

## Interim Results for the six months to 30 September 2002

### Glas Cymru confirms further progress with improvements in customer service and financial performance

Glas Cymru Cyfyngedig today announced its second set of interim financial results, which show improvements in both financial and operational performance.

#### Operational performance and customer service highlights:

- Overall customer service and environmental performance ranked third in the industry in Ofwat's "Overall Performance Assessment" for 2001 - 02, up from seventh in 2000 - 01.
- 100% bathing beach compliance in Wales, with 83% of designated beaches also achieving the "Guideline" compliance standard required for the "Blue Flag" award, up from 60% in 2001.
- Most key regulatory measures for levels of service, water quality and environmental quality better than in the same period last year.
- Welsh Water's £1.2 billion AMP3 capital investment programme is delivering significant improvements in customer service and environmental performance.

#### Financial highlights:

- Profits of £16 million will, as usual, be retained in the business for the benefit of customers.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) of £133 million.
- Financial performance on track to deliver the forecasts made in the Quarterly Investor Report at the start of the year, including financial reserves of £400 million by 31 March 2005.
- Customer bill rebates totalling £23 million over the next 2 years on track to begin in April 2003.

Glas Cymru chairman, Lord Burns, said: "These results demonstrate continued good progress in Glas Cymru's financing and competitive procurement strategies. Glas Cymru's corporate structure means that the efficiency benefits of these strategies go to customers. To date, the Board has announced additional investment to improve customer service and environmental quality of £41 million and planned customer bill rebates worth £23 million by 2005. The benefits of this investment are now starting to feed through to customers."

He continued: "There is much to do to achieve the standards of excellence we are striving for, but these results demonstrate further progress in the right direction."

## 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” registered under the Companies Act 1985. Glas Cymru has no shareholders. Instead, Members carry out an important corporate governance role but they do not receive dividends nor do they have any other financial interest in the Company. This corporate structure ensures that all financial surpluses generated are retained and reinvested for the benefit of Welsh Water and its customers.
2. Glas Cymru’s constitution strictly limits its purpose to that of financing water assets in Welsh Water’s area of appointment and managing Welsh Water’s business so that high quality water and sewerage services are delivered at least cost to the communities served by Welsh Water. Glas Cymru cannot diversify into other unrelated commercial activities.
3. Welsh Water is the sixth largest of the ten water and sewerage companies in England and Wales. It provides water and sewerage services to more than three million people working and living in Wales and some adjoining parts of England. In all, Welsh Water has 1.2 million household customers and over 100,000 business customers. Welsh Water’s primary responsibility is to ensure a clean and reliable supply of drinking water and to deal effectively with wastewater so as to protect the environment. Under Welsh Water’s competitive procurement strategy, specialist service providers are contracted to carry out much of the day to day operation of assets and service delivery. In April 2001, major service delivery and asset management contracts were let by Welsh Water, following a competitive tendering process governed by EU Procurement Rules, to United Utilities (water and wastewater operations) and Thames Water (customer billing and contact). Other significant service providers working with Welsh Water include Severn Trent Laboratories, Wessex Water Enterprises, Logica, PGS Atlantic Power, City and County of Swansea, and Carmarthenshire County Council. All aspects of Welsh Water’s water and wastewater activities are subject to extensive performance monitoring against standards and service targets set by industry regulators and the Government. Price limits, investment plans and targets are agreed with industry regulators every five years. Welsh Water’s current plans (“AMP3”), which include capital investment of £1.2 billion, cover the five years to 31 March 2005.
4. Glas Cymru has cut the cost of financing Welsh Water’s assets, its single biggest cost and (under Ofwat’s assumptions) absorbing nearly a third of revenues. In May 2001, Glas Cymru successfully 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 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 will be used to build up financial reserves. As the financial reserves grow and the credit quality of the Company improves it will be possible to deliver increasing benefits to Welsh Water customers by way of bill rebates and additional investment in improved services. Financial reserves in Glas Cymru are measured as Regulatory Capital Value (set by Ofwat, the water industry economic regulator) less net debt. The Board is now targeting financial reserves of £400 million by March 2005, as compared to a forecast of £340 million made in the bond issue prospectus in May 2001.
5. At its first Annual General Meeting in July 2001, Glas Cymru announced a target of £23m of bill rebates by 2005 for Welsh Water customers. In November 2001 Glas Cymru announced the £41 million re-investment of targeted savings on its AMP3 capital investment programme to deliver additional improvements for customers in a number of high priority areas:
  - £23 million on reducing the risk of sewage flooding to 250 properties;
  - £9 million on enhancing water resources in mid and south Ceredigion;
  - £6 million on accelerated refurbishment at wastewater treatment works; and
  - £3 million on additional water treatment processes.