



Investor Report

For the quarter ended 31 March 2011

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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 persons should act or rely on it (except as provided in the CTA). 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).

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General overview and business update

This quarterly Investor Report covers the three month period ending 31 March 2011. 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.

2011 Report and accounts

Investors are also referred to the audited report and accounts which are published concurrently with this Investor Report and include sections on key risks and operational highlights. 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 2011 £m	Year to 31 March 2010 £m	Change
Turnover	677	688	-2%
Operating costs - before exceptional items	265	266	-0%
Operating costs - exceptional items	-	30	
EBITDA (before infrastructure renewals expenditure)	412	392	+5%
Net interest (excluding indexation)	121	107	
Capital expenditure (before grants and contributions)	242	361	

General overview and business update cont'd

Operating profit before interest, tax, depreciation, infrastructure renewals and amortisation (EBITDA) for the year to 31 March 2011 is slightly lower (excluding exceptional items) than the comparative period last year – price reductions have driven the reduction in income of some £11 million yet, while the economic environment continues to be challenging, operating costs have remained stable.

Turnover in the year to 31 March 2011 was £677 million, as compared to £688 million in the year to 31 March 2010. The reduction is a reflection of the overall price reduction of 1.0% (being the RPI+K adjustment required by Ofwat). During the period, 14,500 domestic customers switched to metered charging (2010: 17,500).

Operating costs (excluding depreciation and infrastructure renewals expenditure) were £265 million (2010: £266 million) and have fallen by 5% in real terms; inflationary increases have been offset by savings following the termination of the operational contracts.

Net interest payable in the period (excluding fair value movements) was £170 million (2010: £98 million), including a £6 million premium on early redemption of £113 million of Class C1 bonds, a £13 million profit on lease terminations and an indexation charge on index-linked debt of £48 million (2010: credit of £10 million). Indexation for the year to March 2010 was 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 resulted in a credit to the income statement.

As at 31 March 2011, 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 2011	31 March 2010
Net debt	2,668	2,669
Regulatory capital value	3,980	3,737
'Financial reserves'	1,312	1,068
Regulatory gearing	67%	71%

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 67% as at 31 March 2011 and 'financial reserves' (RCV less net debt) have exceeded £1.3 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 £242 million before grants and contributions (2010: £361 million). Of that £236 million, £97 million is reported as capital maintenance as defined in the CTA, while for regulatory purposes £163 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 2011 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 10 and 12). 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 9 June 2011, the credit ratings of MBIA were B3 and B 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 challenging Final Determination:

Bond Class	Moody's	S&P	Fitch
A	A3	A	A
B	A3	A	A

The Class C Bonds (rated Baa2/BBB+/BBB+) was repaid during the year ended 31 March 2011.

Moody's corporate family rating of Dŵr Cymru Cyfyngedig is A3, one of the strongest ratings in the industry.

On 18 October 2010 S&P reaffirmed Glas' ratings and negative outlook, reflecting their assessment of the potential impact of Ofwat's Final Determination following the 2009 Price Review. On 23 March 2011 Fitch reaffirmed Glas' credit ratings with stable outlook.

General overview and business update cont'd

Financing and liquidity

As at 31 March 2011, undrawn revolving credit facilities and cash (excluding the debt service reserve account) amounted to £188 million. On 3 March 2011, the company agreed a further £100 million facility with the European Investment Bank, and this facility remained undrawn at 31 March 2011.

On 17 and 18 May 2011, the company agreed £140 million of bilateral revolving credit facilities with a group of six banks. These facilities remain available for five years to May 2016, although the banks have an option to extend these for a further year to May 2017. The existing £100 million facilities (which were due to expire in September 2011 and June 2012) were cancelled.

The company also renewed its special £135 million liquidity facility on 13 April 2011 with a syndicate of four banks. This facility is a requirement of our bond covenants and can only be drawn in the event that the company is in default of its covenants and unable to pay its interest bills. The existing £150 million facility was cancelled.

The company redeemed its remaining junior (Class C) Bonds during the year, partly through a successful tender offer on 7 June 2010 when £113 million of the bonds were repurchased, and the balance of £12 million on 31 March 2011, the expected maturity date of these bonds.

The company has therefore now redeemed all £350 million of the junior Class C (“BBB” rated) and Class D (“unrated”) debt that was raised on the Glas acquisition of Dŵr Cymru in May 2001, and the £2.7 billion of remaining debt comprises entirely higher “A” rated Class A and B senior debt.

On 31 March 2011, the company exercised its option to terminate two finance leases for £118 million, recognising an accounting profit of £13.5 million.

Termination of outsourced contracts

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. In accordance with TUPE legislation, on 1 April 2010 1,093 UUOS employees transferred to Welsh Water, followed by 476 KWS employees on 1 May 2010. Overall operating performance in the period to 31 March 2011 has remained good, with levels of service measures generally being at or around the levels achieved in recent years, notwithstanding the process of transition that has taken place.

Bulk transfer of assets into DCWW Pension Scheme

On 20 October 2010, a bulk transfer of assets with a value of £26m was made into the DCWW Pension Scheme from the KWS Pension Scheme, being the accrued benefits of 192 ex-KWS employees who elected to transfer their past service benefits. On 8 December 2010, £129m of assets were transferred into the DCWW scheme from the United Utilities pension schemes, being the accrued benefits of 652 ex-UUOS employees who elected to transfer their past service benefits.

General overview and business update cont'd

Bulk transfer of assets into DCWW Pension Scheme cont'd

The present value of the pension obligations in the balance sheet as at 31 March 2011 is £15m. This value is dependent on an actuarial calculation which incorporates a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Group considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2011 would increase or reduce by £5 million (2010: £1 million). The year-on-year increase in the sensitivity of the balance sheet obligation to changes in the discount rate is the result of former UUOS and KWS employees transferring their existing pensions into the DCWW Pension Scheme as noted above.

Investors

The company's annual investor meeting will take place at 11.00am on Wednesday 13 July 2011 at The Royal Bank of Scotland, 250 Bishopsgate, London EC2M 4AA. If you would like to attend the annual investor meeting or have a one-to-one meeting with the Finance Director and/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 2011 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Turnover	175.4	676.7	688.2
Less: operating expenses	(67.5)	(264.6)	(295.2)
Earnings before interest, taxation, depreciation and amortisation	107.9	412.1	393.0
Working capital movements	30.1	57.5	49.1
Non bond-related interest paid	(4.5)	(3.4)	(3.1)
Interest capitalised in accordance with IAS 23	0.3	(5.4)	(6.1)
Interest received	(0.3)	4.1	3.4
Net operating cash flow and interest received	133.5	464.9	436.3
New borrowings:			
Class B bonds	-	-	140.0
European Investment Bank	-	75.0	-
KfW IPEX-Bank GmbH	-	-	35.0
Utilisation of reserves:			
Cash transferred to capex reserve	(8.7)	(115.1)	(337.4)
Cash utilised from capex reserve	28.2	115.1	337.4
Net cash utilised from other reserves	-	0.1	28.9
Capital expenditure:			
Net costs of disposal of assets	-	0.1	(0.4)
Infrastructure renewals expenditure	(12.3)	(44.6)	(76.6)
Non-infrastructure maintenance	(20.0)	(63.3)	(46.3)
Enhancement expenditure	(24.7)	(138.8)	(223.0)
Net cash flow after capital expenditure, new borrowings and reserve drawings	96.0	293.4	293.9
Transfer to debt service payments account	(44.8)	(152.4)	(153.0)
Transfer to insurance proceeds ledger	-	(8.5)	-
Principal repayments	(156.2)	(275.9)	(13.3)
Net cash flow after debt service	(105.0)	(143.4)	127.6
Free cash balances brought forward	184.6	223.0	95.4
Free cash balances carried forward	79.6	79.6	223.0

Consolidated debt service payments

	Payments due & made in 3 months ending 31 March 2011 £m	Amount accrued 31 March 2011 £m
Liquidity facility:		
Liquidity facility commitment fee	0.2	0.1
Interest on senior debt:		
Finance lease interest payments	5.2	44.6
A1 interest payments	21.1	-
A4 interest payments	6.1	-
A5 interest payments	2.0	-
A6 interest payments	4.5	-
B1 interest payments	22.4	-
B3 interest payments	3.7	-
B4 interest payments	2.2	-
B5 interest payments	0.4	-
B6 interest payments	1.4	-
European Investment Bank loan interest payments	0.3	0.6
KfW IPEX-Bank GmbH loan interest payments	0.2	-
Miscellaneous fees	-	0.2
	69.7	45.5
Interest rate swaps	3.1	-
RPI swaps	32.7	-
VAT on finance lease payments	0.7	-
Senior interest payments	106.2	45.5
Interest on junior debt:		
C1 interest payments	1.0	-
	1.0	-
Total debt service payments	107.2	45.5

Glas notes principal balance reconciliation

	Credit rating ¹	Opening balance 1 January 2011 £m	Repayment £m	Indexation £m	Closing balance 31 March 2011 £m
Finance leases ²		883.5	(141.7)	-	741.8
Class A bonds³					
A1 notes	A3/A/A	350.0	-	-	350.0
A4 notes		340.6	-	4.5	345.1
A5 notes		109.3	-	3.0	112.3
A6 notes ⁴		113.2	-	1.5	114.7
Class B bonds					
B1 notes	A3/A/A	325.0	-	-	325.0
B3 notes		165.3	-	2.2	167.5
B4 notes		96.4	-	2.7	99.1
B5 notes		56.6	-	0.7	57.3
B6 notes		144.4	-	2.7	147.1
Class C bonds					
C1 notes	Baa2/BBB+/BBB+	12.1	(12.1)	-	-
European Investment Bank loan		215.2	(2.2)	-	213.0
KfW IPEX-Bank GmbH loan		35.0	-	-	35.0
Local authority loans		2.1	(0.2)	-	1.9
		2,848.7	(156.2)	17.3	2,709.8

¹ Moody's/S&P/Fitch ratings.

² On 31 March 2011 the company repaid £132m of finance leases in addition to its annual principal repayments which totalled £10m.

³ Guaranteed by MBIA rated B3/B/-. Class A bond ratings default to their higher underlying ratings of A3/A/A.

⁴ 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 £14.7m reflects the principal accrual on the index-linked swap.

Glas bank account movements

	Opening balance 1 January 2011 £m	Interest received £m	Deposits £m	Payments £m	Closing balance 31 March 2011 £m
Free cash balances:					
Receipts account	48.8	-	229.9	(210.9)	67.8
Payments account	134.6	-	370.0	(476.4)	28.2
Other bank accounts	1.2	(0.3)	1,066.4	(1,083.7)	(16.4)
	184.6	(0.3)	1,666.3	(1,771.0)	79.6
Debt service payments account:					
Debt service ledger	72.6	-	44.8	(107.2)	10.2
Insurance proceeds ledger	8.5	-	-	-	8.5
	81.1	-	44.8	(107.2)	18.7
Capex reserve account	19.5	-	8.7	(28.2)	-
	285.2	(0.3)	1,719.8	(1,906.4)	98.3

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 2011 business plan)

(See important notice at the front of the document)

	Actual		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	677	695	715	729	739
Operating expenditure	(265)	(278)	(281)	(285)	(291)
Pre capital maintenance cash flows	412	417	434	444	448
Capital maintenance expenditure	(97)	(179)	(210)	(186)	(176)
Post capital maintenance cash flows	315	238	224	258	272
Net interest (excluding indexation)	(132)	(123)	(119)	(121)	(124)
Capital expenditure	(125)	(101)	(135)	(110)	(77)
Pre-financing cash flows	58	14	(30)	27	71
Interest payable on senior debt:					
Finance leases	(2)	12	17	24	30
Class A	41	40	40	40	40
Class B	37	38	39	39	39
MBIA financial guarantee fees	4	4	4	5	5
Interest rate swaps	41	24	11	1	(2)
Authorised loans	2	7	9	15	15
Less interest receivable	(4)	(2)	(1)	(3)	(3)
Total net senior debt interest	120	123	119	121	124
Interest payable on junior debt:					
Class C (including £6m premium on early redemption)	9	-	-	-	-
Other	3	-	-	-	-
Total interest payable	132	123	119	121	124
Senior interest cover pre capital maintenance (trigger 2.0; default 1.6)	3.4	3.4	3.6	3.7	3.6
Total interest cover pre capital maintenance	2.6	3.4	3.6	3.7	3.6
Senior interest cover post capital maintenance (trigger 1.0)	3.1	1.9	1.9	2.1	2.2
Total interest cover post capital maintenance	2.4	1.9	1.9	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 2011 business plan)

	Actual		Projections		
	As at 31 March 2011 £m	As at 31 March 2012 £m	As at 31 March 2013 £m	As at 31 March 2014 £m	As at 31 March 2015 £m
(See important notice at the front of the document)					
Senior gross debt:					
Finance leases	742	735	723	707	662
Class A	922	949	965	977	989
Class B	796	818	832	842	851
Net interest accrual on senior debt	56	56	56	60	62
Authorised loans	248	234	321	308	280
Total senior gross debt	2,764	2,792	2,897	2,894	2,844
Less: cash balances and authorised investments	(98)	(57)	(90)	(84)	(78)
Total senior net debt	2,666	2,735	2,807	2,810	2,766
Local authority loans	2	2	1	1	1
Total net debt	2,668	2,737	2,808	2,811	2,767
Headroom under gearing policy ¹	118	167	180	247	327
	2,786	2,904	2,988	3,058	3,094
Regulatory capital value (RCV)	3,980	4,148	4,269	4,368	4,420²
Reserves (RCV less total net debt)	1,312	1,411	1,418	1,466	1,536
Regulatory asset ratio:					
RAR (Senior) (trigger 90%; default 95%)	67%	70%	70%	70%	70%
RAR (Total debt)	67%	70%	70%	70%	70%

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

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

Income statement

	(unaudited) 3 months ended 31 March 2011 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Turnover	175.4	676.7	688.2
- Before exceptional items	(67.5)	(264.6)	(265.7)
- Exceptional items	-	-	(29.5)
Operating expenditure	(67.5)	(264.6)	(295.2)
EBITDA	107.9	412.1	393.0
Infrastructure renewals expenditure	(12.8)	(40.0)	(77.3)
Depreciation	(37.8)	(144.7)	(139.5)
Profit on disposal of fixed assets	-	0.1	(0.4)
Operating profit	57.3	227.5	175.8
Interest payable	(45.0)	(119.5)	(110.8)
Premium on redemption of Class C1 bonds	-	(5.9)	-
Indexation of index-linked debt	(17.3)	(48.1)	9.5
Interest receivable	(0.5)	4.1	3.4
Fair value gains/(losses) on financial instruments	45.2	12.3	(15.0)
Profit before tax	39.7	70.4	62.9
Current tax			
Adjustment in respect of prior years	2.5	2.5	1.7
Deferred tax			
Current year movements	38.1	43.7	0.2
Adjustment in respect of prior years	-	-	-
Effect of change in expected tax rate	9.3	21.9	-
	47.4	65.6	0.2
Taxation	49.9	68.1	1.9
Profit after tax	89.6	138.5	64.8

Statement of comprehensive income (unaudited)

	3 months ended 31 March 2011 £m	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit for the period	89.6	138.5	64.8
Actuarial loss in the pension scheme	(4.6)	(4.7)	(1.5)
Movement on related deferred tax asset	1.2	1.2	-
Total recognised gains for the period	86.2	135.0	63.3

Balance sheet (unaudited)

	At 31 March 2011		At 31 March 2010	
	£m	£m	£m	£m
Fixed assets		3,244.3		3,164.0
Current assets and liabilities:				
Debtors and prepayments	494.9		505.5	
Creditors and accruals	(539.7)		(518.0)	
		(44.8)		(12.5)
Total assets less current liabilities		3,199.5		3,151.5
Financing liabilities:				
Bonds	(1,718.1)		(1,795.0)	
Finance leases	(741.8)		(883.5)	
Bank loans (EIB, KfW)	(248.0)		(181.9)	
Other	(1.9)		(2.2)	
		(2,709.8)		(2,862.6)
Net interest accrual	(56.7)		(55.7)	
		(2,766.5)		(2,918.3)
Cash and cash equivalents:				
Receipts account	67.8		77.2	
Payments account	28.2		160.7	
Capex reserve account	-		-	
Debt service payments account	18.7		25.6	
Customer payments account	-		0.1	
Other bank accounts	(16.4)		(14.9)	
		98.3		248.7
Net debt		(2,668.2)		(2,669.6)
Derivative financial instruments		(160.4)		(172.7)
Provisions for liabilities and charges		(38.9)		(45.4)
Net assets before deferred tax		332.0		263.8
Deferred tax		(285.8)		(352.6)
Net liabilities		46.2		(88.8)

Compliance Certificate

To: Deutsche Trustee Company Limited

9 June 2011

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 2010 (being the date of the last published Compliance Certificate) to 9 June 2011 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) Paragraph 4.2.1 of Schedule 3 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