 2005 to complete the executive management team.

Commenting on the management changes, Lord Burns said: “The Board would like to thank Mike Brooker for his tremendous contribution to the water industry in Wales. His leadership of Welsh Water at the time of its transfer of ownership to Glas Cymru was absolutely crucial to its success. The clear direction he has given to the business since 2001 has delivered a step change improvement in customer service such that Welsh Water is now the leading company in the sector. Mike is handing over the reins with the business in good shape, and we wish him all the very best in his retirement.

“Nigel Annett and Chris Jones have extensive experience of the privatised water sector. Together they designed and implemented the unique business model for the management and financing of water and sewerage assets that Glas Cymru employs today. The Board is confident that it has the right team to take the business forward in the years ahead”.

Ends

Enquiries to the Welsh Water Press Office on **029 2055 6140**

Notes for Editors

1. Glas Cymru was formed in April 2000 for the sole purpose of acquiring Welsh Water. It is a company limited by guarantee, which makes Glas Cymru the same as any other company except for one important difference – it does not have shareholders. This means that all financial surpluses are retained within the business for the benefit of Welsh Water and its customers. It also means that Welsh Water’s only concern is its responsibility as a water and sewerage company. Under Glas Cymru’s ownership Welsh Water cannot diversify into new and riskier business activities.

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2. Welsh Water is the regulated company that provides water and sewerage services to over three million people living and working in Wales as well as some adjoining parts of England. In all, Welsh Water has 1.2 million household customers and 110,000 business customers.
3. Glas Cymru acquired Welsh Water on 11 May 2001. The ratio of net debt to Regulatory Capital Value (RCV), a key measure of financial performance, is reported on the basis prescribed in the bond documentation and is taken from the Quarterly Investor Report for September 2004.
4. At its first Annual General Meeting in July 2001, Glas Cymru announced a target of £23 million of bill rebates by 2005 for Welsh Water customers. The first of these rebates was confirmed in February 2003 with bills for 2003/04 set at a level £12 million below the price cap allowed by Ofwat. The same level of rebate has continued in 2004/05.
5. Since the takeover by Glas Cymru in 2001, the level of Welsh Water customers' bills has come down relative to the average for the water companies as a whole. In 1999, Welsh Water bills were 21% higher than average. By 2004, Welsh Water bills are 15% higher than average.
6. In May 2001, Glas Cymru completed one of the largest sterling bond issues ever seen in the UK to finance the change in ownership and to fund Welsh Water's continuing capital investment programme. The bond issue raised £1,910 million and was very successful, being 70% over-subscribed. By funding Welsh Water's assets with long term, low risk bonds, Glas Cymru has cut Welsh Water's annual financing costs by some £50 million a year. In the first instance these savings are being used to build up financial reserves and protect the Company from unforeseen circumstances, such as a major drought, and also to improve Welsh Water's credit quality so that it can reduce its financing costs still further in the years ahead.
7. In April 2001, major outsourced service contracts were let by Welsh Water, following a competitive tendering process, to United Utilities (water and wastewater operations) and Thames Water (customer billing and contact). Other significant service providers include Severn Trent, Wessex Water, Logica, Petrofac, the City and County of Swansea and Carmarthenshire County Councils. In April 2003, Welsh Water issued calls for competition in the European Journal for companies to express an interest in bidding for similar contracts to start when the current contract periods come to an end in April 2005. The company is now in the final stages of the competitive re-letting of contracts for its main operations, billing and income, and capital investment activities which will come into effect from 1 April 2005.
8. The full version of Glas Cymru's interim financial announcement is available at www.glascymru.com and www.dwrcymru.com
9. Directors are appointed by the Nominations Committee which comprises all the Non-Executive Directors.

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10. Nigel Annett (46) and Chris Jones (40) were founder directors of Glas Cymru, having previously been executive directors of Welsh Water. The acquisition was financed by one of the largest UK bond issues ever seen, totalling some £1,910 million. Glas Cymru is a private sector company with no shareholders, and is run solely for the benefit of its customers, with all financial surpluses being reinvested in additional environmental improvement projects or returned to customers as bill rebates.

11. As Executive Director of Glas Cymru, Nigel Annett currently has particular responsibility for regulatory affairs and the delivery of Welsh Water's capital investment programme. He will become Managing Director on 1 January 2005.

Nigel was a director of Welsh Water from 1992 to 1999. In 2000, with Chris Jones, he formed Glas Cymru, a not-for-profit company that acquired Welsh Water in May 2001.

Prior to joining Welsh Water, Nigel was an investment banker holding senior positions with Schroders, County NatWest and Wasserstein Perella, where he was Vice President.

12. Chris Jones has been Finance Director of Welsh Water, since its acquisition by Glas Cymru in May 2001. He is a former Regulation Director of Welsh Water and South Wales Electricity PLC.

Previously, Chris has been a Director in the London office of National Economic Research Associates (NERA) where he gave advice to governments, private companies and institutions such as the World Bank and EBRD on a range of economic and financial issues, including utility regulation, financing infrastructure investment and privatisations. He began his career working for H.M.Treasury.

13. Mike Brooker joined the Board of Glas Cymru as Managing Director when it secured ownership of Welsh Water in May 2001. He has been an Executive Director of Welsh Water since privatisation in 1989 and Managing Director since 1997, having first joined Welsh Water in 1980. Mike will stay with the business until the end of this financial year, working closely with the rest of the executive team to ensure an effective hand-over of responsibilities.