

NEWS FROM WELSH WATER
Financial Results for the year to 31 March 2005

**Welsh Water customers benefit from excellent service
and an £18 'customer dividend'**

Glas Cymru has today published its results for the year to 31 March 2005, highlighting that Welsh Water's customer service levels and environmental performance remain amongst the best in the water industry.

Glas Cymru is the Company that has owned Welsh Water since May 2001, with the single purpose of delivering better value services to its customers. Glas Cymru has no shareholders and reinvests all financial surpluses for the benefit of Welsh Water's customers.

Financial highlights include:

- Profit before tax of £28 million (before the amortisation of negative goodwill), which will be retained for the benefit of customers (2004: loss of £3 million) ^{see note 3}
- From April 2005, customers benefit from an £18 'customer dividend' (at an annual cost of £23 million) – double the level received in each of the previous two years
- Financial gearing (the ratio of net debt to Regulatory Capital Value) reduced to 81% - down from 93% in May 2001 ^{see note 4}
- Moody's upgrade of the credit rating of the Class C bonds, reflecting the Group's improved financial position
- More than £1 billion raised from investors since 2001 to fund capital investment and re-finance bonds on improved terms
- Operating costs reduced by a further 3% in real terms

Operational and performance highlights include:

- Best performing water and sewerage Company in industry regulator Ofwat's 'Overall Performance Assessment' over the two years 2002-03 and 2003-04 combined
- Key regulatory measures for levels of service, water quality and environmental performance have all been maintained at similar high levels in 2004-05
- £1,193 million five year capital investment programme completed on time and on budget, bringing major benefits to the local environment
- A record number of 41 Blue Flag beaches in Wales, more than a third of the UK total, demonstrating the highest bathing water quality, together with 41 equivalent Green Coast awards for rural beaches
- Reduction in customer complaints by 55% over the last three years

Commenting on the performance and financial results, Glas Cymru Chairman Lord Burns said, "I am delighted that Welsh Water's customers are now seeing the benefits of our unique business model, including an £18 'customer dividend' this year. Only Welsh Water pays a 'customer dividend' and in this way chooses to

charge its customers less than allowed by Ofwat. Customers are also continuing to benefit from levels of service which are amongst the best in the water industry.”

Following the completion of the Regulatory Price Review by Ofwat for the five-year period to March 2010, the Company is now able to plan for a continuation of the high rates of investment in environmental and drinking water quality improvements across the region it serves. Challenging targets for further improvements in efficiency, both in operations and in capital investment, have been set by Ofwat and the Company is committed to achieving these targets.

During the year, Welsh Water completed the first major re-tendering of outsourced contracts for service delivery, asset investment and customer billing. A successful transition to new, longer-term service delivery contracts was made on 1 April 2005, without any negative impact on customer service.

Lord Burns added, “Following the completion of Ofwat’s Regulatory Price Review and our new outsourcing arrangements, Welsh Water and its new partners are able to plan for further improvements in service performance and cost efficiency in the years ahead. We are committed to better value for money for our customers and are confident that we have in place the plans to deliver it.”

Ends

For further information contact the Glas Cymru press office on 02920 556140.

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. Profit before tax as reported in the accounts was £75 million (2004: £44 million) but this includes an accounting credit of £47 million in both years in respect of the amortisation of negative goodwill, the inclusion of which would not, in the opinion of management, be helpful in reflecting the underlying performance of the Group.
4. Net debt as defined for financial covenant purposes in the Common Terms Agreement (CTA) for the Group’s financing programme.
5. Dwr Cymru Welsh Water outsources the provision of operational and customer services and the delivery of its investment programme. Working closely in a partnership framework with industry specialists delivers constantly improving business performance and benefits customers.