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Glas Cymru Cyfyngedig

Investor Report

For the quarter ended 31 March 2010

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 31 March 2010. 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 year ended 31 March are as follows:

	Year to 31 March 2010 £m	**Year to 31 March 2009 £m**	**Change**
Turnover	688	657	+5%
Operating costs - before exceptional items	266	267	-0%
Operating costs - exceptional items	30	-	
EBITDA (before infrastructure renewals expenditure)	**393**	**390**	**+1%**
Net interest (excluding indexation and amortisation)	107	124	
Capital expenditure (before grants and contributions)	361	355	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2010 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 year to 31 March 2010 was £688 million, as compared to £657 million in the year to 31 March 2009. 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 year, 17,500 domestic customers switched to metered charging (2009: 22,000).

Operating costs (excluding depreciation and infrastructure renewals expenditure, and before exceptional items) were £266 million (2009: £267 million); the major variances result from power cost reductions (£8 million) offset by bad and doubtful debt charges (£4 million) and inflation (£4 million). Exceptional items of £30 million relate to the estimated cost of restructuring the business – see "Restructuring of Welsh Water" overleaf.

Net interest payable in the period (excluding fair value movements) was £98 million (2009: £166 million), including an indexation credit on index-linked debt of £10 million (2009: charge of £41 million). Indexation for the year to March 2010 is based on the movement in the Retail Prices Index (RPI) from July 2008 (216.5) to July 2009 (213.4); as inflation was negative over this period, this results in a credit to the income statement.

The company has paid no tax during the year, and has tax trading losses carried forward of approximately £288 million. Subject to any changes in tax law, this is likely to be sufficient to eliminate tax on trading profits in the five years ending 31 March 2015.

Since the previous 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 31 March 2010, 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	31 March 2010	31 March 2009
Net debt	2,669	2,625
Regulatory capital value	3,737	3,626
Regulatory gearing	**71%**	**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 71% as at 31 March 2010 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 £361 million before grants and contributions (2009: £355 million), bringing total expenditure over the AMP4 period to date to £1,521 million. Of that £361 million, £124 million is reported as capital maintenance as defined in the CTA while for regulatory purposes £203 million is classed as capital maintenance.

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 2015. These projected ratios are derived from Glas Cymru's 2010 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 4 June 2010, the credit ratings of MBIA were B3 and BB+ from Moody's and S&P respectively, and MBIA is no longer rated by Fitch.

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 strong credit quality of the business is reflected in credit ratings which are now the highest in the water sector, despite a very challenging Final Determination:

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.

On 8 March 2010 S&P placed Glas' ratings on negative outlook, reflecting their assessment of the potential impact of Ofwat's Final Determination following the 2009 Price Review.

General overview and business update cont'd

Financing and liquidity

As at 31 March 2010, undrawn revolving credit facilities, EIB loan and cash (excluding the debt service reserve account) amounted to £643 million, giving the company a very high degree of liquidity.

On 31 March 2010, Dŵr Cymru (Financing) Limited issued £140 million B series index-linked bonds with a maturity date of 2048 to provide funding for Welsh Water's £1.2 billion AMP5 capital programme.

On 15 April 2010, Dŵr Cymru Cyfyngedig drew down the remaining £75 million of its £100 million loan facility with the European Investment Bank.

On 7 May 2010, in view of the very high level of available liquidity, the level of undrawn revolving credit facilities was reduced from £345 million to £100 million, and on 3 June 2010 Dŵr Cymru (Financing) Limited agreed to repurchase £113 million of Class C1 bonds following a tender offer to bond holders. The amount repurchased represents a take-up rate of 90% and settlement will be made in cash on 7 June 2010. The balance of £12 million has an expected maturity date of 31 March 2011.

Restructuring of Welsh Water

On 9 February 2010 Welsh Water announced its intention to restructure the business by terminating the outsourced operational contracts with United Utilities Operational Services ('UUOS') and Kelda Water Services ('KWS') and by implementing a phased headcount reduction of around 300 people.

Subsequent to the end of the year, negotiations relating to the termination of the contracts have been finalised, and on 1 April 2010 1,093 UUOS employees transferred to Welsh Water, followed by 476 KWS employees on 1 May 2010.

Around 1,000 UUOS and KWS employees transferring to Welsh Water are entitled to transfer their existing defined benefit pensions into the DCWW Pension Scheme. In aggregate the transfer is likely to be fully-funded on an actuarial basis, although this result is uncertain and the assumptions used may differ from the calculation under IAS 19. The DCWW Pension scheme is likely to increase in size significantly which will increase the sensitivity of the balance sheet obligation to changes in the discount rate.

The financial statements contain exceptional items of £30m relating to the costs of terminating the contracts and reorganising the business.

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General overview and business update cont'd

Appointment of Chairman Designate

On 9 March 2010, Glas Cymru announced the appointment of Bob Ayling as Chairman Designate. He will succeed Lord Burns (who announced his intention to stand down at a meeting of the Members of Glas Cymru in December 2009) after the company's AGM in July 2010. For further details, see the press release on our website (www.dwrcymru.com/English/news/index.asp).

Investors

The company's annual investor meeting will be held on Thursday 29 July in London. If you would like to attend the annual meeting for investors, or would like a one-to-one meeting with the Finance Director or the Treasurer, please contact Gina Cardwell (telephone 01443 452768) or send an e-mail request to investors@dwrcymru.com.

Consolidated cash flow

	3 months ended 31 March 2010 £m	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Turnover	177.1	688.2	657.2
Less: operating expenses (including exceptional items)	(99.0)	(295.2)	(266.9)
Earnings before interest, taxation, depreciation and amortisation	78.1	393.0	390.3
Working capital movements	60.9	49.1	(8.2)
Non bond-related interest paid	(2.2)	(3.1)	(4.1)
Interest capitalised in accordance with IAS 23	(5.6)	(6.1)	-
Interest received	0.4	3.4	9.8
Net operating cash flow and interest received	131.6	436.3	387.8
New borrowings:			
Finance leases	-	-	60.0
Class B bonds	140.0	140.0	-
European Investment Bank	-	-	25.0
KfW IPEX-Bank GmbH	-	35.0	-
Utilisation of reserves:			
Cash transferred to capex reserve	(174.7)	(337.4)	(174.3)
Cash utilised from capex reserve	174.7	337.4	174.3
Net cash utilised from other reserves	7.2	28.9	(1.5)
Capital expenditure:			
Net costs of disposal of assets	(0.5)	(0.4)	(0.8)
Infrastructure renewals expenditure	(25.3)	(76.6)	(101.3)
Non-infrastructure maintenance	49.7	(46.3)	(88.2)
Enhancement expenditure	(107.7)	(223.0)	(108.1)
Net cash flow after capital expenditure, new borrowings and reserve drawings	195.0	293.9	172.9
Transfer to debt service payment account	(46.4)	(153.0)	(147.8)
Principal repayments	(8.9)	(13.3)	(15.1)
Net cash flow after debt service	139.7	127.6	10.0
Free cash balances brought forward	83.3	95.4	85.4
Free cash balances carried forward	223.0	223.0	95.4

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2010 £m	Amount accrued 31 March 2010 £m
Liquidity facility:		
Liquidity facility commitment fee	0.5	0.2
Interest on senior debt:		
Finance lease interest payments	14.6	43.4
A1 interest payments	21.1	(0.1)
A4 interest payments	5.8	-
A5 interest payments	1.9	-
A6 interest payments	4.5	-
B1 interest payments	22.4	(0.1)
B3 interest payments	3.5	-
B4 interest payments	2.1	-
B5 interest payments	0.4	-
European Investment Bank loan interest payments	0.3	0.1
KfW IPEX-Bank GmbH loan interest and commitment fee	0.3	-
Revolving credit facility commitment fees	0.1	-
Miscellaneous fees	-	0.2
	77.5	43.7
Interest rate swaps	1.0	-
RPI bond swap	4.0	-
VAT on finance lease payments	1.0	-
Senior interest payments	83.5	43.7
Interest on junior debt:		
C1 interest payments	10.2	(0.1)
	10.2	(0.1)
Total debt service payments	93.7	43.6

Glas notes principal balance reconciliation

	Credit rating[1]	Opening balance 1 January 2010 £m	New issues £m	Repayment £m	Indexation £m	Closing balance 31 March 2010 £m
Finance leases		892.1	-	(8.6)	-	883.5
Class A bonds[2]						
A1 notes	A3/A/A	350.0	-	-	-	350.0
A4 notes		326.8	-	-	2.7	329.5
A5 notes		105.5	-	-	1.7	107.2
A6 notes[3]		108.7	-	-	0.7	109.4
Class B bonds						
B1 notes	A3/A/A	325.0	-	-	-	325.0
B3 notes		158.6	-	-	1.2	159.8
B4 notes		93.1	-	-	1.4	94.5
B5 notes		54.3	-	-	0.4	54.7
B6 notes		-	140.0	-	-	140.0
Class C bonds						
C1 notes	Baa2/BBB+/BBB+	125.0	-	-	-	125.0
European Investment Bank loan		146.9	-	-	-	146.9
KfW IPEX-Bank GmbH loan		35.0	-	-	-	35.0
Local authority loans		2.5	-	(0.3)	-	2.2
		2,723.5	140.0	(8.9)	8.1	2,862.7

[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 £9.4m reflects the principal accrual on the index-linked swap.*

Glas bank account movements

	Opening balance 1 January 2010 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2010 £m
Free cash balances:					
Receipts account	59.7	-	204.4	(186.9)	77.2
Payments account	22.6	-	685.3	(547.2)	160.7
Other bank accounts	1.0	0.4	1,816.7	(1,833.0)	(14.9)
	83.3	0.4	2,706.4	(2,567.1)	223.0
Debt service payment account:					
Debt service ledger	72.9	-	46.4	(93.7)	25.6
Capex reserve account	-	-	174.7	(174.7)	-
Customer payments account:					
Customer rebate ledger	7.3	-	-	(7.2)	0.1
	163.5	0.4	2,927.5	(2,842.7)	248.7

Interest cover ratio (ICR) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual				
	Year to 31 March 2006 £m	Year to 31 March 2007 £m	Year to 31 March 2008 £m	Year to 31 March 2009 £m	Year to 31 March 2010 £m
Income	576.5	602.7	648.6	684.2	716.5
Operating expenditure (before exceptional costs)	(213.2)	(228.6)	(230.8)	(266.9)	(265.7)
Pre capital maintenance cash flows	363.3	374.1	417.8	417.3	450.8
Capital maintenance expenditure	(98.1)	(150.2)	(146.2)	(189.1)	(124.0)
Post capital maintenance cash flows	265.2	223.9	271.6	228.2	326.8
Net interest (excluding indexation)	(129.9)	(127.0)	(127.5)	(124.3)	(113.4)
Capital expenditure	(122.3)	(96.7)	(136.7)	(152.3)	(225.0)
Customer rebates	(23.0)	(24.7)	(25.7)	(27.0)	(28.3)
Pre-financing cash flows	(10.0)	(24.5)	(18.3)	(75.4)	(39.9)
Interest payable on senior debt:					
Finance leases	31.9	33.7	45.8	42.6	14.3
Class A	43.6	36.9	36.4	41.2	40.4
Class B	33.5	32.4	33.2	34.0	33.5
MBIA financial guarantee fees	4.7	3.6	3.7	3.6	4.0
Interest rate swaps	4.2	7.7	(0.2)	(7.9)	9.9
Authorised loans	5.4	8.5	8.3	7.2	1.8
Less interest receivable	(9.7)	(7.4)	(12.2)	(8.6)	(3.4)
Total net senior debt interest	113.7	115.4	115.0	112.1	100.4
Interest payable on junior debt:					
Class C	13.1	10.2	10.2	10.3	10.2
Class D	-	-			
Other	3.1	2.2	2.3	1.9	2.8
Total interest payable	129.9	127.8	127.5	124.3	113.4
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.1	3.3	3.6	3.7	4.5
Total interest cover pre capital maintenance	2.8	2.9	3.3	3.4	4.0
Senior interest cover post capital maintenance (trigger 1.0)	2.3	2.0	2.4	2.0	3.3
Total interest cover post capital maintenance	2.0	1.8	2.1	1.8	2.9

Interest cover ratio (ICR) – 5 years to 31 March 2015 (based on 2010 business plan)

(See important notice at the front of the document)	Projections Year to 31 March 2011 £m	Year to 31 March 2012 £m	Year to 31 March 2013 £m	Year to 31 March 2014 £m	Year to 31 March 2015 £m
Income	675	676	684	693	701
Operating expenditure	(277)	(269)	(269)	(271)	(275)
Pre capital maintenance cash flows	398	407	415	422	426
Capital maintenance expenditure	(139)	(163)	(171)	(155)	(146)
Post capital maintenance cash flows	259	244	244	267	280
Net interest (excluding indexation)	(127)	(122)	(125)	(126)	(124)
Capital expenditure	(137)	(91)	(94)	(72)	(49)
Pre-financing cash flows	(5)	31	25	69	107
Interest payable on senior debt:					
Finance leases	13	22	31	37	39
Class A	38	39	39	39	40
Class B	37	38	38	38	38
MBIA financial guarantee fees	4	4	4	4	4
Interest rate swaps	23	14	5	(1)	(3)
Authorised loans	4	6	12	13	12
Less interest receivable	(2)	(1)	(4)	(4)	(6)
Total net senior debt interest	117	122	125	126	124
Interest payable on junior debt:					
Class C	10	-	-	-	-
Total interest payable	127	122	125	126	124
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.3	3.3	3.3	3.4
Total interest cover pre capital maintenance	3.1	3.3	3.3	3.3	3.4
Senior interest cover post capital maintenance (trigger 1.0)	2.2	2.0	2.0	2.1	2.2
Total interest cover post capital maintenance	2.0	2.0	2.0	2.1	2.2

Regulatory asset ratio (RAR) – 5 years to 31 March 2010

(See important notice at the front of the document)	Actual				
	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	896
Class B	553	611	623	637	774
Net interest accrual on senior debt	29	84	56	54	55
Authorised loans	60	135	131	151	182
Authorised loan facility	120	-	-	-	-
Total senior gross debt	2,244	2,453	2,527	2,636	2,791
Less: cash balances and authorised investments	(14)	(158)	(124)	(139)	(249)
Total senior net debt	2,230	2,295	2,403	2,497	2,542
Class C	125	125	125	125	125
Interest accrual on junior debt	-	10	-	-	-
Local authority loans	4	4	3	3	2
Total net debt	2,359	2,434	2,531	2,625	2,669
Regulatory capital value (RCV)	3,042	3,310	3,529	3,626	3,737
Reserves (RCV less total net debt)	683	876	998	1,001	1,068
Regulatory asset ratio:					
RAR (Senior)	73%	69%	68%	69%	68%
RAR (Senior + C) (trigger 90%; default 95%)	77%	73%	72%	72%	71%
RAR (Total debt)	78%	74%	72%	72%	71%

Regulatory asset ratio (RAR) – 5 years to 31 March 2015 (based on 2010 business plan)

(See important notice at the front of the document)	As at 31 March 2011 £m	Projections As at 31 March 2012 £m	As at 31 March 2013 £m	As at 31 March 2014 £m	As at 31 March 2015 £m
Senior gross debt:					
Finance leases	874	862	844	822	769
Class A	918	928	939	951	963
Class B	789	799	808	818	828
Net interest accrual on senior debt	55	56	57	59	60
Authorised loans	173	259	246	233	205
Total senior gross debt	2,809	2,904	2,894	2,883	2,825
Less: cash balances and authorised investments	(35)	(127)	(110)	(138)	(161)
Total senior net debt	2,774	2,777	2,784	2,745	2,664
Local authority loans	2	2	2	1	1
Total net debt	2,776	2,779	2,786	2,746	2,665
Headroom under gearing policy[1]	-	5	79	186	195
	2,776	2,784	2,865	2,932	2,860
Regulatory capital value (RCV)	3,854	3,977	4,093	4,189	4,086[2]
Reserves (RCV less total net debt)	1,078	1,198	1,307	1,443	1,421
Regulatory asset ratio:					
RAR (Senior) (trigger 90%; default 95%)	72%	70%	70%	70%	70%
RAR (Total debt)	72%	70%	70%	70%	70%

[1] Indicative financial headroom while maintaining gearing at the Board's target of 70%.

[2] RCV at 31 March 2015 anticipates a possible downward adjustment reflecting an assumed movement in COPI relative to RPI during the 5 year period.

Income statement (unaudited)

	3 months ended 31 March 2010 £m	Year ended 31 March 2010 £m	*Year ended 31 March 2009 £m*
Turnover	177.1	688.2	657.2
Operating expenditure			
- Before exceptional items	(69.5)	(265.7)	(266.9)
- Exceptional items	(29.5)	(29.5)	-
	(99.0)	(295.2)	(266.9)
EBITDA	78.1	393.0	390.3
Infrastructure renewals expenditure	(18.3)	(77.3)	(101.1)
Depreciation	(34.3)	(139.5)	(133.5)
Profit on disposal of fixed assets	(0.5)	(0.4)	(0.8)
Operating profit	25.0	175.8	154.9
Interest payable	(30.5)	(101.3)	(174.2)
Interest receivable	0.5	3.4	8.6
Fair value losses on financial instruments	(30.5)	(15.0)	(86.5)
(Loss)/profit before tax	(35.5)	62.9	(97.2)
Current tax			
Adjustment in respect of prior years	1.7	1.7	-
Deferred tax			
Current year movements	7.3	(16.6)	30.3
Adjustment in respect of prior years	16.6	16.0	4.0
Less: movement on deferred tax asset in pension scheme	-	-	(2.9)
Effect of abolition of Industrial Buildings Allowances	-	-	(37.0)
	23.9	(0.6)	(5.6)
Taxation	25.6	1.1	(5.6)
(Loss)/profit after tax	(9.9)	64.0	(102.8)

Statement of comprehensive income (unaudited)

	3 months ended 31 March 2010 £m	Year ended 31 March 2010 £m	*Year ended 31 March 2009 £m*
Profit/(loss) for the period	(9.9)	64.0	(102.8)
Actuarial loss in the pension scheme	(0.4)	(1.5)	(10.4)
Movement on related deferred tax asset	(0.3)	-	2.9
Total recognised gains/(losses) for the period	(10.6)	62.5	(110.3)

Balance sheet (unaudited)

	At 31 March 2010		At 31 March 2009	
	£m	£m	£m	£m
Fixed assets		3,164.0		3,026.2
Current assets and liabilities:				
Debtors and prepayments	120.2		107.1	
Creditors and accruals	(132.7)		(132.4)	
		(12.5)		(25.3)
Total assets less current liabilities		3,151.5		3,000.9
Financing liabilities:				
Bonds	(1,795.0)		(1,664.5)	
Finance leases	(883.5)		(892.1)	
Bank loans (EIB, KfW)	(181.9)		(151.2)	
Other	(2.2)		(2.6)	
	(2,862.6)		(2,710.4)	
Net interest accrual	(55.7)		(54.5)	
	(2,918.3)		(2,764.9)	
Cash and cash equivalents:				
Receipts account	77.2		78.5	
Payments account	160.7		16.2	
Debt service payment account	25.6		14.9	
Customer payments account	0.1		29.0	
Other bank accounts	(14.9)		0.7	
	248.7		139.3	
Net debt		**(2,669.6)**		**(2,625.6)**
Derivative financial instruments		(172.7)		(157.8)
Provisions for liabilities and charges		(45.4)		(16.8)
Net assets before deferred tax		**263.8**		**200.7**
Deferred tax		(352.6)		(352.8)
Net liabilities		**(88.8)**		**(152.1)**

Compliance Certificate

To: Deutsche Trustee Company Limited **4 June 2010**

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 11 November 2009 (being the date of the last published Compliance Certificate) to 4 June 2010 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