



Glas Cymru Cyfyngedig

Press Release

3 November 2000

Glas to acquire Welsh Water from WPD

The Board of Glas Cymru Cyfyngedig ("Glas") is pleased to announce that it has reached agreement with Western Power Distribution ("WPD") on terms for Glas to acquire Welsh Water from WPD. The agreement, which is subject to contract as well as regulatory and other approvals, values Welsh Water at approximately £1.8 billion. Welsh Water is the regulated water and sewerage business serving much of Wales and some adjoining areas in England which WPD acquired following the take-over of Hyder plc in September 2000.

Glas is a new and independent company, registered and based in Wales, which was formed earlier this year for the sole purpose of acquiring and owning Welsh Water. The acquisition of Welsh Water by Glas will ensure that the ownership and control of Welsh Water is secured for the long term. The Board of Glas believes that this will be in the best interests of Welsh Water, its customers and the environment of Wales.

In summary, Glas's plans will:

- offer the prospect of lower bills for Welsh Water customers. The Board of Glas believes its offer will allow Welsh Water to reduce customer water bills before the next regulatory price review in 2005;
- ensure that Welsh Water retains overall responsibility for providing safe drinking water and protecting the environment;
- secure continued investment in the water industry and environment in Wales;
- create a stable, long term ownership structure for Welsh Water, ensuring that customers' interests are fully recognised;
- ensure that ownership and control of Welsh Water remains in Wales; and
- focus the management of Welsh Water exclusively on, and hold them directly accountable for, the efficient provision of high quality services to Welsh Water customers at the lowest available cost.

Glas is a company limited by guarantee and is owned and controlled by members who will not receive dividends or have any other financial interest in the company. Under Glas's constitution, all financial surpluses will be used for the benefit of Welsh Water, its customers and the environment. Its constitution also limits Glas's business to the provision of water and sewerage services in Welsh Water's area of appointment. The company cannot diversify into other activities.

Under Glas's ownership, Welsh Water will out-source under competitive contract the day to day operation of assets and the provision of customer services. This will

increase the proportion of Welsh Water's annual expenditure carried out by service providers from around 60% currently to just over 80%. Contracted service providers will give Welsh Water the benefit of competitive prices and best practice. Welsh Water will retain overall responsibility for providing safe and reliable drinking water and for protecting the environment, and will also retain the people and resources necessary to ensure this responsibility continues to be met. Glas will ensure that Welsh Water's £1.2 billion capital investment programme recently agreed with the National Assembly, Ofwat, the Environment Agency and the Drinking Water Inspectorate is carried out as planned.

Fundamental to Glas's plans is its ability to finance Welsh Water's assets with strong investment grade bonds. Glas's plans will re-establish Welsh Water's credentials as a provider of a low risk and essential public service. This will allow Welsh Water to raise the new capital it needs to fund its investment programme and also to keep overall costs as low as possible. Because Glas has no ordinary shareholders, the benefits of a lower cost of capital will go to Welsh Water's customers. The Board of Glas believes that it will be able to secure for Welsh Water a solid investment grade rating which will allow it to raise long term capital on attractive terms.

The Chairman of Glas is Lord Burns, former Permanent Secretary to H M Treasury and currently a non-executive director of Legal & General plc, Pearson plc and British Land plc. Lord Burns has recently been appointed Chairman of the National Lottery Commission. The non-executive directors are Geraint Talfan Davies, former Controller of BBC Wales and current Chairman of the Institute of Welsh Affairs, and Alison Carnwath, who has held a wide range of senior posts in the City and is currently Chairman of Vitec Group plc and a non-executive director of the Nationwide Building Society and Skillsgroup plc. Further non-executive directors will be appointed in due course.

The two executive directors of Glas are Nigel Annett and Chris Jones who until recently were directors of Welsh Water. Mike Brooker, currently managing director of Welsh Water, will join the board of Glas on completion of the transaction. The experienced and highly qualified management team currently running Welsh Water will stay with the business.

Preliminary discussions have been held with the National Assembly and with Ofwat (who will be consulting on this proposed transaction). Lord Burns has today written open letters to the First Minister of the National Assembly and to the Director General of Ofwat explaining why the Board of Glas believes that its plans are in the best interests of Welsh Water and its customers.

Lord Burns, Chairman of Glas, said today:

"I believe this is an excellent outcome for water customers in Wales. Our offer is an imaginative and credible solution which secures local ownership and stewardship of Welsh Water's assets, offers the prospect of lower bills for Welsh Water's customers and ensures continued investment in water services and the environment in Wales.

"Glas will put customers first and I am determined that we will provide the efficient and high quality services that Welsh Water's customers expect."

The Board of Glas has received independent financial advice in relation to the acquisition of Welsh Water from Lexicon Partners Limited, legal advice from Linklaters & Alliance and regulatory and economic advice from National Economic Research Associates.

Glas's offer for Welsh Water remains subject to completion of final contractual documentation, the receipt of the necessary regulatory and other approvals, and the raising of the new bonds by Welsh Water in conjunction with Glas (and the assumption of existing Welsh Water indebtedness) on satisfactory terms. The Board of Glas is confident that these conditions can be satisfied by early next year.

Glas will be consulting widely on its plans to ensure that Welsh Water's customers and their representatives, including the National Assembly, are content with its plans.

Further information on Glas and its plans for Welsh Water is available at www.glascymru.com.

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Notes for editors

1. Glas's offer values Welsh Water at approximately £1.8 billion, which represents 95% of Welsh Water's estimated regulatory asset value, and is expected to comprise:
 - the assumption of existing Welsh Water indebtedness;
 - the assumption of new bonds to be issued by Welsh Water in conjunction with Glas early next year. The new bonds to be issued by Welsh Water will be arranged by Citibank NA and The Royal Bank of Scotland plc; and
 - an amount of deferred consideration expected to be paid to WPD no later than 31 March 2005.

Both Glas and WPD recognise that the prospect of lower bills for Welsh Water customers – which are anticipated as a result of the new way in which Welsh Water will be financed and managed under Glas's ownership – is a key objective of the transaction. Glas and WPD have therefore agreed that the deferred consideration should allow WPD to share in Glas's success in actually cutting Welsh Water's customer water bills in the period to 31 March 2005, thereby creating a strong alignment of interests to achieve this key objective.

2. In June this year Ofwat consulted on possible new ownership structures in the water industry. Following the Kelda proposals, Ofwat set out on 25 July specific regulatory requirements that would have to be met to secure regulatory approval. The Board of Glas is confident it can meet these requirements:
 - Glas is not a "mutual" and its offer will not involve any transfer of ownership or liabilities to Welsh Water's customers;
 - the Board of Glas is independent of Hyder plc and WPD;
 - Glas will operate under strong commercial incentives to deliver low cost water and sewerage services to Welsh Water's customers;
 - Glas will implement a procurement plan which will ensure that Welsh Water secures the full benefits of competitive prices and best practice;
 - the Board of Glas plans customer bill rebates prior to the next regulatory price review in 2005 and as such Glas's acquisition of Welsh Water will deliver tangible benefits for Welsh Water's customers; and
 - Glas will consult widely to ensure that customers and others who have an interest in Welsh Water, including the National Assembly, are content with Glas's plans for Welsh Water.

In addition, Glas will agree with Ofwat to a number of changes to Welsh Water's licence which will reinforce the independence and "ring fencing" of Welsh Water, and which will require Welsh Water to carry out its functions in an open and accountable manner, to procure services efficiently and competitively, and to maintain an investment grade rating so that Welsh Water can continue to raise new capital from investors to fund its ongoing investment programme.

3. In their joint statement on 24 May, the Environment, Planning and Transport Committee and the Economic Development Committee of the National Assembly proposed a number of principles which they concluded were relevant to any change in ownership of Hyder plc. The Board of Glas is confident it can meet these objectives and has included with its open letter to the First Minister, published today, a short memorandum confirming Glas's commitment to these principles.