glas

Glas Cymru Cyfyngedig

DŴR CYMRU

WELSH WATER

The Royal Bank of Scotland

Information Memorandum dated 7 April 2003

Dwr Cymru (Financing) Limited

(incorporated in the Cayman Islands with limited liability with registered number 108127)

Multicurrency programme for the issuance of up to £3,000,000,000 Asset-Backed Bonds including up to £200,000,000 Class R Bonds

and up to

£3,000,000,000 Guaranteed Asset-Backed Bonds

of which £1,000,000,000 of Series 1 Class A Bonds are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantee insurance policies issued by MBIA Assurance S.A.

(Originally registered on 3 May 1990 with the Nanterre Register of Trade and Companies Currently registered with the Paris Register of Trade and Companies under No. B377883293 (98B05130))

financing

Dŵr Cymru Cyfyngedig

(incorporated in England and Wales with limited liability with registered number 2366777)

On 4 May 2001, the Issuer (as defined below) entered into a £3,000,000,000 multicurrency asset-backed bond programme (the "**Programme**"). This document supersedes the Information Memorandum dated 4 May 2001. Any Bonds (as defined below) issued under the Programme on or after the date of this Information Memorandum are issued subject to the provisions described herein. This Information Memorandum does not affect any Bonds issued before the date of this Information Memorandum.

Application has been made to the Luxembourg Stock Exchange to list the Asset-Backed Bonds issued under the Programme referred to above during the period of twelve months after the date hereof, and in connection therewith the Luxembourg Stock Exchange has assigned registration number 12556 to the Programme.

Under the Programme, Dwr Cymru (Financing) Limited (the "**Issuer**") may, subject to all applicable legal and regulatory requirements, from time to time issue bonds ("**Bonds**") in bearer and/or registered form (respectively "**Bearer Bonds**" and "**Registered Bonds**"). Copies of each Pricing Supplement (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited (formerly Bankers Trustee Company Limited) as trustee (the "**Bond Trustee**"), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agents (each as defined below).

Details of the aggregate principal amount, interest (if any) payable, the issue price and any other conditions not contained herein, which are applicable to each Sub-Class of each Class of each Series (all as defined below) will be set forth in a pricing supplement (each a "**Pricing Supplement**") which will be delivered to the Luxembourg Stock Exchange on or before the relevant date of issue and will be available from Extel Information Centre operated by FT Information Limited at 15 Clere Street, London EC2A 4LJ.

Bonds to be issued under the Programme will be issued in series (each a "**Series**") and may be issued in one or more of five classes. The Guaranteed Asset-Backed Bonds have been designated as "**Class A Bonds**". The Asset-Backed Bonds will be designated as one of "**Class B Bonds**", "**Class R Bonds**" "**Class C Bonds**" or "**Class D Bonds**" (each a "**Class**"). Each Class may be further divided into sub-classes (each a "**Sub-Class**") with each Sub-Class pertaining to, inter alia, the currency, interest rate and maturity date of the relevant Sub-Class. Each Sub-Class may be fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, euro, U.S. dollars or other currency, as specified in the relevant Pricing Supplement.

Class	Standard & Poor's	Moody's	Fitch
Class B Bonds	A-	A3	A-
Class R Bonds	A-	A3	A-
Class C Bonds	BBB	Baa3	BBB

Each Sub-Class of the Class B Bonds, Class C Bonds and Class R Bonds to be issued is expected on issue to have the three credit ratings listed above from the respective credit rating agencies below. None of the Class D Bonds will be assigned a credit rating by such credit rating agencies.

The Class A Bonds issued on 10 May 2001 (the "**Initial Issue Date**") are unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal (other than any accelerated or additional amounts and Subordinated Coupon Amounts, as defined below) pursuant to financial guarantee insurance policies (and the endorsements thereto) issued by MBIA Assurance S.A. ("**MBIA**"). The Class A Bonds are currently rated AAA by Standard & Poor's, a division of the McGraw-Hill Companies, Inc ("**Standard & Poor's**"), Aaa by Moody's Investors Service Limited ("**Moody's**") and AAA by Fitch Ratings Limited ("**Fitch**" and together with Standard & Poor's and Moody's, the "**Rating Agencies**"). This credit rating is based solely upon the financial strength of MBIA. None of the Class B Bonds, Class R Bonds, Class C Bonds or Class D Bonds will benefit from a guarantee of MBIA or any other financial institution. Any ratings ascribed to the Bonds reflect only the views of the Rating Agencies. The Issuer does not currently intend to issue any Class A Bonds during the period of twelve months after the date hereof.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Bonds may adversely affect the market price of such Bonds.

Please see Chapter 5: "Investment Considerations" to read about certain factors you should consider before buying any Bonds.

ARRANGER FOR THE PROGRAMME

The Royal Bank of Scotland

DEALERS

The Royal Bank of Scotland **Citigroup**

IMPORTANT NOTICE

This Information Memorandum should be read and construed with any amendment or supplement hereto and with any other documents incorporated by reference herein and, in relation to any Sub-Class of Bonds, should be read and construed together with the relevant Pricing Supplement.

The Issuer accepts responsibility for the information contained in or appended to this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.

*No representation, warranty or undertaking is made, and no responsibility is accepted, by DCC, the Guarantors, MBIA, the Issuer Security Trustee, the Bond Trustee, the DCC Security Trustee, the Liquidity Facility Providers, the Hedge Counterparties, the Authorised Loan Providers, the Finance Lessors, the Existing DCC Hedge Counterparty, the Cash Manager, the Dealers, the Class R Underwriters or the Arranger (each as defined below and, together, the "**Other Parties**") or any affiliate of any of them (other than the Issuer) as to the accuracy or completeness of any information contained in this Information Memorandum or any other information supplied in relation to the Bonds or their distribution. None of the Other Parties has made any independent investigation or verification of the accuracy or completeness of any information contained in this Information Memorandum and none of them is responsible for any of the information contained in this Information Memorandum.*

The Issuer has confirmed to the Dealers and the Class R Underwriters (as defined in Chapter 9 "Subscription and Sale") that this Information Memorandum (including, for this purpose, each relevant Pricing Supplement) is or, as the case may be, will be true, accurate and complete in all material respects and is not or, as the case may be, will not be misleading; that the opinions and intentions expressed herein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Information Memorandum the omission of which would, in the context of the Programme or the issue of Bonds, make any statement herein or opinions or intentions expressed herein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. The Issuer has further confirmed to the Dealers that this Information Memorandum (together with, as the case may be, the relevant Pricing Supplement) contains or, as the case may be, will contain all such information as may be required by all applicable laws, rules and regulations.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Information Memorandum or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Other Parties or any of their respective affiliates.

Neither the delivery of this Information Memorandum or any Pricing Supplement nor the offering, sale or delivery of any Bond shall, in any circumstances, create any implication that the information contained in this Information Memorandum is true subsequent to the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer, DCC or any Guarantor (as defined below) since the date hereof or, if later, the date upon which this Information Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Information Memorandum and any Pricing Supplement and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this

*Information Memorandum or any Pricing Supplement comes are required by the Issuer and the Other Parties to inform themselves about and to observe any such restrictions. The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States. Accordingly, the Bonds may not be offered, sold or otherwise transferred except in a transaction outside the United States to persons that are not U.S. persons in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. The Bonds may include Bonds that are in bearer form that are subject to U.S. tax law requirements. In addition, the Issuer has not authorised any offer of the Bonds to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended (the "**POS Regulations**"). Bonds may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the POS Regulations or otherwise in compliance with all applicable provisions of the POS Regulations. No invitation will be made to the public in the Cayman Islands to subscribe for the Bonds. For a description of certain restrictions on offers, sales and deliveries of Bonds and on the distribution of this Information Memorandum or any Pricing Supplement and other offering material relating to Bonds, see Chapter 9 "Subscription and Sale".*

Neither this Information Memorandum nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Bonds and should not be considered as a recommendation by the Issuer or the Other Parties or any of them that any recipient of this Information Memorandum or any Pricing Supplement should subscribe for or purchase any Bonds. Each recipient of this Information Memorandum or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, DCC and each Guarantor and must make its own determination of the suitability of any investment in the Bonds with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The Issuer and the Other Parties do not represent that this document may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Other Parties (save for the approval of this document by the Luxembourg Stock Exchange) which would permit a public offering of any Bonds or distribution of this document or any Pricing Supplement in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Information Memorandum, any Pricing Supplement nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations, and the Dealers and the Class R Underwriters have represented that all offers and sales will be made by them on the same terms. Persons into whose possession this Information Memorandum or any Pricing Supplement or any Bonds come are required by the Issuer and the Other Parties to inform themselves about, and observe, any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and distribution of this Information Memorandum or any Pricing Supplement, see Chapter 9 "Subscription and Sale".

*All references in this Information Memorandum to "**sterling**" and "**£**" refer to the lawful currency of the United Kingdom, to "**U.S. dollars**" and "**$**" refer to the lawful currency of the United States of America, to "**French Francs**" and "**FF**" refer to French Francs, a non-decimal sub-unit of the euro, and to "**euro**" and "**€**" refer to the lawful currency of member states of the European Community (the "**Member States**") that have adopted the euro as their lawful currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.*

In connection with the issue of any Sub-Class of Bonds, the person (if any) who is specified in the relevant Pricing Supplement as the stabilising manager may over-allot or effect transactions which stabilise or

maintain the market price of such Bonds at a level which might not otherwise prevail for a limited period. However, there may be no obligation on the stabilising manager to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

- the most recently published annual audited financial statements of Glas (as defined below) and the Issuer from time to time, and the semi-annual interim financial statements (whether audited or unaudited) of Glas published subsequently to such annual financial statements from time to time; and
- all supplements and addenda to this Information Memorandum circulated by the Issuer from time to time in accordance with its undertaking described below given by it in the Dealership Agreement (as defined in Chapter 9 "*Subscription and Sale*").

However, any statement contained herein, or in the documents deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any such subsequent document all or the relative portion of which is or is deemed to be incorporated by reference herein modifies or supersedes such earlier statement.

The Issuer will provide, free of charge, upon oral or written request, a copy of this Information Memorandum (or any document incorporated by reference in this Information Memorandum) at the specified offices of the Bond Trustee and the Luxembourg Listing Agent (as defined below) and (in the case of Bearer Bonds) at the offices of the Paying Agents and (in the case of Registered Bonds) at the offices of the Registrar and the Transfer Agents.

SUPPLEMENTARY INFORMATION MEMORANDUM

The Issuer has undertaken, in connection with the listing of the Bonds on the Luxembourg Stock Exchange, that, if there shall occur any adverse change in the business or financial position of the Issuer, DCC or the Guarantors (as defined below) or any change in the information set out in Chapter 7 under "*Terms and Conditions of the Bonds*" that is material in the context of the issue of Bonds under the Programme, the Issuer will prepare or procure the preparation of an amendment or supplement to this Information Memorandum or, as the case may be, publish a new information memorandum for use in connection with any subsequent issue by the Issuer of Bonds to be listed on the Luxembourg Stock Exchange and will supply to each Dealer or Class R Underwriter such number of copies of the supplementary or new information memorandum as such Dealer or Class R Underwriter may reasonably request. The Issuer will also supply to the Luxembourg Stock Exchange such number of copies of the supplementary or new information memorandum as may be required by the Luxembourg Stock Exchange and will make copies available, free of charge, upon oral or written request, at the specified office of the Luxembourg Listing Agent.

CHAPTER 1
THE PROGRAMME

The following is a brief summary only and should be read in conjunction with the rest of this Information Memorandum and, in relation to any Bonds, in conjunction with the relevant Pricing Supplement and, to the extent applicable, the Conditions of the Bonds set out herein or therein.

Introduction and Use of Proceeds

An amount equal to the sterling equivalent of the gross proceeds of issue or, in the case of Class R Bonds, sale of each Series of Bonds has been or may be advanced by the Issuer to DCC under the terms of an Intercompany Loan Agreement (see Chapter 6 *"Financing Structure"* under "*Intercompany Loan Agreements*" and "*Additional Resources Available*" under "*Class R Bonds*").

Initial Programme Amounts

Asset-Backed Bonds

The maximum aggregate principal amount of Asset-Backed Bonds (including the Class R Bonds) which may be outstanding under the Programme shall be £3,000,000,000 or the equivalent thereof in permitted currencies.

Class R Bonds

The maximum aggregate principal amount of Class R Bonds which may be outstanding under the Programme shall be £200,000,000.

Guaranteed Asset-Backed Bonds

The maximum aggregate principal amount of Guaranteed Asset-Backed Bonds which may be outstanding under the Programme shall be £3,000,000,000 or the equivalent thereof in permitted currencies.

For the purpose of calculating the sterling (the "**Base Currency**") equivalent of the principal amount of Bonds outstanding under the Programme from time to time, the Base Currency equivalent of Bonds denominated in another currency shall be determined by the Agent Bank (as defined below) on the basis of the currency exchange rate under the relevant Hedging Agreement on the last preceding day on which commercial banks and foreign exchange markets were open for business in London.

Issue Dates

10 May 2001 (the "**Initial Issue Date**") and thereafter on such dates (each an "**Issue Date**") as agreed between the Issuer and the relevant Dealer(s).

Issuance in Series

Bonds issued on the same date will comprise a series (each, a "**Series**"). Each Series comprises or may comprise one or more non-fungible classes (each a "**Class**") or sub-classes (each a "**Sub-Class**"). The Bonds are or will be divided into five Classes, respectively, the "**Class A Bonds**", the "**Class B Bonds**", the "**Class R Bonds**", the "**Class C Bonds**" and the

"**Class D Bonds**".

The Issuer may make further issues on identical terms to an existing Sub-Class save for the first payment of interest. Such further issue will be fungible with the earlier issue. The specific terms of each Sub-Class of Bonds have been or will be set out in the applicable Pricing Supplement.

Status and Ranking

The Bonds in issue constitute, and any further bonds issued under the Programme will constitute, direct, secured and unconditional obligations of the Issuer. Each Sub-Class of Bonds in issue ranks, and any further Sub-Class of Bonds issued under the Programme will rank, *pari passu* without preference or priority in point of security amongst all other Sub-Classes of Bonds.

The Bonds represent the right of the holders of such Bonds to receive interest and principal payments from (a) the Issuer in accordance with the Conditions (as defined below) and the trust deed (the "**Trust Deed**") entered into by the Issuer, the Bond Trustee and MBIA in connection with the Programme and (b) in the case of the Class A Bonds only, from the relevant Financial Guarantor (as defined below) in certain circumstances in accordance with the relevant Bond Policy.

The Class A Bonds, Class B Bonds and Class R Bonds in issue (each of whatever Sub-Class) rank, and any further Class A Bonds, Class B Bonds and Class R Bonds (each of whatever Sub-Class) issued under the Programme will rank, *pari passu* with respect to payments of interest. However, only the Class A Bonds have the benefit of the relevant Bond Policy. All claims in respect of the Class A Bonds, Class B Bonds and Class R Bonds in issue (each of whatever Sub-Class) rank, and any further Class A Bonds, Class B Bonds and Class R Bonds (each of whatever Sub-Class) issued under the Programme will rank in priority to payments of interest due on all Sub-Classes of the Class C Bonds and Class D Bonds (other than any Subordinated Coupon Amounts), and the Class C Bonds in issue (of whatever Sub-Class) rank, and any further Class C Bonds issued under the Programme will rank, in priority to payments of interest due on all Sub-Classes of the Class D Bonds (other than any Subordinated Coupon Amounts).

The Class A Bonds, Class B Bonds and Class R Bonds in issue (each of whatever Sub-Class) rank, and Class A Bonds, Class B Bonds and Class R Bonds (each of whatever Sub-Class) issued under the Programme will rank, *pari passu* with respect to repayment of principal. However, only Class A Bonds have the benefit of the relevant Bond Policy. All claims in respect of the Class A Bonds, Class B Bonds and Class R Bonds in issue (each of whatever Sub-Class) rank, and any further Class A

	Bonds, Class B Bonds and Class R Bonds (each of whatever Sub-Class) issued under the Programme will rank in priority to repayments of principal due on all Sub-Classes of the Class C Bonds and Class D Bonds and the Class C Bonds (of whatever Sub-Class) rank in priority to payments of principal due on all Sub-Classes of Class D Bonds.
Form of Bonds	The Bonds in issue have been issued under the Programme in bearer form. Further Bonds issued under the Programme will be issued in bearer and/or in registered form. Further Bonds issued in registered form will not be exchangeable for Bonds in bearer form.
Bearer Bonds	Each Sub-Class of Bonds issued or to be issued under the Programme in bearer form have been or will initially be in the form of a Temporary Global Bond or a Permanent Global Bond (each, a "**Global Bond**") in each case as specified in the relevant Pricing Supplement. Each Global Bond has been or will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and/or any other relevant clearing system. Each Temporary Global Bond has been or will be exchangeable for a Permanent Global Bond or, if so specified in the relevant Pricing Supplement, for definitive Bonds in bearer form ("**Definitive Bonds**") with (if the Bonds bear interest) interest coupons ("**Coupons**") and (if applicable) talons for further Coupons ("**Talons**") attached. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership is a condition precedent to any exchange of an interest in a Temporary Global Bond or receipt of any payment of interest in respect of a Temporary Global Bond. A Permanent Global Bond has been or will be exchanged for Definitive Bonds with (if the Bonds bear interest) Coupons and (if applicable) Talons attached in the circumstances specified in the Permanent Global Bond. See Chapter 7 *"Terms and Conditions of the Bonds"* under *"Provisions Relating to the Bonds while in Global Form"*.
Registered Bonds	For each Sub-Class of Bonds to be issued in registered form, the Issuer will deliver a global bond certificate (a "**Regulation S Global Registered Bond Certificate**") to a depositary or common depositary for Euroclear and/or Clearstream Luxembourg. Regulation S Global Registered Bond Certificates will be exchangeable only for individual registered bond certificates ("**Regulation S Individual Registered Bond Certificates**") and only in the limited circumstances specified in the relevant Regulation S Global Registered Bond Certificate and as specified in the relevant Pricing Supplement.

	All such Regulation S Individual Registered Bond Certificates will have, if the principal thereof is repayable by instalments, endorsed thereon a grid for recording the repayment of principal.
Currency	Bonds in issue are, and any further bonds issued under the Programme will be, denominated in sterling, euro, U.S. dollars and/or other currency, as specified in the relevant Pricing Supplement.
Security	The Bonds are secured pursuant to a deed of charge (the "**Issuer Deed of Charge**") (a) by first ranking security interests in favour of the Issuer Security Trustee over, *inter alia*, (i) the Issuer's interest in and to the DCC STID (as defined below), (ii) the Issuer's rights under each Issuer Transaction Document (as defined below) with certain exceptions, (iii) the Issuer's Accounts (as defined below) and (iv) certain investments to be made from time to time by, or on behalf of, the Issuer and (b) by a first floating charge in favour of the Issuer Security Trustee over all the assets and undertaking of the Issuer, in each case excluding all monies constituting the issued share capital of the Issuer not otherwise utilised by the Issuer from time to time and the corporate benefits fee of £1,000 payable by DCC to the Issuer (such fixed and floating security, together, the "**Issuer Security**"). The Issuer Security is held by the Issuer Security Trustee on trust for the Issuer Secured Creditors (as defined below) under the terms of the Issuer Deed of Charge and subject to the terms of the Issuer STID (as defined below).
Intercreditor Arrangements	The Issuer Secured Creditors are each party to the Issuer STID, pursuant to which they have agreed that certain decisions in respect of the Issuer and the Issuer Security will be made by the Issuer Instructing Group (as defined below). Intercreditor arrangements are also in place among the DCC Secured Creditors (as defined below). See Chapter 6 "*Financing Structure*" under "*Summary of Inter-creditor Arrangements*".
Status of Bond Policies	Each financial guarantee insurance policy (each a "**Bond Policy**") issued in favour of the Bond Trustee in relation to each Sub-Class of Class A Bonds is an unsubordinated and unsecured obligation of the relevant Financial Guarantor, save for certain mandatory exceptions provided by law, pursuant to which the relevant Financial Guarantor has guaranteed the timely payment of interest and principal (other than any accelerated or additional amounts or any Subordinated Coupon Amounts) on the relevant issued Sub-Class of Class A Bonds.
Counter-Indemnity	The Issuer is or will be obliged, pursuant to the terms of an insurance and indemnity agreement with the relevant Financial Guarantor, *inter alia*, to reimburse such Financial Guarantor in respect of payments made by it under the relevant Bond Policy

	or Bond Policies. Each such Financial Guarantor is or will be subrogated to the rights of the relevant Class A Bondholders against the Issuer in respect of any payments made under such Bond Policies.
Issue Price	Bonds may be issued at any price, as specified in the relevant Pricing Supplement.
Maturities	Bonds may be issued for any maturity (the "**Expected Maturity Date**"), as specified in the relevant Pricing Supplement, but no Bonds have or will have a minimum maturity of less than three years from the relevant Issue Date.
Redemption	Bonds will be redeemable at par or at such other amount detailed in a formula or otherwise as may be specified in the relevant Pricing Supplement. Bond Policies will not guarantee the payment of any amounts of principal in excess of the Principal Amount Outstanding (as defined in Condition 6(i)), plus, in the case of Indexed Bonds, amounts in respect of indexation in respect of Class A Bonds.
Optional Redemption	Upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Financial Guarantor(s) and the Bondholders (as defined below), the Issuer may (prior to the relevant Expected Maturity Date) redeem the Bonds in whole or in part (but on a pro rata basis only) on any Interest Payment Date (as defined in Condition 6(i), and, together with any interest payment date under any loan facilities made available to the Issuer, each an "**Issuer Payment Date**"), provided that Floating Rate Bonds may not be redeemed before the date specified in the relevant Pricing Supplement, at the Redemption Amount (as defined in Condition 6(i)) plus accrued but unpaid interest. In respect of Fixed Rate Bonds, the Redemption Amount will be an amount equal to the higher of (i) their Principal Amount Outstanding and (ii) an amount calculated in accordance with the formula, as set out in Condition 8(b)(i). In respect of Floating Rate Bonds, the Redemption Amount will be the Principal Amount Outstanding, plus any premium for early redemption in certain years (as specified in the relevant Pricing Supplement), as set out in Condition 8(b)(ii). In respect of Indexed Bonds, the Redemption Amount will be the higher of (i) the Principal Amount Outstanding (plus an amount in respect of indexation) and (ii) an amount calculated in accordance with the formula as set out in Condition 8(b)(iii). In any such case, prior to giving any such notice, the Issuer must certify to the Bond Trustee that it will have the funds, not subject to any interest of any other person, required to redeem the Bonds as aforesaid. There are certain restrictions on the optional redemption of the Class C Bonds (see Condition 8(b)). Under the terms of the Bond Policies, the Financial Guarantors

have not guaranteed and will not guarantee any of the amounts payable by the Issuer upon an optional redemption of the Bonds, and their obligations continue to be to pay the Insured Amounts (as defined below) as they fall due for payment on each Issuer Payment Date. The Financial Guarantors are not and will not be obliged under any circumstances to accelerate payments under the Bond Policies. However, if they do so in their absolute discretion, following an acceleration of the Bonds only, they may do so in whole or in part and the amount payable will be the Principal Amount Outstanding (or, in the case of partial redemption, the pro rata amount that has become due and payable) of such Bonds, plus (i) in the case of Fixed Rate Bonds or Floating Rate Bonds, any accrued but unpaid interest (other than any Subordinated Coupon Amounts) and (ii) in the case of Indexed Bonds, an amount in respect of indexation and any accrued but unpaid interest (other than any Subordinated Coupon Amounts).

Redemption for Index Event, Taxation or Other Reasons

Upon the occurrence of certain index events, the Issuer may redeem the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds are also redeemed at the same time.

In addition, in the event of the Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Issuer may (i) use its reasonable endeavours to arrange for the substitution of another company in an alternative jurisdiction (subject to certain conditions as set out in Condition 8(c) of the Bonds) and, failing this; (ii) redeem (subject to certain conditions as set out in Condition 8(c) of the Bonds) all but not some of the Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest. No single Class or Sub-Class of Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Bonds are also redeemed in full at the same time.

In the event of DCC electing to prepay an advance (in whole or in part) under an Intercompany Loan Agreement following, *inter alia*, (i) DCC exercising its option to make such prepayment or (ii) DCC becoming obliged to make any deduction or withholding from payments under the relevant Intercompany Loan Agreement, the Issuer shall be obliged to redeem all or the relevant part of the corresponding Sub-Class

	of Bonds the proceeds of which were used by the Issuer to fund the making of the advance being prepaid. The Financial Guarantors have not guaranteed and will not guarantee any of the amounts payable by the Issuer upon an early redemption and their obligations will continue to be to pay the Insured Amounts as they fall due for payment on each Issuer Payment Date. The Financial Guarantors are not and will not be obliged under any circumstances to accelerate payments under the Bond Policies.
Redemption by Instalments	The relevant Pricing Supplement may provide that a Sub-Class of Bonds may be redeemed in two or more instalments in such amounts and on such dates and on such other terms as may be specified therein.
Interest	Bonds are or will, unless otherwise specified in the relevant Pricing Supplement, be interest bearing. Interest does or will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and is or will be payable in arrear, as specified in the relevant Pricing Supplement, or on such other basis and at such rate as may be so specified.
Fixed Rate Bonds	Fixed Rate Bonds do or will bear interest at a fixed rate, and interest for such Sub-Class is or will be payable on such date(s) and at such rate(s) as agreed between the Issuer and the Dealers (as specified in the relevant Pricing Supplement).
Floating Rate Bonds	Floating Rate Bonds do or will bear interest at a rate set separately for each Sub-Class as may be specified in the relevant Pricing Supplement either on the basis of a reference rate appearing on an agreed screen page of a commercial quotation service or on the basis of quotations from reference banks or on such other basis as may be agreed between the Issuer and the Dealers and as adjusted for any applicable Margin (as defined in Condition 6(i)) (as specified in the relevant Pricing Supplement).
Indexed Bonds	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined in Condition 7(a)) may be calculated (with or without maximum and/or minimum limits on the amount of indexation) by reference to the UK Retail Price Index or such other index and/or formula as the Issuer and the Dealers may agree (as specified in the relevant Pricing Supplement).
Interest Payment Dates	Interest in respect of Fixed Rate Bonds is or will be payable annually in arrear, in respect of Floating Rate Bonds is or will be payable quarterly in arrear and in respect of Indexed Bonds is or will be payable semi-annually in arrear (in each case, or as otherwise specified in the relevant Pricing Supplement).

Hedging	The Issuer is required to enter into hedging transactions in accordance with an agreed hedging policy. (See Chapter 6 "*Financing Structure*" under "*Additional Resources Available*".)
Denominations	£1,000, £10,000 or £100,000, €1,000, €10,000 or €100,000 and $1,000, $10,000 or $100,000 or other denominations as specified in the relevant Pricing Supplement.
Authorised Loan Facilities	Subject to certain conditions being met, the Issuer and/or DCC are permitted to incur indebtedness under authorised loan facilities (each an "**Authorised Loan Facility**") with an Authorised Lender (as defined below), providing revolving working capital and capital expenditure facilities. Authorised Loan Facilities available to DCC will be subject to a cap of £50,000,000 (as indexed) provided that the drawings by DCC from time to time under its Authorised Loan Facilities and the Overdraft Facility (as defined below) do not in the aggregate exceed £50,000,000 (as indexed). The Royal Bank of Scotland plc (as "**Initial Authorised Lender**") has made available an Authorised Loan Facility to each of the Issuer and DCC entered into on the Initial Issue Date (the "**Initial Authorised Loan Facility**"). The Initial Authorised Loan Facility has been syndicated by The Royal Bank of Scotland plc. (See Chapter 6 "*Financing Structure*" under "*Authorised Loan Facilities*".) Each Initial Authorised Lender is a party to the Issuer STID or DCC STID, as the case may be. Subject to certain conditions being met, the Issuer and/or DCC will be permitted to incur further indebtedness under further Authorised Loan Facilities. Each Authorised Lender will be a party to the Issuer STID or DCC STID, as the case may be (See Chapter 6 "*Financing Structure*" under "*Summary of Finance Documents*".)
Initial Liquidity Facility	The Initial Liquidity Providers (as defined below) made available, on the Initial Issue Date, to the Issuer a revolving 364-day credit facility for the purpose of meeting certain shortfalls in revenues: (i) for the Issuer to meet its obligations to pay interest on the first Series of Class A Bonds, Class B Bonds, Class R Bonds and Class C Bonds (subject to certain limits in respect of the Class C Bonds) issued; (ii) for the Issuer or DCC, as the case may be, to make interest payments under any Authorised Loan Facilities entered into on or before the Initial Issue Date; or (iii) for DCC to make notional interest payments under the Finance Leases (see Chapter 6 "*Financing Structure*" under "*Summary of Finance Documents*" - "*Intercompany Loan Agreements*").
Further Liquidity Facility	A revolving liquidity facility agreement made available to the Issuer by one or more banks (which may or may not be the Initial Liquidity Facility Providers, and together with the Initial Liquidity Facility Providers, each a "**Liquidity Facility**

	Provider") other than the Initial Liquidity Facility Agreement.
Taxation	Payments in respect of Bonds or under the relevant Bond Policy will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessment or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law (see Chapter 8 "*Tax Considerations*"). In that event and to that extent, the Issuer and, to the extent there is a claim under the relevant Bond Policy, the relevant Financial Guarantor will make payments subject to the appropriate withholding or deduction. No additional amounts will be paid by the Issuer or, to the extent there is a claim under the relevant Bond Policy, by the relevant Financial Guarantor in respect of any withholdings or deductions.
Investor information	DCC is required to produce an investors' report (the "**Investors' Report**") within 90 days of 31 March, 60 days of 30 September and within 45 days of each 30 June and 31 December (each a "**quarter-end**" and each period from but not including a quarter-end to and including the next quarter-end, a "**quarter**") starting with 30 September 2001. Such Investors' Report includes, *inter alia*: (i) a general overview of DCC for the previous quarter; (ii) a consolidated cashflow statement of the Glas Group (as defined below); (iii) a statement of consolidated debt service payments of the Glas Group; (iv) a principal reconciliation for the Bonds in issue and other indebtedness of the Glas Group; (v) a reconciliation of movements in the bank accounts of the Glas Group; (vi) the calculations of ICR and RAR (each as defined below) for the then current financial year and forecast to the end of the then current price determination period; (vii) an unaudited consolidated profit and loss account of the Glas Group for the quarter then ended; and (viii) an unaudited consolidated balance sheet as at the end of the then current quarter. Each such Investors' Report is required to be made available by DCC to the DCC Secured Creditors and Issuer Secured Creditors, including the Bondholders. DCC will also be required to make available unaudited interim accounts and audited annual accounts, within 90 days of 30 September and 180 days of 31 March, respectively. DCC also places certain additional information on Glas' website, as and when available. This includes, *inter alia*, the most recently published: (i) June Return – Summary Report setting out a summary of DCC's annual performance; (ii) DCC's annual charges scheme, with details of tariffs; (iii) summary of DCC's strategic business plan at each periodic review; (iv) DCC's current Procurement Plan

	(as defined below); (v) DCC's annual drinking water quality report; (vi) DCC's annual environment report; (vii) DCC's annual conservation and access report; and (viii) audited annual accounts and unaudited interim accounts of the Glas Group (as defined below) on a consolidated basis. (See Chapter 7 "*Terms and Conditions of the Bonds*".)
Governing Law	The Bonds and all Issuer Transaction Documents and DCC Transaction Documents (each as defined below) are governed by, and construed in accordance with, the laws of England and Wales.
Listing	The Bonds issued on the Initial Issue Date under the Programme have been listed on the Luxembourg Stock Exchange and an application has been made to list any additional Bonds issued under the Programme on the Luxembourg Stock Exchange.
Terms and Conditions	A Pricing Supplement will be prepared in respect of each Sub Class of Bonds including further fungible issues of an existing Sub-Class. A copy of the Pricing Supplement has been or will be delivered to the Luxembourg Stock Exchange on or before the Issue Date of such Bonds. The terms and conditions (the "**Conditions**") applicable to each such Sub-Class are those set out in Chapter 7 "*Terms and Conditions of the Bonds*", as amended, supplemented, varied or replaced by the relevant Pricing Supplement.
Clearing Systems	Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as may be agreed between the Issuer and the relevant Dealers (as specified in the relevant Pricing Supplement).
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Bonds and on the distribution of offering material in relation to the Bonds, see Chapter 9 "*Subscription and Sale*".

CHAPTER 2
THE PARTIES

Issuer	Dŵr Cymru (Financing) Limited (the "**Issuer**") was formed in order to raise funds to invest in providing long term debt financing to DCC in relation to its water and sewerage undertaking.
DCC	Dŵr Cymru Cyfyngedig ("**DCC**") is engaged in the provision of water and sewerage services under an appointment held under the UK Water Industry Act 1991 (the "**WIA**").
Holdings	Dŵr Cymru (Holdings) Limited ("**Holdings**") is the immediate holding company of the Issuer and DCC.
Guarantors	The following parties (each a "**Guarantor**") has each guaranteed certain obligations of DCC in favour of the DCC Security Trustee (for itself and on behalf of the DCC Secured Creditors, as defined below): (i) Holdings; (ii) Glas Securities; and (iii) Glas (each as defined below). None of the Guarantors has guaranteed the obligations of the Issuer under the Bonds.
Glas	Glas Cymru Cyfyngedig ("**Glas**"), a private company limited by guarantee, the holding company in the Glas Group (as defined below).
Glas Securities	Glas Cymru (Securities) Cyfyngedig ("**Glas Securities**"), a private company limited by shares which is a wholly owned subsidiary of Glas holds all of the issued share capital of Holdings.
Glas Group	Glas, Glas Securities, Holdings, the Issuer and DCC.
Arranger	The Royal Bank of Scotland plc.
Dealers	The Royal Bank of Scotland plc and Citigroup Global Markets (formerly Salomon Brothers International Limited) will act as dealers (together with any other dealer appointed from time to time by the Issuer) (the "**Dealers**") either generally in respect of the Programme (other than in respect of the Class R Bonds) or in relation to a particular Sub-Class, Class or Series of Bonds (other than in respect of the Class R Bonds).
Financial Guarantors (for Class A Bonds)	MBIA Assurance S.A. ("**MBIA**"), under the terms of financial guarantee insurance policies issued in favour of the Bond Trustee in respect of Class A Bonds issued on the Initial Issue Date (together with any other financial guarantee insurance policies issued by other Financial Guarantors (as defined below), the "**Bond Policies**"), unconditionally and irrevocably guarantee the scheduled payment of interest and principal (but not any accelerated amounts or Subordinated Coupon Amounts) in respect of such Class A Bonds. MBIA is under no obligation to issue Bond Policies. Subject to the approval of the Dealers and at least two of the Rating Agencies, the Issuer may arrange

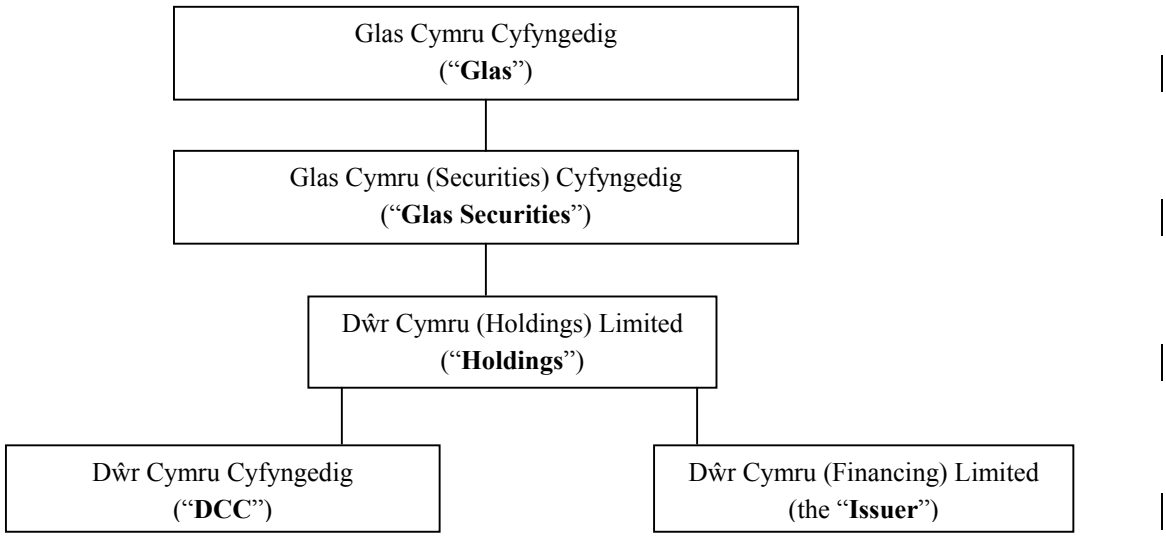
	for such other financial institution (each a "**Financial Guarantor**"), in addition to MBIA, to issue Bond Policies in respect of further Series of Class A Bonds. The Issuer does not currently intend to issue any Class A Bonds during the period of twelve months after the date hereof.
Class R Underwriters	Citibank N.A. as initial underwriter (together with any underwriters appointed from time to time by the Issuer, the "**Class R Underwriters**") in respect of the Class R Bonds.
Bond Trustee	Deutsche Trustee Company Limited (formerly Bankers Trustee Company Limited) as trustee (the "**Bond Trustee**") for and on behalf of the holders of each Class of Bonds of each Series (each a "**Bondholder**").
Issuer Security Trustee	Deutsche Trustee Company Limited as security trustee (the "**Issuer Security Trustee**") holds, and is entitled to enforce (for itself and on behalf of the Issuer Secured Creditors, as defined below), the Issuer Security (as defined below).
Paying Agents	Deutsche Bank AG London as issue agent and principal paying agent (the "**Principal Paying Agent**") and Deutsche Bank Luxembourg S.A. (the "**Luxembourg Paying Agent**" and, together with the Principal Paying Agent, the "**Paying Agents**") provides certain paying agency services to the Issuer in respect of Bearer Bonds.
Registrar	Deutsche Bank Luxembourg S.A. acts as registrar (the "**Registrar**") and provides certain registrar services to the Issuer in respect of Registered Bonds.
Transfer Agents	Deutsche Bank AG London as transfer agent (the "**Principal Transfer Agent**") and Deutsche Bank Luxembourg S.A. (the "**Luxembourg Transfer Agent**", together with the Principal Transfer Agent, the "**Transfer Agents**") provide certain transfer agency services to the Issuer in respect of Registered Bonds.
DCC Security Trustee	Deutsche Trustee Company Limited acts as security trustee (the "**DCC Security Trustee**") and holds, and is entitled to enforce (for itself and on behalf of the DCC Secured Creditors (as defined below)), the DCC Security and the Guarantor Security (each as defined below).
Cash Manager	DCC, pursuant to the terms of the Master Framework Agreement (as defined below) is appointed by the Issuer to act as cash manager (the "**Cash Manager**") in respect of monies credited from time to time to the Issuer Accounts (as defined below).
CfD Counterparty	WPD Realisations (Cayman) Limited as the CfD counterparty pursuant to the contract of differences, the terms of which are set out in a confirmation dated 3 April 2001 between WPD Finance Limited and DCC and novated to WPD Realisations (Cayman) Limited pursuant to a deed of transfer dated

	1 October 2001.
Standstill Cash Manager	The Royal Bank of Scotland plc, pursuant to the terms of the DCC STID and the Standstill Cash Management Agreement dated 21 June 2001, is appointed to act, after the occurrence of a Standstill Event (as defined below) as cash manager (the "**Standstill Cash Manager**") in respect of monies credited from time to time to the Debt Service Payment Account (as defined below).
Account Bank	National Westminster Bank Plc, or any person for the time being acting as Account Bank (pursuant to the DCC Account Bank Agreement and the Issuer Account Bank Agreement, each as defined below) (each an "**Account Bank**") holds the DCC Accounts (as defined below) and Issuer Accounts and has established the Overdraft Facility (as defined below) in favour of DCC.
Agent Bank	Deutsche Bank AG London acts as agent bank (the "**Agent Bank**") under the Paying Agency Agreement.
Luxembourg Listing Agent	BNP Paribas Luxembourg is the listing agent in respect of the Bonds in Luxembourg.
Finance Lessors	Each of Abbey National March Leasing (1) Limited, Lloyds Plant Leasing Limited, W. & G. Lease Finance Limited, Bayerische Landesbank Girozentrale, Sovereign Financial Services (Manchester) Limited and Sovereign Commercial Limited (together the "**Finance Lessors**"), who lease plant, machinery and equipment to DCC under the terms of various finance leases (together, the "**Finance Leases**").
Existing DCC Hedge Counterparty	Gen Re Securities Limited (the "**Existing DCC Hedge Counterparty**") pursuant to an interest rate hedging agreement dated 16 March 1994 with DCC.
Liquidity Facility Providers	The Royal Bank of Scotland plc and Lloyds TSB Bank plc (the "**Initial Liquidity Facility Providers**") provide to the Issuer a 364-day revolving credit facility for the purpose of meeting certain shortfalls in revenues available to the Issuer and DCC.
Hedge Counterparties	Citibank, N.A. and The Royal Bank of Scotland plc and any other party who enters into interest rate and currency exchange swap agreements with the Issuer (the "**Hedge Counterparties**").
Authorised Lenders	The Royal Bank of Scotland plc, as initial authorised lender (the "**Initial Authorised Lender**") in respect of the revolving working capital and capital expenditure credit facilities provided to each of the Issuer and DCC on or before the Initial Issue Date and certain other banks or financial institutions (each an "**Authorised Lender**") which agree to provide revolving credit facilities to the Issuer and/or DCC, or who agree to become Authorised Lenders as part of the syndication

	of the Initial Authorised Loan Facility or any further Authorised Loan Facility. (See Chapter 6 "*Financing Structure"* under "*Additional Resources Available*".)
Contractors	DCC, pursuant to its outsourcing plan, outsources the major components of operating and maintaining its water and sewerage undertaking and servicing its customers to qualified third parties ("**Contractors**"). (See Chapter 3 "*DCC and The Glas Group*" for a description of the outsourcing plan.)

CHAPTER 3
DCC AND THE GLAS GROUP

The Glas Group Corporate Structure



The diagram set out above illustrates the ownership structure of the Glas Group: Glas is the ultimate holding company of the Glas Group. Glas Securities is a wholly-owned subsidiary of Glas and Holdings is, in turn, a wholly-owned subsidiary of Glas Securities. Each of DCC and the Issuer is a wholly-owned subsidiary of Holdings.

DCC

Introduction

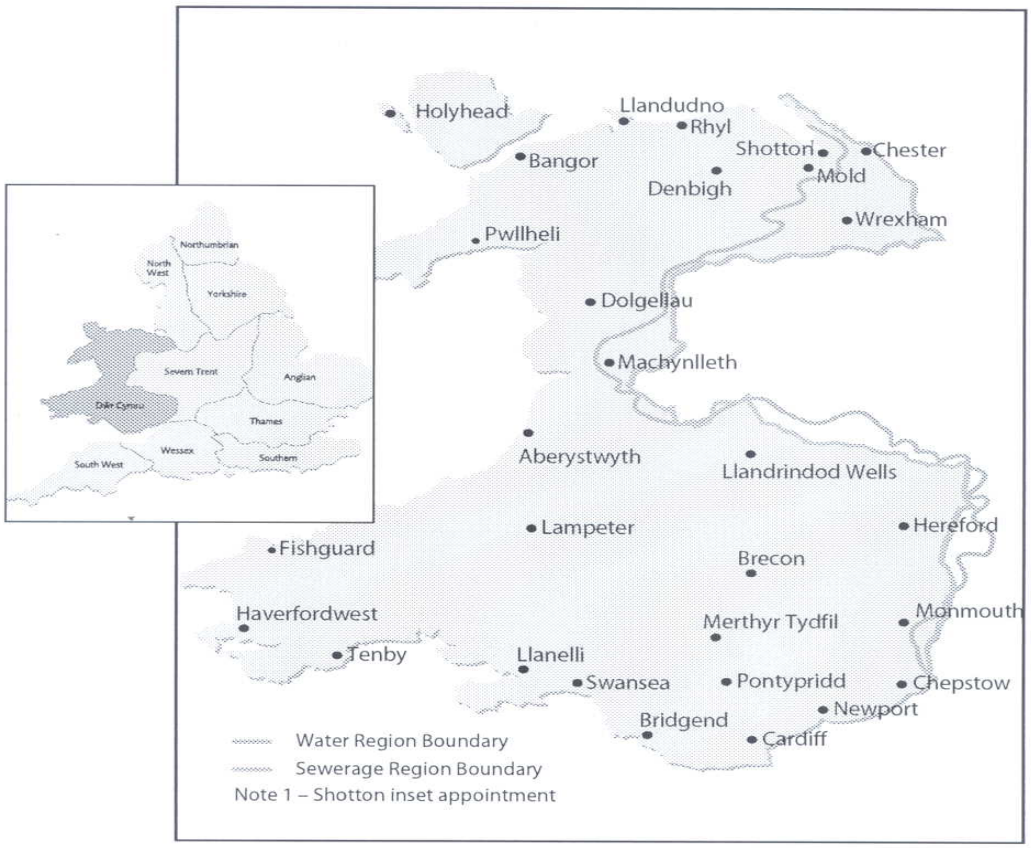
DCC (also known as Welsh Water) is the operating company of the Glas Group. It was incorporated on 1 April 1989 and its principal activity is the supply of water and the treatment and disposal of sewage. DCC is the sixth largest water service and sewerage company in England and Wales (based on turnover). It operates under a licence which has a 25 year notice period (see Chapter 4 "*Water Regulation*" under "*Termination of a Licence*").

Licence Area

DCC's water supply area covers most of Wales as well as parts of Herefordshire and Gloucestershire in England. DCC's sewerage area covers most of Wales and parts of Herefordshire, Gloucestershire, Cheshire, Shropshire and the Wirral. The sewerage boundary includes the Dee and Wye catchments in England but excludes the catchment of the River Severn in Mid Wales. Most of the premises served by DCC's sewerage services also receive water supplies from DCC.

There is an inset appointment to cover the supply of water to Shotton Paper.

Map of DCC Licence Area



Registered Office, Share Capital, Employees and Auditors

The registered office of DCC is at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.

DCC's authorised share capital is £301,050,000 ordinary shares of £1 each and 200,000,000 7% preference shares of £1 each. The entire issued share capital of £309,876,374 (109,876,374 ordinary shares and 200,000,000 preference shares) is owned by Holdings.

DCC currently employs approximately 140 employees. The employees of DCC do not include those employees who provide services to DCC under outsourced contracts.

The auditors of DCC are PricewaterhouseCoopers LLP, chartered accountants. Its accounting reference date is 31 March, and the latest audited accounts for DCC are for the year to 31 March 2002.

Regulation

DCC is principally regulated under the provisions of UK Water Industry Act 1991 (the "**WIA**"). The National Assembly for Wales (the "**Assembly**"), the Secretary of State for the Environment Food and Rural Affairs, and the Director General of Water Services (the "**DGWS**") are the principal regulators of DCC. (See Chapter 4 "*Water Regulation*" for details on the regulation of Regulated Companies (as defined therein) including DCC).

The main provisions of DCC's Licence are as follows:

- the restriction of the annual increase in a basket of standard charges to the price cap formula, RPI+K;
- periodic reviews of K every five years by a determination made by the DGWS;

- Interim Determinations of K (as defined in Chapter 4 "*Water Regulation*") by the DGWS between periodic reviews. At present, the specified circumstances which may trigger an Interim Determination for DCC include a new or changed legal requirement, variations in values received or expected to be received from disposals of land, a net increase in bad debts due to the loss of power to disconnect, and a higher rate of domestic optional metering than that anticipated by the DGWS in his most recent periodic review or Interim Determination (See Chapter 4 "*Regulation*" under "*shipwreck clause*");

- provisions which enable DCC to require the DGWS to refer a periodic review determination or an Interim Determination to the Competition Commission ("**CC**") for re-determination;

- requirements relating to the "financial ring-fencing" of the regulated business and transactions with associated companies, including the payment of dividends, and a requirement that DCC has at its disposal sufficient financial and managerial resources to carry out its regulated activities (including any investment programme necessary to fulfil licence obligations) and the "ring-fencing" of land and other assets;

- a requirement that DCC obtain a legally enforceable undertaking from its parent company stipulating that it refrain from any action which would prejudice the ability of DCC to comply with its obligations under the Licence and the WIA;

- a requirement to prepare and publish separate accounts, including accounts on a current cost accounting basis showing separately its appointed business from all other businesses and activities;

- a requirement that the regulated business neither gives to, nor receives from, any other business or activity of DCC or any other company within the Glas Group, any cross-subsidy, whether those businesses are regulated by the Licence or not and that any transaction with any other company within the Glas Group be on arm's length terms;

- a requirement that DCC maintains all necessary systems to maintain its responsibilities as a water and sewerage undertaker, including the appointment of a quality and environment committee from the board to monitor operational and environmental performance;

- a requirement that DCC implements necessary arrangements for the contracting out of operations including the publication of a procurement plan at least once every 18 months;

- requirements concerning the corporate governance arrangements of DCC including compliance with the principles of good governance and best practice; and

- requirements to maintain availability of regulatory information to the DGWS.

Other conditions of the Licence cover obligations relating to the calculation and application of "infrastructure charges", the preparation of charges schemes, the duty not to show undue preference or discrimination in the setting of charges, the provision of information to the DGWS, the preparation of Codes of Practice for general customer matters, disconnection and leakage, service standards and targets, the preparation of asset management plans, the payment of fees to Ofwat and compensation for customers in the event of interruptions to supply during a drought.

Water Resources

DCC benefits from a combination of high annual rainfall and topographical and geological conditions which favour the catchment and storage of water. Water resources are generally adequate to meet forecast demand. DCC has been able to maintain supplies with only limited restrictions (for example, hosepipe bans) even in exceptional drought conditions such as those which prevailed in 1984, 1989, 1990 and 1995. Approximately

one-quarter of the total water abstracted by DCC is supplied untreated to Severn Trent Water Limited under a bulk supply agreement.

DCC operates a quality assurance system approved to BSi Standard ISO 9002. DCC has approved procedures for the total process from source to point of consumption, which are used to monitor the daily activities which control water quality. These procedures are audited by BSi on a six monthly basis.

Pollution Control

Regulatory control of discharges to the environment is undertaken by the Environmental Agency (the "**EA**") which regularly samples discharges from treatment works. As part of improvements in efficiency and effectiveness most of the primary assets are remotely monitored to ensure that quality standards are met.

Water Supply – Base Statistics 2001-02

Description	Value
Population served	2.9m
Properties served	1.3m
Length of mains	26,950km
Number. of water treatment works	108
Number of main reservoirs	
Number of dams and impounding reservoirs	84
Number of service reservoirs	740
Average daily supply	877.94Mld
-from groundwater	3%
-from surface water	97%

Waste Water – Base Statistics 2001-02

Population served	3.3m
Properties served	1.2m
-Domestic	1,200,240
-Commercial	73,590
No. of wastewater treatment works	851
-% vol. sludge discharged agriculture	73%
-% vol. sludge discharged landfill	3%
-% vol. sludge discharged other	24%
Number of sewerage pumping stations	1,650
Volume of wastewater treated daily	571.6Mld

Service Performance

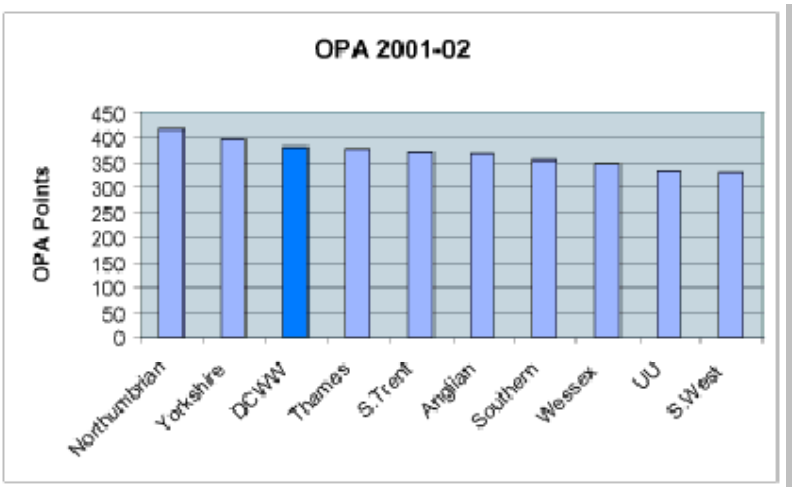
Ofwat annually publishes an Overall Performance Assessment ("**OPA**"). Ofwat has stated that it uses the OPA for two purposes. Firstly, to enable the DGWS to make comparisons about the quality of the overall service

companies provide to customers, and for this to be taken into account at each price review. Secondly, to inform customers (and other interested parties) about the overall performance of their local water company.

The key areas and contributing measures included are:

- water supply (water pressure, interruptions to supply, hosepipe bans, and drinking water quality);
- sewerage service (sewer flooding incidents and risk of flooding);
- customer service (written complaints, billing contacts, meter reading, telephone answering, telephone access, services to customers with special needs, supply pipe repair policies, debt and revenue policies, complaint handling, compensation, and provision of information to customers); and
- environmental impact (leakage, sewage treatment works, pollution incidents from water and sewerage activities, sludge disposal).

The results of Ofwat's assessment for 2001-02 for the water and sewerage companies are shown below:



Turnover

For the year to 31 March 2002, total turnover was £458.7 million, yielding operating profits before interest and exceptional items of £158.5 million.

Water supply and sewerage services charges are set so as to reflect the average costs of providing each service. The average domestic bill within the region supplied by DCC was £276 for the year to 31 March 2002.

Currently 11% of water and sewerage customers pay according to their domestic metered consumption. The Water Industry Act 1999 grants domestic customers the right to have a free meter installed if they wish to have one, where this is practicable.

Customers with unmetered supplies are billed primarily in advance on an annual basis with payments due annually, half-yearly or by instalments. For supplies of metered water, non-domestic customers are billed periodically depending on the size of their consumption and domestic customers are normally billed half-yearly. Approximately 29% of DCC's revenue comes from non-domestic customers.

DCC offers customers a variety of payment options for settling charges for water supply and sewerage services. The Water Industry Act 1999 prohibits the disconnection of domestic customers and other protected premises for non-payment of bills. Industrial and commercial customers are subject to a range of actions for non-payment including disconnection where persistent failure to settle charges occurs.

DCC's total bad debt charges for the year to 31 March 2002 was £11.1 million.

Operating Costs and Procurement Plan

DCC's operating costs excluding depreciation and before exceptional items were £210 million in the year to 31 March 2002.

DCC has implemented a procurement plan (the "**Procurement Plan**") which separates the ownership of DCC's assets from the day-to-day operation and maintenance of those assets. The delivery of customer services, including billing, revenue collection and customer contract management are also outsourced under the Procurement Plan. A new procurement plan is due to be published in April 2003.

DCC outsources work equivalent to 70 per cent. of its total operating costs. The overall objective of the Procurement Plan is to obtain best practice and best value from specialist service providers through competitive outsourcing and ongoing partnership with such service providers. The procurement strategy includes:

- stringent technical and financial pre-qualification of potential service providers;
- an "open book" partnership relationship between DCC and service providers;
- a requirement on service providers to operate the services in accordance with specified quality assurance standards;
- built-in monitoring arrangements to enable DCC's technical and operational staff to be fully informed at all times;
- a combination of incentives for out-performance of targets for service delivery and cost efficiency as well as strong sanctions to ensure that service providers do not put service quality at risk;
- no-notice, step-in rights for DCC to assume control of service delivery where DCC reasonably believes that a material risk exists or is likely to exist to health and safety, property or the environment; and
- provisions designed to ensure a smooth hand-over from one service provider to another.

DCC's current Procurement Plan anticipates that the retendering of the main outsourcing contracts will commence during the year to 31 March 2004 to enable the new market tested contract prices to be available for DCC's business plan before Ofwat sets the next price determination. The new outsourcing contracts are expected to come into effect from 1 April 2005.

Insurance

DCC maintains insurance cover consistent with the generally accepted practices of prudent water and sewerage companies. This includes property damage and business interruption insurance which covers risk of loss and damage, including terrorism cover. DCC also has third party liability insurance, which includes public and products liability insurance.

Capital Investment Programme

In the current five year period, 1 April 2000 to 31 March 2005, DCC expects to have invested approximately £1.2 billion in capital projects. The capital programme includes environmental quality improvements, the

rehabilitation and replacement of water mains and asset maintenance schemes. Key outputs from the capital investment programme in the year to 31 March 2002 included:

- water treatment works - 27 schemes have been completed to guarantee compliance with quality standards including removal of lead, manganese and cryptosporidium;
- main refurbishment - 426km of water mains have been refurbished to improve water quality and reliability of supply;
- water supply asset maintenance - investment in supply infrastructure has been made to maintain performance of water supply assets at 250 sites, including improvements to 75km of water mains;
- wastewater treatment works - 17 schemes completed including Cardiff, Hereford, Penmaenawr and Pontyberem;
- combined sewer overflows - 148 schemes have been completed. Major work has been completed in Rhymney, Amman and Gwendraeth Valleys; and
- wastewater asset maintenance - work has been carried out at 400 sites to maintain and improve asset quality.

The Issuer

Introduction

The Issuer was incorporated in the Cayman Islands on 15 February 2001 as an exempted company with limited liability, with registered number 108127. The Issuer is a subsidiary of Holdings and has no subsidiaries.

The Issuer has no employees nor does it own any tangible or physical assets (including, in particular, any real property). Administration and treasury operations are conducted on its behalf by DCC and certain third parties including Maples and Calder.

The principal activity of the Issuer is to facilitate future financing of the operating and capital requirements of DCC through, *inter alia*, the issuance of Bonds and other financial indebtedness.

The Issuer's authorised share capital is £50,000 divided into 50,000 ordinary shares of £1 each, 30,000 of which have been issued and are fully paid-up. The remaining 20,000 ordinary shares have been authorised but are not yet in issue.

The Issuer is required to be managed in such a way as to ensure that it is resident for tax purposes in the United Kingdom.

The Issuer, being an exempted company incorporated with limited liability under the laws of the Cayman Islands, is not obliged by statute, but nevertheless has chosen to prepare, audited accounts. Its first audited accounts have been drawn at and to 31 March 2002. The text of the auditor's report dated 12 June 2002 prepared by the Issuer's auditors is contained in Appendix E.

Capitalisation and Indebtedness Statement of the Issuer

The following table sets out the unaudited consolidated capital and reserves of the Issuer as at 31 December 2002:

Capital and Reserves **Share Capital**	**Unaudited as at 31 December 2002**
	£'000
Authorised:	
Ordinary Shares of £1 each	50
Allotted, called up and fully paid:	
Ordinary Shares of £1 each	30
Reserves	319
Equity shareholders' funds	349
Total shareholders' funds	349
Indebtedness	
Amounts falling due after more than one year	1,918,126

As at the date of this Information Memorandum the Issuer has no other equity or debt capital.

In addition to the Bonds issued on the Initial Issue Date the Issuer has entered into (a) the Initial Liquidity Facility Agreement to enable it to borrow monies in order to fund Liquidity Shortfalls in respect of the first Series of Bonds issued on such date; (b) the Initial Hedging Agreements in accordance with the hedging policy; and (c) an Authorised Loan Facility. The Issuer has also on lent the initial bond issue proceeds under the Intercompany Loan and will on lend the proceeds of any further bond issue under new intercompany loans. (See Chapter 6 "*Financing Structure*" under "*Summary of the Finance Documents*".)

Glas Cymru Cyfyngedig

Glas is a private company limited by guarantee. Glas was incorporated in England and Wales on 13 April 2000 under the Companies Act, with registered number 03975719.

Glas was established for the sole purpose of acquiring and owning DCC, and on 11 May 2001, Glas acquired DCC through its intermediate holding company, Glas Securities.

The registered office of Glas is Pentwyn Road, Nelson, Treharris, Mid Glamorgan CF46 6LY.

The non-executive directors of Glas are:

Lord Terence Burns

Chairman of the Board of Glas and former Permanent Secretary to the Treasury. He is currently Chairman of Abbey National plc and non-executive director of Pearson plc and British Land plc. Lord Burns is also a former Chairman of the National Lottery Commission.

Mr. Geraint Talfan Davies

Chairman of the Arts Council of Wales and the Institute of Welsh Affairs. He is also a member of the Radio Authority and a Governor of UWIC. Mr Davies was formerly Controller of BBC Wales.

Mrs. Alison Carnwath

Chairman of Vitec Group plc and a non-executive director of the Nationwide Building Society, QA Group plc, Man Group plc and Isis Equity Partners plc.

Mr. Anthony Hobson

Deputy Chairman of Northern Foods plc, a non-executive director of HBOS plc and Jardine Lloyd Thompson Group plc. Mr Hobson is also a former Group Finance Director of Legal & General Group plc and former non-executive director of Thames Water plc.

Dame Deirdre Hine

Chairman of the Commission for Health Improvement. Former positions include Chief Medical Officer at the Welsh Office and member of the Audit Commission for England and Wales and President of the Royal Society of Medicine.

Mr. John Bryant

Former Joint Chief Executive of Corus plc and currently a non-executive director of the Costain Group plc.

The executive directors of Glas are Dr Michael Brooker, Mr. Nigel Annett and Mr. Christopher Jones. Glas's company secretary is Mr. Richard Curtis. The business address of each of the non-executive and executive directors is the registered office of Glas.

The auditors of Glas are PricewaterhouseCoopers LLP, chartered accountants. The accounting reference date of the Company is 31 March and the latest audited accounts are for the year ended March 2002 which are set out, together with those for the period ended 31 March 2001, in Appendix C.

Capitalisation and Indebtedness Statement of Glas

The following table sets out the unaudited consolidated reserves and indebtedness of Glas as at 31 December 2002.

	Unaudited as at 31 December 2002 £m
Total reserves	134.2
Indebtedness	**£m**
Unsecured	
Amounts falling due within one year	12.6
Amounts falling due after more than one year	1,860.8
Obligations under finance leases	
Amounts falling due within one year	1.1
Amounts falling due after more than one year	354.5
Total Indebtedness	**2,229.0**

Notes:

(1) Share capital – Glas Cymru Cyf is a company limited by guarantee and does not have any authorised or issued share capital.

(2) **Material changes to indebtedness since 31 December 2002**

Since 31 December 2002 the Glas Group has drawn down £27.9 million pounds through its existing Finance Lease Facilities (see "*Additional Resources Available*").

Corporate Governance

The constitution of Glas limits its purpose to that of acting as a holding company and ensuring the proper carrying out of DCC's functions and responsibilities in accordance with DCC's Licence and applicable law and regulation. Glas gave an undertaking to DCC prohibiting Glas and its subsidiaries from making any changes to their Memorandum and Articles of Association without the DGWS's consent.

The Board of Glas is accountable to the members of Glas. Glas currently has 56 members. Members do not receive dividends and, other than their liability to pay £1 upon a winding up of the company, have no financial interest in the company. Members are individuals from across the region currently served by DCC with backgrounds in a variety of sectors including industry, commerce, finance, small business, education, health, the environment, charities and local government. The process of selecting members is overseen by an independent membership selection panel in accordance with the Company's published membership policy.

Glas is also subject to the provisions of the UK Companies Acts 1985 and 1989. In addition, Glas operates as if it were a publicly listed company in all material respects as regards corporate governance and reporting.

Remuneration Policy

The objective of the Company's remuneration policy is to attract, retain and motivate directors and managers of the required calibre in a competitive marketplace and to implement remuneration arrangements which align the interests of the individual with the interests of the customers of DCC. Accordingly a high proportion of the maximum remuneration of executive directors is related to performance. The performance related bonus arrangements are designed with reference to customer service as measured by Ofwat's OPA, see "*Service Performance*" above and the financial performance of the business.

Customer Rebates

Prior to its acquisition of DCC, the Glas Board stated its intention to make rebates to customers where it was financially prudent to do so and provided that certain financial conditions were satisfied (see Chapter 6 "*Financing Structure*" under "*Common Terms Agreement*" – "*DCC Covenants*"). As planned DCC has given a rebate of £11.5 million in respect of the year to 31 March 2004 by means of a £9 reduction in the standing change payable by each water and sewage customer. The Board of Glas has, furthermore, announced its intention to make a similar rebate of approximately £11.5 million in respect of the year to 31 March 2005.

Holdings

Holdings was incorporated in England and Wales on 23 March 2000 as a limited liability company under the Companies Act, with registered number 3954867 and is a wholly owned subsidiary of Glas Securities.

Holdings has no employees nor does it own any tangible or physical assets (including, in particular, any real property) other than its shares in DCC and the Issuer.

The principal activity of Holdings is to hold the shares of DCC and the Issuer, and to enter into certain documents incidental to the Programme.

Holdings authorised share capital is £31,000 divided into 1000 ordinary shares of £1 each and 30,000 redeemable preferred ordinary (non-voting) shares of £1 each.

The entire share capital is £30,001 (1 ordinary share and 30,000 redeemable preferred ordinary (non-voting) shares owned by Glas Securities).

As at 31 December 2002 Holdings owed DCC £406.5 million under the Holdings/DCC Loan Agreement (see Chapter 6 "*Financing Structure*" under "*Summary of Finance Documents-Holdings/DCC Loan Agreement*".)

Glas Securities

Glas Securities was incorporated in England and Wales on 21 December 2000 as a private limited company under the Companies Act, with registered number 4129132 and is a wholly owned subsidiary of Glas.

Glas Securities has no employees nor does it own any tangible or physical assets (including, in particular, any real property).

The principal activity of Glas Securities is to hold the shares of Holdings and to enter into certain documents necessary to effect the acquisition of DCC and all documents incidental to the Programme.

Glas Securities' authorised share capital is £100 divided into 100 ordinary shares of £1 each. One such ordinary share has been issued and is fully paid-up and held by Glas. As at the date of this Information Memorandum, Glas Securities has no other equity or debt capital.

CHAPTER 4
WATER REGULATION

Water Regulation Generally

Regulatory Framework

The activities of a company which is appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA (a "**Regulated Company**") are principally regulated by the provisions of the WIA, regulations made under the WIA and the conditions of their instruments of appointment as water undertakers and sewerage undertakers (together "**licences**" and each a "**licence**"). Under the WIA, the Secretary of State has a duty to ensure that at all times there is an appointee for every area of England and Wales. Appointments may be made by the Secretary of State or, in accordance with a general authorisation given by him, the DGWS. Legislation currently before Parliament would make certain amendments to the WIA (see "*The Water Bill*" below).

In relation to appointments made in the Dŵr Cymru and Dee Valley areas of appointment, certain of the powers of the Secretary of State have been transferred to the Assembly. Accordingly, references to the Secretary of State will, as the context may require, be deemed to include reference to the Assembly in respect of such powers and responsibilities.

The economic regulator for water is the DGWS who is aided in his duties by Ofwat, a non-ministerial government department, of which he is head. Ofwat is responsible for, *inter alia*, setting limits on charges and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their affairs. The two principal quality regulators are the Drinking Water Inspectorate (the "**DWI**"), which is part of the Department for the Environment, Food and Rural Affairs (the "**DEFRA**"), and the Environment Agency (the "**EA**").

The DGWS and the Secretary of State

The DGWS is appointed for a fixed term by the Secretary of State (in consultation with the Assembly). He is independent of government ministers and may only be removed for incapacity or misbehaviour.

Each of the Secretary of State and the DGWS has a primary duty under the WIA to exercise and perform his powers and duties under the WIA in the manner he considers best calculated to secure that:

- the functions of Regulated Companies are properly carried out throughout England and Wales; and
- Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions.

Subject to this primary duty each of the Secretary of State and the DGWS is required to exercise and perform his powers and duties in the manner he considers best calculated to:

- protect the interests of customers (especially rural customers) in connection with the fixing and recovery of water and drainage charges, and such that no undue preference or discrimination is shown in the fixing of those charges;
- protect the interests of customers in connection with the terms on which services are provided and the quality of those services;
- protect the interest of customers as regards non-regulated activities of Regulated Companies (and companies connected with them) in particular by ensuring that (i) transactions are carried out at arm's

length; and (ii) in relation to their regulated business, Regulated Companies maintain and present accounts in a suitable form and manner;

- protect the interests of customers in connection with the benefits that could be secured for them by the disposal by Regulated Companies of "protected land";
- promote economy and efficiency on the part of Regulated Companies; and
- facilitate effective competition between Regulated Companies and those seeking appointments as Regulated Companies.

The Assembly

The Assembly was established by the Government of Wales Act 1998 (the "**GWA**") which largely defines the make-up, powers and functions of the Assembly. The Assembly's relationship with the UK Government and Whitehall departments is set out in a Memorandum of Understanding. The Assembly develops and implements policies which reflect the particular needs of the people of Wales. The GWA sets out essential structures and procedures for the Assembly and more detailed processes are set out in the Assembly Standing Orders.

The majority of the functions of the Secretary of State set out in the WIA are transferred, in as far as they relate to Regulated Companies whose areas are wholly or mainly in Wales, to the Assembly.

Those duties, powers and functions transferred include:

- general duties with respect to the water industry;
- the power to appoint (or to consent or give a general authorisation for the DGWS to appoint) a company to be a Regulated Company;
- the duty to secure the appointment of relevant Regulated Companies and to ensure the continuity and replacement of appointments and the power to terminate (or to consent or give a general authorisation for the DGWS to terminate) an appointment in order to replace it;
- the power to impose conditions on the appointment and to veto modifications proposed by the DGWS in certain specified circumstances;
- the duty to make enforcement orders (and the exceptions to that duty), the procedure for enforcement orders and their validity and effect (certain functions relating to enforcement orders are exercisable concurrently with the Secretary of State as they relate to national security);
- the right to petition for special administration orders;
- enforcement of the general duties of the water undertakers (or consenting to or giving a general authorisation for the DGWS to enforce such duties) and the making of regulations on standards of performance;
- the power to institute proceedings for the offence of supplying water unfit for human consumption, to make regulations to prevent contamination and maintain quality and to appoint a technical assessor to evaluate supplies;
- the enforcement of the general duty to provide a sewerage system (or consenting or giving a general authorisation for the DGWS to enforce such duty), the making of regulations prescribing standards for sewerage services and the procedure for such regulations;

- the power to make regulations relating to charging by volume and to make provisions for billing disputes to be referred to the DGWS;
- authorising the giving of financial assistance to, or guaranteeing the financial obligations of (in each case with the consent of the Treasury), a company where a special administration order is in force; and
- authorising the compulsory purchase of land (in some circumstances this function is transferred exclusively to the Assembly, in others it is carried out concurrently with the Secretary of State) and the creation of rights and interests over land and consenting to, or giving a general authorisation for, the disposal of any protected land.

Nothing in the provisions for transferring functions to the Assembly affects the role of Ofwat, which retains the same regulatory functions and powers in respect of DCC as it possesses in respect of Regulated Companies in England.

Licences

Under the WIA, each Regulated Company holds a licence and is regulated through the conditions of such licence as well as the WIA. Each licence specifies the geographic area served by the company and imposes a number of conditions on the licence holder which relate to limits on charges, information reporting requirements, various codes of practice, and other matters. The main provisions of DCC's licence are typical of those of all licences. The DGWS is responsible for monitoring compliance with the conditions of the licence and, where necessary, enforcing compliance through procedures laid down in the WIA (see "*Enforcement Orders*" below).

Termination of a licence

There are certain circumstances provided for in the WIA where a Regulated Company could cease to hold a licence for all or part of its area:

- a Regulated Company could consent to the making of a replacement appointment or variation, which changes its appointed area, and the DGWS has the authority to appoint a new licence holder;
- under condition O of the licence, provided at least 25 years' notice has been given by the Assembly;
- under the provisions of the special administration regime (the licence may be terminated and the special administrator may transfer the business to a successor (see "*Special Administration Orders*" below)); or
- by the granting of an "inset" appointment over part of a Regulated Company's existing appointed area to another Regulated Company (see below).

Before making an appointment or variation replacing a Regulated Company, the DGWS or the Secretary of State must consider any representations or objections made. In making an appointment or variation replacing a Regulated Company and where the Secretary of State or DGWS is to determine what provision should be made for fixing charges, it is the duty of the Secretary of State or the DGWS to ensure, so far as may be consistent with their duties under the WIA, that the interests of the members and creditors of the existing Regulated Company are not unfairly prejudiced as regards the terms on which the new Regulated Company could accept transfers of property, rights and liabilities from the existing Regulated Company.

An "inset" appointment can be granted to a company seeking to provide water and/ or sewerage services on a greenfield site, or to a large user of water and/or sewerage services within an existing Regulated Company's area, or where the incumbent Regulated Company consents to the variation. Recently the threshold for large user insets has been reduced (in England but not yet in Wales) which will increase the number of large users that are able to qualify for inset appointments.

Enforcement Orders

The general duties of Regulated Companies are enforceable by the Secretary of State or the DGWS or both, although, in the case of DCC, certain of the enforcement duties, in as far as they relate to Wales, have been transferred to the Assembly. The conditions of the licence (and other duties) are enforceable by the DGWS alone whilst other duties, including those relating to water quality, are enforceable by the Secretary of State.

Where the Secretary of State or the DGWS is satisfied that a Regulated Company is contravening, or has contravened and is likely to do so again, its licence, or a relevant statutory or other requirement, either the Secretary of State or the DGWS must make a final enforcement order to secure compliance with that condition or requirement, save that where it appears to the Secretary of State or the DGWS more appropriate to make a provisional enforcement order, he may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or DGWS shall have regard to the extent to which any person is likely to sustain loss or damage as a consequence of such breach before a final enforcement order is made. The Secretary of State or the DGWS will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance with the condition or requirement which is in breach.

There are exemptions from the Secretary of State's and the DGWS's duty to make an enforcement order or to confirm a provisional enforcement order:

- where the contraventions were, or the apprehended contraventions are, of a trivial nature;
- where the company has given, and is complying with, an undertaking to secure or facilitate compliance with the condition or requirement in question; or
- where duties in the WIA preclude the making or confirmation of the order.

Special Administration Orders

The WIA contains provisions enabling the Secretary of State and the DGWS to secure the general continuity of water supply and sewerage services. In certain specified circumstances, the High Court (the "**Court**") may, on the application of the Secretary of State or, with his consent, the DGWS, make a special administration order in relation to a Regulated Company and appoint a special administrator. These circumstances include:

- where there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide sewerage services or of a final or confirmed provisional enforcement order and, in either case, the breach is serious enough to make it inappropriate for the Regulated Company to continue to hold its licence;
- where the Regulated Company is, or is likely to be, unable to pay its debts;
- where, in a case in which the Secretary of State has certified that it would be appropriate, but for Section 25 of the WIA, for him to petition for the winding up of the Regulated Company under Section 440 of the Companies Act 2000 it would be just and equitable, as mentioned in that section, for the Regulated Company to be wound up if it did not hold a licence; and
- where the Regulated Company is unable or unwilling adequately to participate in arrangements certified by the Secretary of State or the DGWS to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination of the existing Regulated Company's licence.

In addition, on an application being made to Court, whether by the Regulated Company itself or by its directors, creditors or contributories, for the compulsory winding up of the Regulated Company, the Court would not be entitled to make a winding up order; however, if satisfied that it would be appropriate to make

such an order if the Regulated Company were not a company holding a licence, the Court shall instead make a special administration order.

During the period beginning with the presentation of the petition for special administration and ending with the making of a special administration order or the dismissal of the petition (the "**special administration petition period**"), the Regulated Company may not be wound up, no steps may be taken to enforce any security except with the leave of the Court, and subject to such terms as the Court may impose, and no other proceedings or other legal process may be commenced or continued against the Regulated Company or its property except with the leave of the Court.

Once a special administration order has been made, any petition presented for the winding up of the company will be dismissed and any receiver appointed, removed. Whilst a special administration order is in force, those restrictions imposed during the special administration petition period continue with some modification: an administrative receiver can no longer be appointed (with or without the leave of the Court) and, where any action does require the Court's leave, the consent of the special administrator is acceptable in its place (see "*Restrictions on the enforcement of security*" below).

A special administrator has extensive powers under the WIA similar to those of an administrator under UK insolvency law applicable to companies which are not Regulated Companies, but with certain important differences. A special administrator would be charged with managing the affairs, business and property of the Regulated Company: (i) for the achievement of the purposes of the special administration order; and (ii) in such a manner as protects the respective interests of the members and creditors of the Regulated Company. The purposes of the special administration order consist of: (a) transferring to one or more different Regulated Companies, as a going concern, as much of the business of the Regulated Company as is necessary in order to ensure that the functions which have been vested in the Regulated Company by virtue of its licence are properly carried out; and (b) pending the transfer, the carrying out of those functions. It would therefore not be open to him to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a Regulated Company.

The powers of a special administrator include, as part of a transfer scheme, the ability to make modifications to the licence of the existing Regulated Company, subject to the approval of the Secretary of State or the DGWS. The special administrator agrees the terms of the transfer of the existing Regulated Company's business to the new Regulated Company(ies), on behalf of the existing Regulated Company. The transfer is effected by a transfer scheme which the special administrator puts in place on behalf of the existing Regulated Company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the transfer scheme) to the new Regulated Company(ies). The powers of a special administrator include the right to seek a review by the DGWS of the Regulated Company's charges pursuant to an Interim Determination or a shipwreck clause (as defined below). To take effect, the transfer scheme must be approved by the Secretary of State or the DGWS. In addition, the Secretary of State and the DGWS may modify a transfer scheme before approving it or at any time afterwards with the consent of the special administrator and each new Regulated Company.

The WIA also grants the Secretary of State, with the approval of the Treasury: (i) the power to make appropriate grants or loans to achieve the purposes of the special administration order or to indemnify the special administrator against losses or damages sustained in connection with the carrying out of his functions; and (ii) to guarantee the payment of principal or interest or the discharge of any other financial obligations in connection with any borrowings of the Regulated Company subject to a special administration order.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their protected land except with the specific consent of, or in accordance with a general authorisation given by, the Secretary of State. A consent or authorisation may be given on such conditions as the Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge. All land disposals are reported to Ofwat in the annual return.

Protected land comprises any land, or any interest or right in or over any land, which:

- was transferred to a water and sewerage company (under the provisions of the 1989 Act) on 1 September 1989, or was held by a water only company at any time during the financial year 1989-90;
- is, or has at any time on or after 1 September 1989 been held by a company for purposes connected with the carrying out of its regulated water or sewerage functions; or
- has been transferred to a company in accordance with a scheme under Schedule 2 to the WIA from another company, in relation to which the land was protected land when the transferring company held an appointment as a water or sewerage undertaker.

Security

Restrictions on the granting of security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, all licences (including DCC's Licence) restrict a Regulated Company's ability to dispose of protected land (as explained in "*Protected Land*" above). Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage over protected land or assets required for the operation of its business as a Regulated Company. In the case of DCC, the Issuer estimates that the vast majority of DCC's assets by value is tangible property which is protected land and/or assets required in the operation of DCC's business as a Regulated Company and cannot therefore be effectively secured. This necessarily affects the ability of DCC to create a floating charge over the whole or substantially the whole of its business. However, in any event, there is no right under the WIA to block the appointment of a special administrator equivalent to the right of a holder of a floating charge over the whole or substantially the whole of the business of a non-Regulated Company to block the appointment of a conventional administrator.

In addition, provisions in a Regulated Company's licence require the Regulated Company at all times:

- to ensure, so far as is reasonably practicable, that if a special administration order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the special administrator to manage its affairs, business and property so that the purpose of such order could be achieved; and
- to act in the manner best calculated to ensure that it has adequate: (i) financial resources and facilities; and (ii) management resources, to enable it to carry out its regulated activities.

These provisions may further limit the ability of DCC to grant security over its assets and may limit in practice the ability to enforce such security.

Restrictions on the enforcement of security

Under the WIA, the enforcement of security given by a Regulated Company in respect of its assets is prohibited unless the person enforcing the security has first given 14 days' notice to both the Secretary of State and the DGWS. If a petition for special administration has been presented leave of the Court is required

before such security is enforceable or any administrative receiver can be appointed (or, if an administrative receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a special administration order is in force with some modification (see "*Special Administration Orders*" above).

Once a special administrator has been appointed, he would have the power, without requiring the Court's consent, to deal with property charged pursuant to a floating charge as if it were not so charged. When such property is disposed of under this power, the proceeds of the disposal would, however, be treated as if subject to a floating charge which had the same priority as that afforded by the original floating charge.

A disposal by the special administrator of any property secured by a fixed charge given by the Regulated Company could be made only under an order of the Court unless the creditor in respect of whom such security is granted otherwise agreed to such disposal. Such an order could be made if, following an application by the special administrator, the Court was satisfied that the disposal would be likely to promote one or more of the purposes for which the order was made (although the special administrator is subject to the general duty to manage the company in a manner which protects the respective interests of the creditors and members of the Regulated Company). Upon such disposal, the proceeds to which that creditor would be entitled would be determined by reference to the "best price which is reasonably available on a sale which is consistent with the purposes of the special administration order" as opposed to an amount not less than "open market value" which would apply in a conventional administration for a non-Regulated Company under UK insolvency legislation.

Within three months of the making of a special administration order or such longer period as the Court may allow, the special administrator must send a copy of his proposals for achieving the purposes of the order to, *inter alia*, the Secretary of State, the DGWS and the creditors of the company. The creditors' approval to the special administrator's proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration for a non-Regulated Company under UK insolvency legislation); however, notwithstanding this, the interests of creditors and members in a special administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company's affairs, business and property are being or have been managed by the special administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the special administrator is/or would be so prejudicial. Any order made by the Court may include an order to require the special administrator to refrain from doing or continuing an act about which there has been a complaint.

Enforcement of Security over Shares in DCC

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in any group company, including the holding company of a Regulated Company such as DCC, would not be subject to the restrictions described above in relation to the security over DCC's business and assets. Notwithstanding this, given the DGWS's general duties under the WIA to exercise and perform his powers and duties, *inter alia*, to ensure that the functions of a Regulated Company are properly carried out, the Issuer anticipates that any intended enforcement either directly or indirectly of the Guarantor Security (as defined below) or the security over, and subsequently any planned disposal of, the shares in DCC to a third party purchaser, would require consultation with the DGWS. In addition, depending on the circumstances, the merger control provisions referred to in "*Competition in the Water Industry — Merger Regime*" below could apply in respect of any such disposal.

Economic Regulation

Economic regulation of the water industry in England and Wales is based on a system of five-year price caps imposed on the amounts Regulated Companies can charge to their customers. This is intended to reward companies for efficiency and quality of service to customers. The system generally allows companies to retain for a period any savings attributable to efficiency, thus creating incentives to make such gains.

K price limitation formula

The main instrument of economic regulation are the price limits set out in the conditions of the licences. These limit increases in a basket of standard charges made by Regulated Companies for water supply and sewerage services. The weighted average charges increase is limited to the sum of the percentage movement in the retail price index ("**RPI**") plus an adjustment factor which may be positive, negative or zero ("**K**"). K is a number set for each Regulated Company individually and may be a different number in different years. Certain charges are not included in the price limitation formula but are determined on an individual basis.

Price Control

A small number of mainly large consumption non-domestic customers are charged in accordance either with individual "special" arrangements, or with standard charges which do not fall within the scope of the tariff basket. These include charges for bulk supplies and infrastructure charges and, where these are not in accordance with standard charges, charges for non-domestic supplies of water and the reception, treatment and disposal of trade effluent. Charges for bulk supplies of water are usually determined on an individual basis, as are charges for some larger non-domestic water supplies and some trade effluent. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply.

Periodic reviews of K

K must be reviewed every five years (the "**periodic review**"). Following the last periodic review, new price limits took effect from 1 April 2000 and are set for the five year period from 2000 to 2005. The DGWS will next reset price limits in 2004 and these will come into effect on 1 April 2005. The DGWS made a statement on 31 January 2001 in which he indicated his general approach to the carrying out of periodic reviews (see "*Ofwat Letter*" in Appendix B). On 27 March 2003, following a three month period of consultation, the DGWS issued a paper "*Setting water and sewerage price limits for 2005-10: Framework and Approach*" which confirmed the proposed methodology and timetable for the next periodic review. The DGWS will publish further updates in respect of the approach to pricing limits for the next five year period from 2005 to 2010.

Interim Determinations of K

The conditions of the licences provide for the DGWS to determine in certain circumstances whether, and if so how, K should be changed between periodic reviews. The procedure for Interim Determinations of K can be initiated either by the Regulated Company or by the DGWS. In DCC's Licence an application for an Interim Determination of K may be made in respect of a Notified Item (see below) or a Relevant Change of Circumstance (see below).

A "**Notified Item**" is any item formally notified by the DGWS to the Regulated Company as not having been allowed for in K, provided that there has been no periodic review subsequent to that notification. Notified Items put forward by the DGWS in the determination of price limits for the period 2000 to 2005 were: (i) the costs and revenues associated with any difference in the number of domestic customers who opt to switch to measured charges ("**meter optants**") from that assumed by the DGWS; (ii) any net increase in bad debt and debt collection costs arising from the loss of the power to disconnect residential customers for non-payment from 1 April 2000; and (iii) any additional administrative costs arising out of statutory obligations to offer

protection from high metered bills to vulnerable groups of customers (with respect to Wales, regulations regarding the protection of vulnerable groups have not yet been implemented).

"**Relevant Changes of Circumstance**" are defined in the licences. Such changes include: (i) the application to the Regulated Company of any new or changed legal requirement (including any legal requirement ceasing to apply, being withdrawn or not being renewed); (ii) any difference in value between actual or anticipated proceeds of disposals of protected land and those allowed for at the last periodic review or Interim Determination; and (iii) the amounts assumed in K for the necessary costs of securing or facilitating compliance with a legal requirement or achieving a service standard where the Regulated Company has failed to: (a) carry out the necessary works; (b) spend the amount which it was assumed would be spent; and (c) achieve the stated purpose.

An Interim Determination takes account of the costs, receipts and savings to be included in the computation of K which are reasonably attributable to the Notified Items or the Relevant Changes of Circumstance in question and are not recoverable by charges outside the K price limitation formula. The amount and timing of the costs, receipts and savings must be appropriate and reasonable for the Regulated Company in all the circumstances and they must exclude: trivial amounts, any costs which would have been avoided by prudent management action, any savings achieved by management action over and above those which would have been achieved by prudent management action, and any amounts previously allowed for in determining K. These costs are then netted off against the receipts and savings to determine the base cash flows for each year included in the timing (the "**Base Cash Flows**").

The conditions of the licences also specify a materiality threshold which must be reached before any adjustment can be made. In relation to certain licences (including that of DCC) this materiality threshold is reached where the sum of the net present values of (i) Base Cash Flows consisting of operating expenditure and/or loss of revenue calculated over 15 years and (ii) other Base Cash Flows calculated over the period to the next periodic review, is equal to at least 10 per cent. of the latest reported turnover attributable to the Regulated Company's water and sewerage business. An adjustment to K (which may be up or down) is then calculated on the basis of a formula broadly designed to enable the Regulated Company to recover the Base Cash Flows. The change is then made for the remainder of the period up to the start of the first charging year of the next periodic review. Condition B of the licence sets out in detail the step-by-step methodology which the DGWS is required to apply.

Substantial Adverse or Favourable Effects – Shipwreck Clause

DCC, along with certain other Regulated Companies may, under certain conditions of its licence (the "**shipwreck clause**"), request price limits to be reset if the regulated business either: (i) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action. For the purpose of the shipwreck clause the materiality threshold is equal to at least 20 per cent. of the latest reported turnover attributable to the Regulated Company's water and sewerage business.

References to the Competition Commission

If the DGWS fails within specified periods to make a determination at a periodic review or in respect of an Interim Determination or if the Regulated Company disputes his determination, the Regulated Company may require the DGWS to refer the matter to the CC. The CC must make its determination in accordance with any regulations made by the Secretary of State and with the principles which apply, by virtue of the WIA, in relation to determinations made by the DGWS. The decisions of the CC are binding on the DGWS.

Drinking Water and Environmental Regulation

The water industry is subject to numerous regulatory requirements concerning the protection of the environment and human health and safety. Responsibility for regulation of drinking water quality and environmental standards lies with the DWI and the EA respectively.

The DWI is part of the DEFRA and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. It can take enforcement action in the event that a water undertaker is in contravention of regulatory requirements concerning the "wholesomeness" of water supplies. Court proceedings can be brought by the DWI in the name of the Secretary of State or the Director of Public Prosecutions for the offence of supplying water "unfit for human consumption", for example if discoloured or foul tasting water is supplied to customers.

The EA is responsible in England and Wales for the control of water pollution and the maintenance and improvement of the quality of controlled waters, including the regulation of discharges to those waters. The principal UK environmental legislation relevant to Regulated Companies includes the Water Resources Act 1991 (the "**WRA**"), the Environmental Protection Act 1990 (the "**EPA**") and the WIA. The Water Bill proposes amendments to both the WRA and the WIA (see "*The Water Bill*" below).

Under the WRA any discharge of trade or sewage effluent into controlled waters can only be carried out with a discharge consent from the EA or with some other lawful authority. The discharge consent system under the WRA is backed up by various criminal offences. It is a criminal offence to cause or knowingly permit polluting matter to enter controlled waters. The principal prosecuting body is the EA. Under the WRA the EA is empowered to take remedial action to deal with actual or potential pollution of controlled waters and may recover the reasonable costs of such works from the person who caused or knowingly permitted the pollution (and can also require that person to take the remedial action itself).

Sewerage undertakers are responsible under the WIA for regulating discharges of industrial effluent into sewers. In addition, discharges from sewage treatment works must be licensed by the EA. Contamination of controlled waters by discharge of non-compliant effluent from a treatment works may subject the sewerage undertaker to liability, including fines and clean-up costs. The EA publicises breaches by Regulated Companies of their discharge consents and brings prosecutions where necessary. Depending on developments in case law, sewerage undertakers may in future have to negotiate contracts with the owners of water courses in order to be able to discharge water into such water courses. The additional costs involved may be significant.

The EPA (supported by statutory guidance), introduced a regime to deal with the remediation of contaminated land. Under the regime, the causer or knowing permitter of the pollution (or, if that person cannot be found, the owner or occupier of the land) can be required to clean up contamination if it is causing, or there is a significant possibility of it causing, significant harm to the environment or human health or if pollution of controlled waters is being caused. Civil liability may also arise (under such heads of claim as nuisance and negligence) where contamination migrates into the environment at third party land and/or impacts upon human health, flora and fauna.

Any expenditure incurred by a Regulated Company necessitated by legislation applying to it in its capacity as a water or sewerage operator, or by any change in consents as a result of any changes to existing EU directives, or adoption of future EU directives, would be eligible for consideration for an Interim Determination of K, or to be taken into account at a periodic review.

Competition in the Water Industry

The Competition Act

The Competition Act 1998 (the "**Competition Act**") introduced two prohibitions concerning anti-competitive agreements and conduct and powers of investigation and enforcement.

The Chapter I prohibition prohibits agreements between undertakings which may affect trade within the United Kingdom and which have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom. The Chapter II prohibition prohibits the abuse of a dominant position which may affect trade within the United Kingdom.

The DGWS has concurrent powers with the Director General of the Office of Fair Trading ("**OFT**") to apply and enforce the Competition Act to deal with anti-competitive agreements or abuses of dominance relating to the water and sewerage sector, including the power to enforce directions to bring an infringement to an end and to impose fines of up to 10 per cent. of turnover of the Regulated Company involved for up to three years for infringing the Competition Act. Also any arrangement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties.

Merger Regime

The Secretary of State has a duty to refer to the CC mergers or proposed mergers between two or more Regulated Companies where the value of the gross assets of each of the Regulated Companies to be merged exceeds £30 million. In determining whether such a matter operates or may be expected to operate against the public interest, the CC must have regard to the desirability of giving effect to the principle that the DGWS's ability to make comparisons between different water companies should not be prejudiced.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company, general merger control rules apply. These may call for discussion with the OFT as well as Ofwat. The Director General of Fair Trading has the power to investigate any merger within the jurisdiction of the UK merger regime. He advises the Secretary of State on whether the transaction should be referred to the CC for further investigation to determine if the arrangement will or may be expected to operate against the public interest. In giving his advice to the Secretary of State he will consult with Ofwat. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the European Union's merger regime.

Monopoly Regime

Where it appears to the DGWS or the Director General of Fair Trading or the Secretary of State alone or together with another Minister, that a monopoly situation exists or may exist in relation to commercial activities connected with the supply of water or the provision of sewerage services he may refer the matter to the CC. These powers relate to both scale, or structural, monopolies as well as complex, or behavioural, monopolies. The CC will investigate the matter and, if a monopoly situation exists and there are effects adverse to the public interest the CC must consider what, if any, action should be taken to remedy or prevent them and may, if it thinks fit, recommend remedial action. The remedy may be implemented either by virtue of the monopolist giving appropriate undertakings or by an order from the Secretary of State.

The Water Bill

The Water Bill was introduced in the House of Lords on 19 February 2003 and published on the following day. It may be subject to amendments as it passes through Parliament. The following summarises its main features.

New Framework for Competition

To date, Regulated Companies have faced limited competition in the provision of water and sewerage services. This has primarily taken the form of:

- "inset appointments", which allow one Regulated Company to replace another as the statutory undertaker for a specified geographical area within the other Regulated Company's appointed area. "Inset competition" is available in respect of large users (customers using over 100 megalitres of water per annum in England, or 250 megalitres in Wales) or "greenfield" sites. To date, Ofwat has made 9 inset appointments;

- competition in the trade effluent market, from customers (or their agents) who self-treat, in full or in part, their wastewater discharges, in order to reduce the charges they pay to their Regulated Company; and

- self-supply of raw water, usually by large industrial or agricultural undertakings who are located close to a river or other water source.

The Water Bill proposes new arrangements for competition for water supply. The Government consulted on its proposals in July 2002 in the paper "*Extending Opportunities for Competition in the Water Industry in England and Wales"*. Under the Water Bill, new licences will be granted to entrants who wish to:

- purchase "wholesale" water from Regulated Companies and sell it on to eligible customers; and

- input water in Regulated Companies' networks for supply to eligible customers, i.e. make use of common carriage services.

Only customers using in excess of a threshold of 50 megalitres of water per annum will be eligible to switch to the new licensed suppliers ("**Licensed Suppliers**"). The threshold may be altered by the Secretary of State by statutory instrument, and by the Assembly for premises connected to the networks of Regulated Companies located wholly or mainly in Wales. Customers who use potable or non-potable water supplies above the threshold will be eligible to be supplied by Licensed Suppliers. DCC estimates that it has some 160 of these customers, which accounts for around 6 per cent. of its total turnover.

The Water Bill provides for new duties to be imposed on Regulated Companies to:

- provide a wholesale supply to Licensed Suppliers, subject to certain conditions; and

- allow Licensed Suppliers to input water into their networks, subject to certain conditions.

Where a Licensed Supplier disputes a Regulated Company's refusal to provide a wholesale supply or to allow water to be input into its network, it may refer the matter for determination to Ofwat.

The Water Bill also requires Regulated Companies to fix their charges for both of the above services to entrants in accordance with a specified pricing principle. Regulated Companies are to recover from Licensed Suppliers two elements of cost:

- the direct costs incurred by the Regulated Company in providing the service, such as additional water quality monitoring equipment; and

- an "appropriate amount" of "qualifying expenses", including a reasonable return on that amount. "**Qualifying expenses**" are defined as all of the expenses which the Regulated Company incurs in connection with its statutory functions. "**Appropriate amount**" is defined as that portion that would ordinarily have been recovered from customers were they not supplied by Licensed Suppliers, and excludes any costs which are avoidable.

A range of supporting provisions cover issues such as: drinking water quality regulation of Licensed Suppliers; the process for granting licences; enforcement of the duties of Licensed Suppliers; special administration arrangements for Licensed Suppliers; changes to the way in which Regulated Companies' supply duties apply outside their appointed area; and the imposition of various duties on Licensed Suppliers in connection with matters such as water efficiency and water conservation.

The Water Bill also provides Ofwat with a special time-limited power to modify the conditions of Regulated Companies' appointments to give effect to the new competition provisions. Normally, modifications can only be made with the consent of the Regulated Company, or following a reference to the Competition Commission, or by the Secretary of State following merger or monopoly investigations under the UK Fair Trading Act 1973. The exercise of this power is subject to any directions which may be made by the Secretary of State.

There are no equivalent proposals to introduce competition for sewerage services.

Modifications to the General Duties of the Secretary of State and the DGWS

The Water Bill puts forward a number of amendments to the statutory duties of the Secretary of State and the DGWS referred to above (see "*The DGWS and the Secretary of State*").

It is proposed to add to the primary duties referred to above a duty to "further the consumer objective". This, in turn, is defined as the protection of the interests of consumers, wherever appropriate, by promoting effective competition. Particular regard is to be had to the interests of specific groups of customers, such as pensioners and those residing in rural areas.

In addition, the list of additional duties would be amended by the Water Bill, *inter alia*, to require the Secretary of State and the DGWS to exercise their powers to "contribute to the achievement of sustainable development".

A new provision would also allow for guidance to be issued by the Secretary of State and/or the Assembly to the DGWS on social and environmental matters. Once guidance had been issued in accordance with the prescribed process, the DGWS would be obliged to have regard to that guidance in carrying out his functions.

New Regulatory Arrangements

The Water Bill provides for a number of changes to existing regulatory arrangements:

- the DGWS would be replaced by the "Water Services Regulation Authority" ("**WSRA**"). The WSRA would consist of a chairman and at least two other members, to be appointed by the Secretary of State following consultation with the Assembly;

- the existing Customer Service Committees, which have been established under the WIA by the DGWS, would be abolished, and replaced by a new independent "Consumer Council for Water" ("**CCW**"). One member of the CCW would be appointed by the Assembly, with the remainder (including the chairman) to be appointed by the Secretary of State following consultation with the Assembly. Regional committees of the CCW would be set up to cover one or more Regulated Companies. The CCW would have a range of functions and duties relating to the promotion of customers' interests. It would also have powers to obtain information from Regulated Companies. A time-limited power would be granted to the DGWS to modify conditions of appointment of Regulated Companies to give effect to the new arrangements relating to the CCW;

- the DGWS, the Secretary of State and the Assembly would be given a new power to impose financial penalties on a Regulated Company for contraventions of its licence, statutory or other requirements including performance standards. A penalty must be reasonable in all the circumstances and be no more than 10 per cent. of a Regulated Company's turnover; and

- there would be a new obligation on Regulated Companies to disclose arrangements linking the remuneration of directors of the company to the achievement of performance standards.

Other Provisions

The Water Bill contains numerous additional provisions which will or may affect Regulated Companies. These include, but are not limited to, the following:

- a number of reforms to the existing abstraction licensing regime (as provided for in the WRA) are proposed. All new abstraction licences would be time-limited. From 2012, the right to compensation for revocation of an abstraction licence which causes significant environmental damage will be removed. The EA would have a new power to propose that one Regulated Company seeks a bulk supply from another, and to take a failure to do so into account in making licensing decisions;
- Regulated Companies would be under a new duty to prepare drought plans, to agree them with the Secretary of State (or the Assembly) and to make them publicly available;
- Regulated Companies would also be under a new duty to agree water resource management plans with the Secretary of State (or the Assembly) and to make them publicly available; and
- Regulated Companies' licences would be amended so as to provide a new duty to further water conservation.

CHAPTER 5
INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the issue of the Bonds and related transactions about which prospective Bondholders should be aware. The occurrence of certain events below could lead to, amongst other things:

(i) a DCC Event of Default under an Intercompany Loan Agreement;

(ii) an Issuer Event of Default under the Bonds or acceleration of the Bonds;

(iii) non-payment in respect of the Class B Bonds, Class R Bonds, Class C Bonds or Class D Bonds;

(iv) non-payment in respect of the Class A Bonds if, additionally, MBIA were to default on its obligations under any Bond Policy; and

(v) non-payment in respect of unguaranteed amounts under the Class A Bonds.

It is not intended to be exhaustive and prospective Bondholders should read the detailed information set out elsewhere in this document prior to making any investment decision. Further, any prospective Bondholder should take their own legal, financial, accounting, tax and other relevant advice as to the structure and viability of their investment.

Regulatory and Competition Considerations

The water industry is subject to extensive legal and regulatory controls, and DCC must comply with all applicable laws, regulations and regulatory standards. The application of these laws, regulations and regulatory standards and the policies of the DGWS and Ofwat could have a material adverse effect on the operations and financial condition of DCC.

Although: (i) the DGWS has a duty to exercise his powers in the manner that he considers is best calculated, *inter alia*, to ensure that DCC is able to finance the proper carrying out of its functions; and (ii) certain changes in circumstances can trigger adjustments to price limits between periodic reviews under the Interim Determination provisions of the Licence, as with any Regulated Company , no assurance can be given that the laws, regulations, regulatory standards or policies will not change in a manner that could adversely affect the operations of DCC.

In this context, in particular, potential investors should be aware of the following:

Licence

Under the WIA, the conditions of DCC's Licence may be modified by the DGWS with the consent of DCC. If the DGWS and DCC cannot agree to the modifications, the conditions may be modified by the DGWS without the consent of DCC following a reference on the proposed modifications to the Competition Commission. In addition, the Assembly has a power to veto certain proposed modifications agreed by the DGWS and DCC and other proposed modifications which have been agreed by the DGWS and DCC may be referred by it for consideration by the Competition Commission. The area of appointment of DCC can also be varied in accordance with a so-called "inset" appointment (see Chapter 4 "*Water Regulation*" under "*Termination of a licence*").

Termination of the Licence

Under the terms of the Licence, DCC's appointment may be terminated following the giving of notice by the Assembly of at least 25 years.

DCC's Licence may also be transferred from DCC at any time following the making of a special administration order.

Competition Act 1998

The UK Competition Act 1998 contains prohibitions relating to anti-competitive agreements and conduct and powers of investigation and enforcement (see Chapter 4 "*Water Regulation*" under "*Competition in the Water Industry*"). These powers include powers for the DGWS to enforce directions bringing an infringement to an end and to impose fines of 10 per cent. of turnover for up to three years for infringement.

The Water Bill

The Water Bill proposes a number of provisions which may affect the finances of DCC. It contains provisions which would create a new framework for competition in water supply, under which new licences will be available to entrants wishing to use Regulated Companies' networks to transport water to customers (common carriage) or wishing to purchase wholesale water from undertakers to "retail" to customers. DCC may lose customers to new market entrants, and suffer reductions in revenue as a result.

However, the new market is to be limited to customers using in excess of 50 megalitres of water per annum. DCC estimates that it has some 160 of these customers, which account for 6 per cent. of its total turnover.

In addition, the proposals include a requirement on Regulated Companies to charge entrants for common carriage and wholesale services in such a way as to recover appropriate costs.

The Water Bill also proposes a new power for the DGWS, the Secretary of State, and the Assembly to impose financial penalties on a Regulated Company for contraventions of its licence, statutory or other requirements including performance standards. Penalties may be as high as 10 per cent. of a Regulated Company's turnover, but they must be reasonable in all circumstances. Each of the above enforcement authorities would be required to publish a statement of policy on the imposition of penalties, and to have regard to that statement when implementing the new provisions (see Chapter 4 "*Water Regulation*" under "*The Water Bill*").

DCC Revenue Considerations

The revenues generated by DCC from its water and sewerage business may not be sufficient to enable it to make full and timely payment of amounts due under, *inter alia*, the Intercompany Loan Agreements. In addition to the regulatory and competition risks described above which could adversely affect the revenues of DCC, other potential events which could result in DCC having insufficient revenues to meet its financing obligations include:

Price Review

Periodic reviews of price limits are carried out at five-yearly intervals by the DGWS. There is no assurance that price limits will generate sufficient revenues to enable DCC to carry out its functions. Although the methodology introduced in the 1994 review – in particular the derivation of the "regulatory capital value" as the measure of capital to be remunerated – was also applied with modifications in 1999 and is expected by the DGWS to be applied with further modifications in 2004, there are no requirements on the DGWS to apply the same or a similar methodology in future reviews.

To arrive at his conclusions, the DGWS makes estimates of the scope for operating and capital cost efficiencies using a wide range of comparative techniques. Judgements are also applied in estimating the sector cost of capital and in determining whether or not to make allowance for the "embedded" costs of fixed rate debt.

If a Regulated Company disputes the DGWS's price limits or infrastructure charge limits, it can require the DGWS to refer the determination to the Competition Commission.

As described in Chapter 4 "*Water Regulation*" under "*Interim Determinations of K*", Interim Determinations of price limits may be made between five yearly reviews in specified circumstances, including, in the case of DCC, those circumstances caught by the "shipwreck clause" in its Licence. In contrast to periodic reviews, the methodology to be applied for Interim Determinations is set out in detail in DCC's Licence and the scope for discretion is narrower. There can, however, be no assurance that if an adjustment is made it will provide adequate revenue compensation to DCC.

Deviation from DGWS's projections

Under condition B of the Licence, the RPI+K price cap limits the annual "weighted average increase" in the standard charges of DCC. This, in turn, is calculated by reference to the "tariff basket formula" (see Chapter 4 "*Water Regulation*" under "*Price Control*") which is constructed so as to provide some compensation in respect of certain risks (for example high rateable value customers opting for a meter), but not in respect of movements in the number of customers or movements in volumes consumed/discharged by customers.

Accordingly, at periodic reviews the DGWS factors into his projections assumptions about numbers of customers and volumes consumed/discharged. Until the following periodic review, DCC bears the risk that actual numbers of customers and volumes consumed/discharged will fall short of the assumptions reflected in the RPI+K price cap. Since actual out-turn revenues are used as the basis for the setting of price limits in the subsequent five year period, any deviation from revenue projections in the previous five year period will be reflected in such price limits.

Optional metering

The Water Industry Act 1999 provides for a change in the basis of charging residential customers from unmetered to metered at the election of the customer. This may result in a revenue loss to DCC, although any loss may be ameliorated by the treatment of unmeasured charges in the tariff basket formula used to calculate the annual change in DCC's standard charges. In addition, in 1999 the DGWS determined that the costs and revenue effects of any excess metering above the levels he assumed for each Regulated Company in his five year price determination would be eligible for an Interim Determination. In September 2000, DCC applied for an Interim Determination in respect of a number of items, including excess meter optants, and, in December 2000, the DGWS increased DCC's price limits for the four years beginning on 1 April 2001.

However, there is no assurance that such protection would continue to be provided as part of future determinations (see Chapter 4 "*Water Regulation*" under "*Interim Determination of K*").

Weather

DCC is at risk from the effects of prolonged periods of drought. If there are supply shortfalls, additional costs may be incurred to provide emergency reinforcement to supplies in areas of shortage. Restrictions on water use may adversely affect revenues from metered customers and may lead to compensation having to be paid to customers who suffer interruptions in supply under Condition Q of DCC's Licence. However, DCC's region is one of the least water resource-constrained parts of the country. The last severe drought was in 1996, and it cost DCC £3.5m in reinforcement costs.

Certain Legal Considerations

Security

DCC's ability to provide security for its obligations (including its obligations to the Issuer under the Intercompany Loan Agreements), and the ability to perfect and enforce such security, are each limited by its Licence, the requirements thereunder and the WIA. The vast majority of DCC's assets by value is tangible property which is protected land and/or required for the operation of DCC's business and therefore cannot be effectively secured. In particular, there is no right to block the appointment of a special administrator

equivalent to the right of a holder of a floating charge over the whole or substantially the whole of the business of a non-Regulated Company to block the appointment of an administrator under UK insolvency legislation.

There are also certain legal restrictions which arise under the WIA and the Licence affecting the enforcement of the security created under the DCC Security. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to the DGWS or the Secretary of State (see Chapter 4 "*Water Regulation*" under "*Security*").

Accordingly, the security provided over the assets of DCC to the DCC Secured Creditors, and, therefore, the security available to be secured by the Issuer in favour of the Issuer Secured Creditors in respect of the Issuer's obligations under the Bonds, affords significantly less protection to the DCC Secured Creditors, and hence the Issuer Secured Creditors, than would be the case if DCC were not a Regulated Company subject to the WIA and its Licence.

The considerations described above do not apply to the fixed and floating charges comprised in the Guarantor Security. The enforcement of security over the shares in Holdings, the Issuer, DCC or any holding company of DCC, would not be subject to the moratorium set out in the WIA nor would it be an event which would itself result in the making of the special administration order. However, it is anticipated that any intended enforcement directly or indirectly of the Guarantor Security or the security over, and subsequently any planned disposal of, the shares in DCC would require consultation with the DGWS.

Notice of the creation of the DCC Security has not been given to DCC's customers or to DCC's contractual counterparties in respect of its contracts (other than certain material contracts). In addition, each charge over DCC's land as purported to be granted took effect in equity only. Accordingly, until any such assignment is perfected, registration effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, any such assignment or charge may be or become subject to prior equities arising (such as rights of set off).

Special Administration

The WIA contains provisions enabling the Assembly and the DGWS to secure the general continuity of water supply by petitioning the Court for the appointment of a special administrator in certain circumstances (for example, including where DCC is unable, or is unlikely to be able, to pay its debts or is in breach of the terms of its Licence.) In addition, in certain circumstances, a petition by a creditor of DCC to the Court for the winding up of DCC might result in the appointment of a special administrator.

During the period of the special administration order, DCC has to be managed by the special administrator for the purposes of the order and in a manner which protects the interests of members and creditors. Whilst the order is in force, no steps may be taken to enforce any security over DCC's property except with the consent of the special administrator or the leave of the Court. A special administrator would be able to dispose of assets free of any floating charge existing in relation to them. On such a disposal, however, the proceeds would be treated as if subject to a floating charge which has the same priority as that afforded to the original security. A special administrator may not dispose of property which is the subject of a fixed charge without the agreement of the relevant creditor except under an order of the Court. On such a disposal, the special administrator must account for the proceeds to the chargee, although the disposal proceeds to which the chargee is entitled are determined by reference to "the best price which is reasonably available on a sale which is consistent with the purposes of the special administration order" as opposed to an amount not less than "open market value", which would apply in a conventional administration for a non-Regulated Company under UK insolvency legislation.

The purposes of a special administration order consist of: (i) transferring to one or more different Regulated Companies as much of the business of the Regulated Company in special administration as is necessary in

order to ensure that the functions which have been vested in such Regulated Company by virtue of its licence are properly carried out; and (ii) pending the transfer, the carrying out of those functions. It would therefore not be open to the special administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a Regulated Company. The transfer is effected by a transfer scheme which the special administrator puts in place on behalf of the existing Regulated Company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the transfer scheme) to the new Regulated Company(ies). (See Chapter 4 "*Water Regulation*" under "*Special Administration Orders*".)

Enterprise Act 2002

On 7 November 2002 the Enterprise Act (the "**Enterprise Act**") received Royal Assent. The Explanatory Notes to the Enterprise Act state that *inter alia* its main provisions are the amendment of insolvency law "*by streamlining the administration procedure and restricting the ability of lenders to appoint an administrative receiver to the holders of pre-existing floating charges and certain capital market and other transactions*". Once these provisions are brought into force a secured lender will be able to appoint an administrative receiver pursuant to a charge created prior to "*a date appointed by the Secretary of State by order made by statutory instrument*" (the "**appointed date**"). It is not yet clear when the appointed date will be but the Issuer has been advised that the fact that the Issuer granted a floating charge at the time of the Initial Issue Date means that the Issuer Security Trustee is likely to be able to continue to appoint an administrative receiver to prevent an administration (although this, in any event, is unlikely to be of significance in the case of an entity such as the Issuer which is subject to substantial restrictions on its activities). Such an ability will not be applicable in the case of DCC which is subject to the special administration regime.

The Explanatory Notes also state that the Enterprise Act's main provisions include "*removing the Crown's preferential rights in all insolvencies*" and "*making provision to ensure unsecured creditors are major beneficiaries*". Under this latter provision the unsecured creditors will have recourse to the floating charge assets up to a fixed amount in priority to the holder of the floating charge. The Issuer has been advised that this is not likely to apply to the transactions contemplated by this Information Memorandum as the floating charges were created as at the time of the Initial Issue Date.

Outsourcing Considerations

DCC has outsourced the bulk of its day-to-day operations, customer services, maintenance, and capital investment obligations to third parties, under a range of outsourcing contracts. As such, DCC is exposed to a number of additional risks, including: (i) the non-performance or insolvency of, or the abandonment of obligations by, a contractor, and the failure by DCC to secure a replacement contractor in a timely manner following termination of a contract, any of which may cause DCC to breach its obligations under the WIA and Licence; (ii) the possibility that best market prices available for the purposes of any replacement contracts exceed the costs of a previous outsourcing contract, and/or the equivalent amounts assumed by the DGWS at periodic reviews; and (iii) that DCC may breach any of its obligations under any outsourcing contract which would expose it to potentially uncapped liabilities.

However, DCC will be obliged at all times to comply with its procurement plan and its outsourcing policy under which it will be required to pursue procurement policies designed, *inter alia*, to minimise and mitigate the above risks.

Environmental Considerations

DCC's water supply and sewerage operations are subject to a number of laws and regulations relating to the protection of the environment and human health governed primarily by the DWI and the EA as described in Chapter 4 "*Water Regulation*".

Whilst DCC believes that it is in material compliance with all such laws and regulations, there can be no assurance that it will not in future incur significant costs to comply with upgrading requirements imposed under existing or future laws and regulations. Although the costs of such changes in legal requirements are eligible for the purposes of the Interim Determination provisions, there can be no certainty as to how and whether future laws and regulation will impact the business of DCC and/or the interests of the Bondholders.

Given the nature of DCC's operations there is a risk that pollution incidents may occur, the possible consequences of which may be criminal prosecution leading to the imposition of fines on DCC and/or civil liability in damages to third parties and/or a requirement to clean up any contamination and/or an operational requirement to upgrade plant and equipment. The imposition of fines, civil liability, clean up costs or upgrade may materially and adversely affect the financial position of DCC. Any such incidents may also give rise to breaches of any operational environmental permits held by DCC. There is also a risk that DCC may incur liability to clean up contamination caused by historical activities at its sites, whether or not DCC caused the contamination in question. The costs of cleaning up contamination of land and/or water may be significant.

Catastrophe Risk

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage or destruction of DCC's water or sewage treatment works, pumping stations, water mains, sewers or service pipes. Any resulting suspension of operations of DCC could have a material adverse effect on the ability of DCC to meet its financing obligations.

Although the Common Terms Agreement requires DCC to maintain insurance (including business interruption insurance) to protect against certain of these risks, the proceeds of such insurance may not be adequate to cover reduced revenues, increased expenses or other losses or liabilities arising from the occurrence of any of the events described above. Moreover, there can be no assurance that such insurance coverage will be available in the future at commercially reasonable rates.

Glas

As a company limited by guarantee, Glas operates on a not-for-profit basis. It does not have shareholders but, instead, has members who do not receive dividends and, other than their liability to pay £1 on a winding up of the company, have no financial interest in the company. Although measures such as: (i) the terms of the Licence which are, *inter alia*, intended to ensure strict standards of corporate governance; (ii) the performance monitoring regime imposed by Ofwat and, in particular, the use by it of comparative tables of performance in respect of Regulated Companies; (iii) the public adoption by Glas of a member selection policy; (iv) remuneration incentives for senior management of DCC linked to the performance of DCC; and (v) the monitoring of DCC provided under the DCC Transaction Documents, mitigates any such risk, the lack of financial incentives on the members to ensure efficient management of DCC may mean that, in the absence of shareholders, there may still be risk of insufficient pressure on the management of Glas and DCC to perform to the standard expected of shareholder-owned companies to some extent.

Future Financing

The Issuer will need to raise further debt from time to time in order to finance future capital enhancements to DCC's asset base, to refinance any other debt (including for liquidity or working capital purposes) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Bonds and, on each Issuer Payment Date on which principal is required to be repaid, and on the Expected Maturity Date (as defined below) of the relevant Class of Bonds, to refinance the Bonds. Whilst the Issuer STID and other Issuer Transaction Documents contemplate the terms and conditions on, and circumstances under, which such additional debt can be raised, there can be no assurance that the Issuer will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that all amounts then due and payable on the Bonds or any other maturing debt will be capable of being so paid when due. In these circumstances, funds will be applied by the Issuer in accordance with the Issuer Pre-Enforcement Payments Priorities or the Issuer Post-Enforcement Payments Priorities, as the case may be.

In addition, the DGWS has stated that he will assess the cost of debt at future price reviews on the basis of a hypothetical efficiently-financed company. According to the DGWS, such a company would be one that retains the flexibility to respond to changing market conditions, and holds a balanced portfolio of debt. There is no guarantee, therefore, that allowance would be made for the costs of then existing fixed rate debt if current forward-looking rates at the time were lower, if the DGWS took the view that such debt had not been prudently incurred. However, the DGWS has also stated that he will use the same weighted average cost of capital to determine allowable returns for DCC as is applied to the rest of the sector. Any unfunded costs associated with fixed rate debt would therefore be offset by the fact that DCC's allowable return would include the assumed cost of equity applied to a portion of its regulatory asset value.

Issuer and Bond Considerations

Special Purpose Vehicle Issuer

The Issuer is a special purpose financing entity with no business operations other than the issuance of the Bonds, the lending of the proceeds to DCC under the Intercompany Loan Agreements, loans from Authorised Lenders to the Issuer and the entry into of certain ancillary arrangements. Other than the proceeds of the issuance of additional Series of Bonds, facilities available from the Liquidity Facility Providers, loans from the Authorised Lenders and funds available from the Hedge Counterparties, the Issuer's principal source of funds will be pursuant to the Intercompany Loan Agreements and the DCC Security. Therefore, the Issuer is subject to all the risks relating to revenues to which DCC is subject, to the extent that such risks could limit funds available to DCC to enable it to satisfy in full and on a timely basis its obligations under the Intercompany Loan Agreements. (See "*Revenue Risks*" above.)

Source of Payments to Bondholders

Although the Class A Bonds have or will have the benefit of the relevant Bond Policies, none of the Bonds of any Class will be obligations or responsibilities of, nor will they be guaranteed by, any of the Other Parties or any member of the Glas Group (except the Guarantors in relation to DCC but it should be noted in respect of the Guarantors that none of them own any significant assets other than their direct or indirect interest in the shares of DCC). None of these persons accepts any liability whatsoever in respect of any failure by the Issuer to make any payment of any amount due on the Bonds.

In addition, a Financial Guarantor will guarantee to the relevant Class A Bondholders only the payment of scheduled principal and interest; it will not guarantee any amounts which may be accelerated or any additional amounts (including any Subordinated Coupon Amounts).

Subordination of Class C Bonds and Class D Bonds

The Class A Bonds, Class B Bonds and Class R Bonds (each of whatever Sub-Class) will rank in priority to payments of principal and interest due on all Sub-Classes of the Class C Bonds. The Class A Bonds, Class B Bonds, Class R Bonds and Class C Bonds (each of whatever Sub-Class) will rank in priority to payments of principal and interest due on all Sub-Classes of the Class D Bonds.

If, on any Issuer Payment Date, prior to delivery of an enforcement notice there are insufficient funds available to the Issuer to pay accrued interest on the Class C Bonds and/or Class D Bonds, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and should be deferred until the earlier of (i) the next following Issuer Payment Date on which the Issuer has, in accordance with the Issuer Pre-Enforcement of Payments Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); and (ii) the Issuer Payment Date of the last maturing Bond which ranks in priority to the Class C Bonds or the Class D Bonds, as the case may be. Interest will, however, accrue on such deferred interest.

Notwithstanding the subordination of, and credit enhancement provided by, the Class C Bonds and Class D Bonds to the Class A Bonds, Class B Bonds and Class R Bonds and, additionally, by the Class D Bonds to the Class C Bonds, the Issuer may optionally redeem some or all of the Bonds subordinated and providing credit enhancement to other Classes of Bonds provided that the original issue ratings assigned by any two of the Rating Agencies rating the Bonds would not be adversely affected.

Hedging Risks

The Issuer may be left exposed to interest rate risk or currency risk in the event that there is an early termination of a Hedging Agreement. A Hedging Agreement may be terminated in the circumstances set out in Chapter 6 "*Financing Structure*" under "*Additional Resources Available*" — "*Hedging Agreements*", including where the Hedge Counterparty or the Issuer is respectively required to gross up for payments of tax that have been required to be deducted or withheld by law, which requirement has not been able to be avoided, notwithstanding the Issuer and the Hedge Counterparty having used reasonable endeavours so to do. If a Hedging Agreement is terminated and the Issuer is unable to find a replacement Hedge Counterparty, then the funds available to the Issuer may be insufficient to meet fully its obligations under the Bonds, as a result of making any termination payment to the Hedge Counterparty, which payment will be in accordance with the Issuer Pre-Enforcement Payments Priorities or the Issuer Post-Enforcement Payments Priorities as the case may be. (See Chapter 6 "*Financing Structure*" under "*Issuer Cash Management*".)

The Liquidity Facilities

The Liquidity Facility Agreements are intended to cover shortfalls of interest on the Class A Bonds, Class B Bonds, Class R Bonds and (subject to certain limits) Class C Bonds, as well as senior interest payments on any Authorised Loan Facility and scheduled interest payments on the Finance Leases that arise on any Issuer Payment Date or DCC Payment Date, as the case may be. The Liquidity Facilities will not be available to meet any such shortfalls in respect of the Class D Bonds. However, on any such Issuer Payment Date, there are no assurances that any such shortfalls will be met in whole or in part by the Liquidity Facility Agreements, thereby having an effect on the payments to be made, *inter alia*, in respect of the Bonds.

Rights Available to Bondholders

The Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise). In particular, subject as provided in the following sentence, the Bond Trustee will consider the interests of the holders of the Most Senior Class of Bonds (as defined in the Conditions) then outstanding provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict of interest between the holders of one or more Sub-Classes of such Bonds, it shall consider the

interests of the holders of the Sub-Class of the Most Senior Class of Bonds then outstanding with the shortest dated maturity. To the extent that the exercise of any rights, powers, trusts and discretions of the Bond Trustee affects or relates to any Class A Bonds, the Bond Trustee shall only act with the consent of the relevant Financial Guarantor(s) in accordance with the Issuer STID. The Issuer STID provides that the Issuer Security Trustee (except in relation to its reserved matters and entrenched rights) will act on instructions of the Issuer Instructing Group. When so doing, the Issuer Security Trustee is not required to have regard to the interests of any Issuer Secured Creditor (including the Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

Intercreditor Rights of Bondholders

The right to instruct the Issuer Security Trustee, *inter alia*, to direct the exercise and enforcement of the Issuer's rights under the DCC Transaction Documents and Issuer Transaction Documents and to give consents and waivers thereunder is restricted to the Issuer Instructing Group. Prior to a Default Situation, broadly, only the Financial Guarantors of Class A Bonds (for so long as there are Class A Bonds outstanding in respect of which no FG Event of Default has occurred in respect of the relevant Financial Guarantor and provided that amounts could still become payable by the Issuer to the relevant Financial Guarantor under the Issuer Transaction Documents) and any facility agent or single lender under an Authorised Loan Facility (for so long as the relevant loan amount remains outstanding) will be entitled to comprise the Issuer Instructing Group, provided that such Issuer Qualifying Debt Representatives have provided an indemnity on terms acceptable to the Issuer Security Trustee. The Issuer has covenanted in favour of the Issuer Security Trustee to use its reasonable endeavours to ensure that all times it has an Issuer Qualifying Debt Representative which is a Financial Guarantor in order to ensure that the Issuer Security Trustee can be instructed and can take instructions in a timely manner. Accordingly, prior to a Default Situation and for so long as a Financial Guarantor comprises and remains entitled to comprise the Issuer Instructing Group, the Bondholders of all Sub-Classes will be bound by the actions of the Issuer Security Trustee taken on the instructions of the Issuer Instructing Group. In addition, in response to an Emergency Instruction Notice, the Bond Trustee or the Issuer Security Trustee, as the case may be, may be required to take certain action (as specified in such notice) without reference to the Bondholders (see Chapter 6 "*Financing Structure*" under "*Summary of Intercreditor Arrangements*").

In a Default Situation the holders of Class C Bonds and Class D Bonds shall not be entitled to be represented by the Bond Trustee in the Issuer Instructing Group where there is an Issuer Qualifying Debt Representative in respect of any Authorised Loan Facility, the Class A Bonds, the Class B Bonds and the Class R Bonds (and, in the case of holders of Class D Bonds, the Class C Bonds).

Whatever the composition of the Issuer Instructing Group, any decision of the Issuer Instructing Group shall be effective and binding on all Intercreditor Parties at the Issuer level (including all Bondholders). However, no decision of the Issuer Instructing Group shall be effective to the extent that the matter on which the relevant vote or instruction has been given relates to a Basic Terms Modification of any Bonds or to certain entrenched rights and reserved matters of the Issuer Security Trustee or the other Issuer Secured Creditors (including the Bond Trustee).

Class R Underwriter Non-Performance

If any Class R Bonds are sold by the Issuer then under the terms and conditions of the Class R Bonds, the Issuer is obliged (unless there is a subsisting Issuer Event of Default under the Bonds) to re-purchase all Class R Bonds so sold (or which have previously been sold) from the holders thereof on the immediately following Issuer Payment Date. The funds necessary to complete such re-purchase may be raised in a number of ways, including the application of the proceeds of a repayment or prepayment of one or more of the revolving advances of the Intercompany Loan, the issue of a further Series of Bonds, or the resale of Class R Bonds (which may include the Class R Bonds being re-purchased).

If a re-purchase of Class R Bonds is being financed through the resale of Class R Bonds, the Issuer may not have sufficient resources to meet its obligation to re-purchase such Class R Bonds if any Class R Underwriter fails to agree to purchase the Class R Bonds being so resold up to and including 31 March 2006. However, any Class R Bonds not repurchased due to such a failure will continue to bear interest and will be capable (to the extent the Issuer has funds available on a subsequent Issuer Payment Date) of being repurchased by the Issuer on a subsequent Issuer Payment Date. However, there can be no assurance that the Issuer will have sufficient funds on a subsequent Issuer Payment Date to repurchase such Class R Bonds in any event and this may lead, ultimately, to an Issuer Event of Default arising in respect of the Bonds.

Limited Liquidity of the Bonds; Absence of Secondary Market for the Bonds

Notwithstanding the fact that an application has been made to list the Bonds on the Luxembourg Stock Exchange and that the bonds issued on the Initial Issue Date have been trading since that date, there can be no assurance that such secondary market will provide the holder of the Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds is affected by, amongst other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events, the performance and financial condition of DCC, developments and trends in the water industry generally and events in the licensed territory of DCC.

Rating of the Bonds

The ratings assigned to the Class A Bonds on the Initial Issue Date were based solely on the debt rating of MBIA and reflect only the views of the Ratings Agencies. The ratings anticipated to be assigned to any further issue of Class B Bonds and Class C Bonds by the Rating Agencies reflect only the views of the Rating Agencies and are based primarily on the long-term unsecured and unsubordinated debt rating of DCC and also on the other relevant structural features and assets of the transaction. The Class D Bonds are not rated by the Rating Agencies.

A rating is not a recommendation to buy, sell or hold securities and will depend, amongst other things, on certain underlying characteristics of the business and financial condition of DCC or, in the case of the Class A Bonds, of the relevant Financial Guarantor from time to time.

There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies (or any of them) as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgement, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting DCC and/or circumstances relating to the water industry generally, could have an adverse impact on the ratings of the Bonds.

Withholding Tax under the Bonds

In the event withholding taxes are imposed by or in any jurisdiction in respect of payments due under the Bonds, the Issuer is not obliged to gross-up or otherwise compensate Bondholders for the fact that the Bondholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been the case. The Issuer will, in such event, have the option (but not the obligation) of: (i) redeeming all outstanding Bonds in full; (ii) arranging for the substitution of another company in an alternative jurisdiction (subject to certain conditions); or (iii) taking such other appropriate action as is reasonable to mitigate such tax. (See Chapter 1 "*The Programme*" under "*Redemption for Index Event, Taxation or other Reasons*" and Chapter 7 "*Terms and Conditions of the Bonds*".)

Likewise, in the event withholding taxes are imposed in respect of payments due under the Class A Bonds and the relevant Financial Guarantor is called upon under its Bond Policy or Bond Policies to make payments in respect of such payments, such Financial Guarantor is not obliged to gross-up or otherwise compensate Class A Bondholders for the fact that such Class A Bondholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been the case.

Adoption of Proposed European Directive on the Taxation of Savings

On 13 December 2001, the Council of the European Union published a revised draft Directive to ensure effective taxation of savings income in the form of interest payments within the European Community. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments. The Directive is not yet final and may be subject to further amendment.

Change of Law

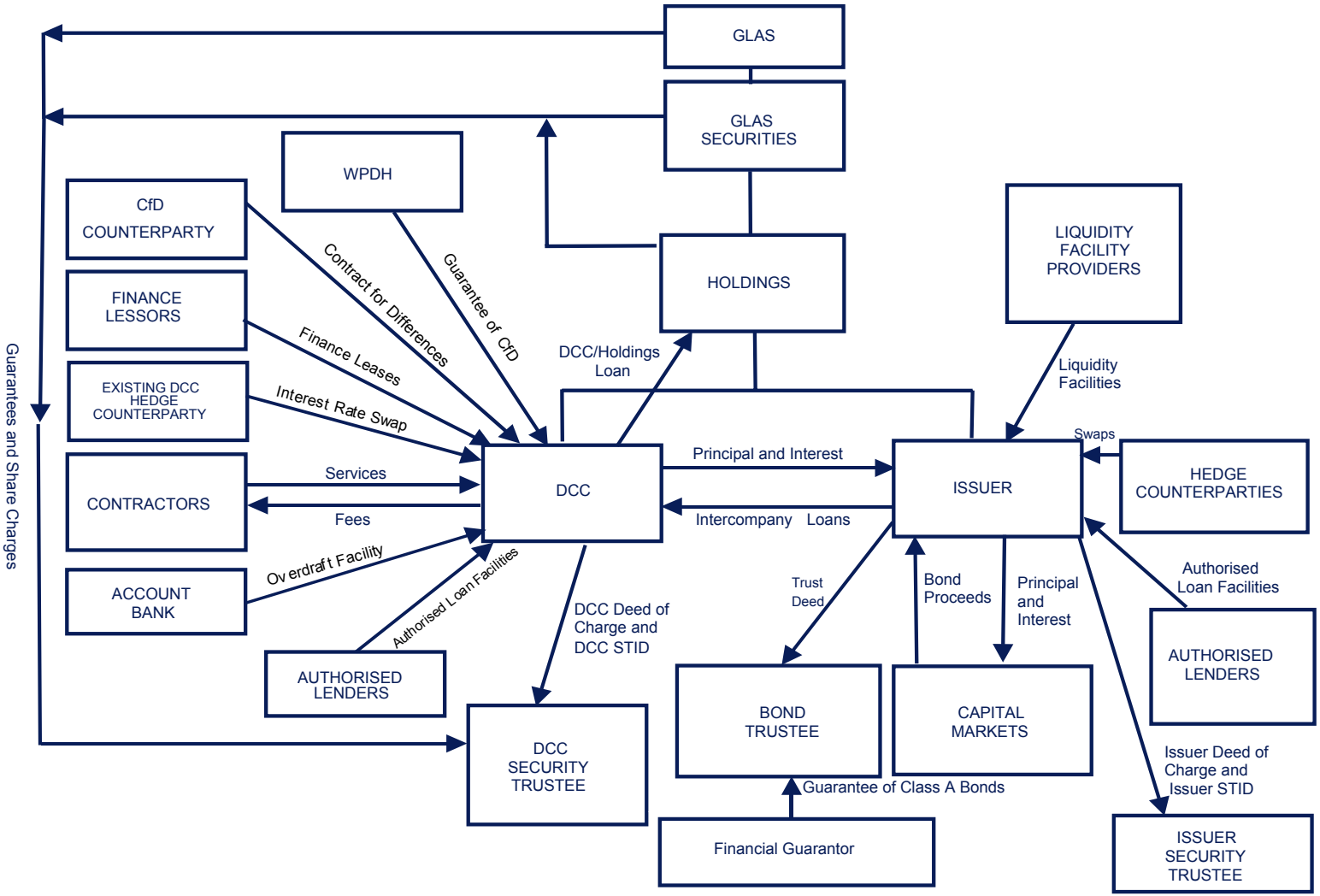
The structure of the transaction and, *inter alia*, the issue of the Bonds and ratings assigned to the Bonds are based on law, tax and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law, tax and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date hereof which change might impact on the Bonds and the expected payments of interest and repayment of principal.

European Monetary Union

Prior to the maturity of the Bonds, the United Kingdom may become a participating member state in the Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences: (i) all amounts payable in respect of the sterling denominated Bonds may become payable in euro; (ii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed; and (iii) the Issuer may choose to redenominate the Bonds into euro and take additional measures in respect of the Bonds. (See Chapter 7: "*Terms and Conditions of the Bonds*"). The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Bonds.

The Issuer believes that the risks described above are the principal risks inherent in the Programme. However, the inability of the Issuer to pay interest or repay principal on the Bonds of any Sub-Class, or the inability of a Financial Guarantor to pay scheduled interest or repay scheduled principal on the Class A Bonds, may occur for other reasons, and the Issuer does not represent that the above statements of the risks of holding the Bonds are exhaustive. While the various structural elements described in this document are intended to lessen some of these risks for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of the Bonds of any Sub-Class receive payment of interest or repayment of principal from the Issuer in respect of such Bonds, or from a Financial Guarantor in respect of the Class A Bonds, on a timely basis or at all.

FIGURE 1 – PROGRAMME STRUCTURE



CHAPTER 6
FINANCING STRUCTURE

Figure 1 provides an overview of the Programme, as follows:

- The Issuer may, from time to time, issue Class A Bonds (as to which scheduled principal and interest will be guaranteed by MBIA or another Financial Guarantor), Class B Bonds, Class R Bonds, Class C Bonds and Class D Bonds.

- The Issuer will on-lend an amount equal to the equivalent in sterling of the gross proceeds of the issue of each Series of Bonds (other than the Class R Bonds) to DCC under the terms of an Intercompany Loan Agreement. There will be a separate Intercompany Loan Agreement for each Series and separate advances under each Intercompany Loan Agreement in respect of: (i) each different Sub-Class of Bonds issued in such Series; and (ii) additional liquidity provided under Liquidity Facility Agreements in respect of the Bonds of the relevant Series. There will also be a separate Intercompany Loan Agreement between DCC and the Issuer for the working capital and/or capital expenditure facilities provided to DCC via the Issuer through Authorised Loan Facilities (other than the Authorised Loan Facility entered into by the Issuer on the Initial Issue Date). The amount of each such advance will reflect the corresponding amount of borrowing by the Issuer under the Bonds, the relevant Authorised Loan Facility or the relevant Liquidity Facility, as the case may be (see "*Intercompany Loan Agreements*" below).

- The Issuer's obligations to pay principal and interest on, *inter alia*, the Bonds are intended to be met primarily from the payments of principal and interest received from DCC under each Intercompany Loan Agreement. (See "*Intercompany Loan Agreements*" and "*Additional Resources Available*" below.)

- The Issuer will hedge certain of its interest and/or currency exposures under the Bonds with the Hedge Counterparties in accordance with the agreed hedging policy (see "*Hedging Agreements*" below).

- The Issuer may draw under the relevant Liquidity Facility provided in respect of any Series to fund liquidity advances to DCC to meet any shortfall in the amounts available to DCC to meet interest payments, *inter alia*, on any advances under any term advance under any Intercompany Loan Agreement (a "**Term Advance**) (other than Tranche D and subject to certain limits in respect of any advances made with the proceeds of Class C Bonds) and on any R Advances (as defined below) of the corresponding Intercompany Loan Agreement for that Series, which in turn will meet, to the extent available, any shortfall which would otherwise have arisen under the Class A Bonds, Class B Bonds, Class R Bonds and Class C Bonds (subject to certain limits in respect of the Class C Bonds) of such Series. (See "*Liquidity Facilities*" below.)

- DCC has entered into and may enter into further Authorised Loan Facilities directly with Authorised Lenders in respect of its further working capital and/or capital expenditure requirements. (See "*Additional Resources Available*".)

- The Finance Lessors provide financing of equipment to DCC. DCC may enter into further DCC Finance Leases with Finance Lessors (which may or may not be the existing Finance Lessors).

- DCC will use its revenue flows to meet its operating costs, capital expenditure and obligations to the DCC Secured Creditors, including the Issuer, and other third party creditors.

- DCC's obligations to the DCC Secured Creditors are secured, to the extent permitted by the WIA and its instrument of appointment under the WIA (the "**Licence**"), and requirements thereunder, by the DCC Deed of Charge. (See "*DCC Deed of Charge*" below.)
- The obligations of DCC to the DCC Secured Creditors are guaranteed by the Guarantors. The guarantee obligations of each of Holdings, Glas Securities and Glas are secured by the Guarantor Security. (See "*Guarantor Security*" below.)
- The Issuer's obligations to the Issuer Secured Creditors under, *inter alia*, the Bonds, the Trust Deed, each Liquidity Facility Agreement, each Hedging Agreement, each I&I Agreement, the Paying Agency Agreement, the Master Framework Agreement, the Issuer STID and any Authorised Loan Facilities made available to the Issuer are secured by the Issuer Deed of Charge and subject to the Issuer STID. (See "*Summary of Finance Documents*" under "*Issuer Deed of Charge*" and "*Issuer STID*" below and Chapter 7 "*Terms and Conditions of the Bonds*".)

SUMMARY OF INTERCREDITOR ARRANGEMENTS

This section is intended to provide a brief summary of the Intercreditor Arrangements. The detailed provisions of the DCC STID and the Issuer STID are set out in more detail under "DCC STID" and "Issuer STID" in "Summary of Finance Document". The meaning of certain defined terms which are used in this section are set out under "Intercreditor Definitions" below. In order to simplify this summary of the Intercreditor Arrangements, throughout this section it is assumed that the Qualifying Debt Representative for the Class A Bonds is a Financial Guarantor. If there is an FG Event of Default, then the Qualifying Debt Representative for the Class A Bonds will be the Bond Trustee and the Intercreditor Arrangements will then apply to the Class A Bonds as they do to the Class B Bonds and Class R Bonds.

Overview of the Intercreditor Arrangements

The intercreditor arrangements in respect of the Issuer and DCC (the "**Intercreditor Arrangements**") are contained in two security trust and intercreditor deeds (and each respectively, as amended, the "**Issuer STID**" and the "**DCC STID**"). The Intercreditor Arrangements bind the DCC Secured Creditors and the Issuer Secured Creditors (together the "**Intercreditor Parties**"). Any Additional Beneficiary of the DCC Security and the Guarantor Security will be required to accede to the DCC STID and any Additional Beneficiary of the Issuer Security will be required to accede to the Issuer STID (as in each case will certain other creditors of DCC and the Issuer). The Local Authority Loans (as defined below) are not subject to the Intercreditor Arrangements.

The purpose of the Intercreditor Arrangements is to regulate, *inter alia*: (i) claims of the Intercreditor Parties; (ii) the exercise and enforcement of rights by those parties; (iii) the rights of such parties to instruct the Issuer Security Trustee and the DCC Security Trustee (each a "**Security Trustee**" and together the "**Security Trustees**"); (iv) the rights of such parties during a Default Situation; (v) the entrenched rights and reserved matters of each Intercreditor Party; and (vi) the giving of consents and waivers and the making of amendments by the Intercreditor Parties.

The Intercreditor Arrangements provide for the ranking in point of payment of the Intercreditor Parties: (i) prior to the occurrence of a Standstill (see "*DCC Cash Management – Debt Service Payment Account*" and the Issuer Pre-Enforcement Payments Priorities set out in "*Issuer Cash Management*" below); (ii) during a Standstill (see "*DCC Cash Management – DCC Standstill Priority*" below and the paragraph preceding that heading); and (iii) following an acceleration under either of the DCC STID or the Issuer STID (see "*DCC Post-Enforcement Payments Priorities*" set out under "*DCC Cash Management*" and "*Issuer Post-Enforcement Payments Priorities*" set out under "*Issuer Cash Management*" below).

The Intercreditor Parties (other than, with respect to certain permitted voluntary terminations, the Finance Lessors and the Existing DCC Hedge Counterparty in certain limited circumstances) do not have the right independently to accelerate their claims or take other enforcement action. The DCC Security Trustee is instructed by the Beneficiary Instructing Group. The Issuer has assigned its rights under the DCC STID to the Issuer Security Trustee for itself and on behalf of the Issuer Secured Creditors under the Issuer Deed of Charge. The Issuer Security Trustee is instructed by the Issuer Instructing Group.

The Intercreditor Arrangements provide a regime for instructing the Issuer Security Trustee at the Issuer level and a regime for instructing the DCC Security Trustee at the DCC level. At the DCC level the Issuer Security Trustee votes on behalf of the Issuer proportionately according to the votes received at the Issuer level. In each case, the relevant Security Trustee will not be liable to any person in relation to actions taken or not taken by it and will not be obliged to take action unless indemnified and/or secured to its satisfaction.

The underlying principle of the Intercreditor Arrangements is, prior to a Default Situation, that the Class A Bonds and the Authorised Loan Facilities and, after a Default Situation, that the Class A Bonds, Class B Bonds, Class R Bonds and Authorised Loan Facilities at the Issuer level and the DCC Finance Leases, Authorised Loan Facilities and Intercompany Loan Agreements at the DCC level shall have a potential vote (or be able to instruct) in respect of the outstanding principal amount of the relevant debt. Such votes may only be exercised through the relevant Qualifying Debt Representative. This basic principle does not apply where a vote on an Intercreditor Issue involves a Basic Terms Modification (as defined in the Conditions), in which case the usual provisions for meetings in respect of the Bonds shall apply (see Condition 15(b)(i) in Chapter 7 "*Terms and Conditions of the Bonds*"). In the absence of a Default Situation, a Qualifying Debt Representative (other than the Bond Trustee) may only vote or instruct if it has provided an Appropriate Indemnity. In a Default Situation there is no requirement on any DCC Secured Creditor or Issuer Secured Creditor to provide an Appropriate Indemnity to the relevant Security Trustee in order to exercise a vote or give instructions.

In order to facilitate timely decision-making prior to a Default Situation of the Bonds, only the Issuer Qualifying Debt Representative of the Class A Bonds instructs the Issuer Security Trustee.

However, at any time during a Default Situation, the Qualifying Debt Representative of the Class B Bonds and Class R Bonds in addition to the Qualifying Debt Representative of the Class A Bonds will have the right to vote and instruct the Issuer Security Trustee, subject to the other provisions of the Intercreditor Arrangements described below (See "*Bondholder Meetings on Intercreditor Matters in a Default Situation*" below). The Issuer and any affiliates have no right to vote or instruct the Issuer Security Trustee in respect of any Class R Bonds held by them.

Accordingly, prior to a Default Situation, the Class B Bonds and Class R Bonds are not entitled to be represented in the Issuer Instructing Group; however, the Issuer and Holdings have each covenanted to use their reasonable endeavours to ensure that at all times there is a Qualifying Debt Representative at the Issuer level who is a Financial Guarantor, in order to ensure there is an Issuer Qualifying Debt Representative which is able to provide instructions in a timely manner to the Issuer Security Trustee.

The Intercreditor Arrangements provide that, in approving any disposal of any assets secured by the Guarantor Security, those DCC Secured Creditors making up the Beneficiary Instructing Group or, as the case may be, those Issuer Secured Creditors making up the Issuer Instructing Group, shall be subject to the same duties as would apply in equity to any receiver or mortgagee of those secured assets.

Intercreditor Arrangements at the Issuer Level

The Issuer Security Trustee is instructed by the Issuer Instructing Group. Prior to a Default Situation, the Issuer Instructing Group is constituted by the Issuer Qualifying Debt Representatives of the Class A Bonds and any Authorised Loan Facilities (but not the Liquidity Facility Agreements or any Hedging Agreements) provided that the relevant Qualifying Debt Representative (other than the Bond Trustee) has provided an Appropriate Indemnity to the Issuer Security Trustee. After a Default Situation, the Issuer Instructing Group may be constituted, *inter alios*, by the Qualifying Debt Representative of the Class A Bonds, the Class B Bonds and the Class R Bonds. Class C Bonds and Class D Bonds may only be represented by the Bond Trustee in the Issuer Instructing Group where there is no Qualifying Debt Representative in respect of the Class A Bonds, Authorised Loan Facilities, Class B Bonds or Class R Bonds (and, in the case of the Class D Bonds, the Class C Bonds) able to constitute an Issuer Instructing Group.

The Issuer Instructing Group instructs the Issuer Security Trustee on the basis of one vote for each £1 of their IIG Outstanding Principal Amount at the time the vote is taken. A Financial Guarantor may vote in respect of the IIG Outstanding Principal Amount of the Bonds guaranteed by such Financial Guarantor, provided it is at

the relevant time the Issuer Qualifying Debt Representative in respect of such Bonds. (See also "*Bondholder Meetings on Intercreditor Matters in a Default Situation*" below.)

At the Issuer level, the Issuer Security Trustee acts upon the instructions of the Issuer Qualifying Debt Representative(s) who constitute(s) (either singly or together) more than 50 per cent. of the aggregate IIG Outstanding Principal Amount of the Qualifying Debt. At the DCC level, the Issuer Security Trustee as DCC Qualifying Debt Representative of the Issuer casts the votes of the Issuer Instructing Group proportionately (see "*Intercreditor Arrangements at the DCC Level*" below).

Intercreditor Arrangements at the DCC Level

The DCC Security Trustee acts as trustee on behalf of the DCC Secured Creditors in connection with the DCC Security and the Guarantor Security. In such capacity, the DCC Security Trustee has agreed that it will exercise any right (other than entrenched rights and reserved matters) which it may have in respect of the DCC Transaction Documents only as directed by the Beneficiary Instructing Group.

The definition of Qualified DCC Secured Creditor determines who is able to constitute the Beneficiary Instructing Group. The Issuer Security Trustee represents the Issuer as part of the Beneficiary Instructing Group and splits its portion of the aggregate BIG Outstanding Principal Amount of the Qualified DCC Secured Creditors into separate £ for £ amounts (each a "**Proportion**"), and each representing the votes/ instructions received by the Issuer Security Trustee from the respective members of the Issuer Instructing Group. The Issuer Security Trustee will not have a vote in respect of any Issuer Secured Creditors who were not holders of Qualifying Debt or otherwise did not vote or instruct the Issuer Security Trustee as part of the Issuer Instructing Group.

It should be noted that, prior to a Default Situation, only the Qualifying Debt Representative of the Class A Bonds and the Authorised Lenders to the Issuer are capable of constituting a Proportion.

The DCC STID provides that the DCC Security Trustee will take action only when it has received instructions from a Beneficiary Instructing Group.

Bondholder Meetings on Intercreditor Matters in a Default Situation

In a Default Situation, the Class B Bonds and Class R Bonds will be represented by the Bond Trustee as Qualifying Debt Representative who may convene a meeting of Bondholders (which will be a single meeting of the holders of the Class B Bonds and Class R Bonds) to consider any matter. The Intercreditor Arrangements provide that no such Bondholder meeting will be convened if, within three business days of the Bond Trustee serving notice on the relevant Security Trustee of its intention to convene such a meeting, the relevant Security Trustee confirms that it has already received instructions for or against the relevant matter from more than 50 per cent. of the Intercreditor Parties that could form part of the Issuer Instructing Group or Beneficiary Instructing Group, as the case may be (a "**Confirmation of Instruction**"). If the Bond Trustee receives a Confirmation of Instruction at any time before the day of the relevant Bondholder meeting, it shall notify the Bondholders that the meeting will be cancelled. The Conditions of the Bonds also make provision for Bondholder committees to be constituted (see Chapter 7 "*Terms and Conditions of the Bonds – Condition 15*").

Emergency Instruction Procedure

During a Default Situation, certain decisions and instructions may be required in a timeframe which does not provide a sufficient period in which to convene Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an emergency instruction procedure. The relevant Security Trustee

will be required to act upon instructions contained in an emergency notice (an "**Emergency Instruction Notice**"). An Emergency Instruction Notice must be signed by the Qualifying Debt Representatives (the "**EIN Signatories**") representing more than 66⅔ per cent. of the aggregate BIG Outstanding Principal Amount of the Qualified DCC Secured Creditors, after excluding the proportion in respect of which the Qualifying Debt Representative is a Bond Trustee who is unable to give an instruction (or exercise a vote) on the matter which is the subject of the Emergency Instruction Notice without convening a Bondholder meeting. The Emergency Instruction Notice must specify the emergency action which the relevant Security Trustee is being instructed to take and must certify that, unless such action is taken before the date on which a resolution of Bondholders could first be obtained, the interests of the Qualified DCC Secured Creditors represented by the EIN Signatories will be materially prejudiced.

Entrenched Rights, Reserved Matters and Standstill

The Intercreditor Arrangements are subject to certain entrenched rights and reserved matters. Each DCC Secured Creditor and each Issuer Secured Creditor has certain entrenched rights which cannot be exercised without the consent of the person having such entrenched right (see "*DCC STID – Entrenched Rights*" and "*Issuer STID – Entrenched Rights of Issuer Secured Creditors*" below), and certain reserved matters which such person is free to exercise, notwithstanding the Intercreditor Arrangements.

The Intercreditor Arrangements at the DCC level are modified during a Standstill, in particular in respect of terminating the Standstill Period (see "*DCC STID – Standstill*" below).

Intercreditor Definitions

The following defined terms are used in this document in relation to the Intercreditor Arrangements:

"**Appropriate Indemnity**" means an indemnity in form and substance satisfactory to the relevant Security Trustee.

"**Beneficiary Instructing Group**" is defined in the DCC STID to mean (except with respect to the termination of any Standstill) Qualified DCC Secured Creditor(s) (as defined below) to whom are owed more than 50 per cent. of the aggregate BIG Outstanding Principal Amount of the Qualified DCC Secured Liabilities (as defined in the DCC STID) at the relevant time.

"**BIG Outstanding Principal Amount**" means on any date in relation to:

(i) the Issuer, the IIG Outstanding Principal Amount voted by the Issuer Security Trustee proportionately (as referred to in paragraph (ii) of the definition of Qualified DCC Secured Creditor);

(ii) any Authorised Loan Facilities provided to DCC, the equivalent amount in the Base Currency of the outstanding principal amount of any drawn amounts;

(iii) each DCC Finance Lease, the highest termination value which may fall due during the annual period encompassing such date and falling between two annual rental payment dates under the relevant Finance Lease (the "**Annual Period**"), calculated upon the assumptions and the cashflow report provided by the relevant DCC Finance Lessor on the first day of each such Annual Period;

(iv) each DCC Hedge Document (as defined in the DCC STID), the amount (if any) that would be payable to the relevant DCC Hedging Counterparty on such date (as defined below) if an Early Termination Date were designated in respect of the transaction or transactions arising thereunder pursuant to Section 6(e) of the ISDA Master Agreement governing such transaction or transactions;

(v) the CfD, the amount (if any) that would be payable to the CfD Counterparty on such date if an Early Termination Date were designated in respect of the transaction under the CfD pursuant to Section 6(e) of the ISDA Master Agreement governing such transaction; and

(vi) any other permitted debt, the equivalent amount in the Base Currency of the outstanding principal amount of such debt in accordance with the relevant underlying documentation.

"**DCC Qualifying Debt Representative**" in respect of the Beneficiary Instructing Group means in relation to:

(i) any Intercompany Loan Agreement, the Issuer Security Trustee;

(ii) any DCC Finance Lease, the relevant DCC Finance Lessor;

(iii) any Authorised Loan Facility provided to DCC, the facility agent acting on the instructions of an instructing group of lenders or, where there is no facility agent, the Authorised Lender under such Authorised Loan Facility;

(iv) any DCC Hedge Document, the relevant DCC Hedging Counterparty;

(v) the CfD, the CfD Counterparty; and

(vi) any other form of permitted debt, the relevant representative appointed under the terms of the relevant underlying documentation.

"**Default Situation**" means any period during which there subsists:

(i) a Standstill;

(ii) an Issuer Event of Default; or

(iii) a DCC Event of Default.

"**FG Event of Default**" means in relation to the Financial Guarantor of the first Series of Class A Bonds:

(i) any Insured Amount which is Due for Payment (each as defined in the relevant Bond Policy) is unpaid by reason of non-payment and is not paid by such Financial Guarantor on the date stipulated in the relevant Bond Policy;

(ii) such Financial Guarantor disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the relevant Bond Policy or seeks to do so;

(iii) such Financial Guarantor:

(a) presents any petition, commences any case or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager), conciliator, trustee, assignee, custodian, sequestrator, liquidator or similar official under any Bankruptcy Law, of such Financial Guarantor (or as the case may be, of a material part of its property or assets) under any Bankruptcy Law;

(b) makes or enters into any general assignment, composition, arrangement (including a voluntary arrangement under Part 1 of the UK Insolvency Act 1986) or equivalent legislation or compromise with or for the benefit of any of its creditors;

(c) has a final and non-appealable order for relief entered against it under any Bankruptcy Law; or

(d) has a final and non-appealable order, judgement or decree of a court of competent jurisdiction entered against it appointing any conciliator, receiver, administrative receiver,

trustee, assignee, custodian, sequestrator, liquidator, administrator or similar official under any Bankruptcy Law (each a "**Custodian**") for such Financial Guarantor or all or any material portion of its property or authorising the taking of possession by a Custodian of such Financial Guarantor,

and shall mean in relation to any further Financial Guarantor such events as described in the relevant Bond Policy or Bond Policies of such Financial Guarantor as defined more particularly in the applicable Pricing Supplement.

For the purpose of this definition, "**Bankruptcy Law**" means Law No. 85-98 of 25 January 1985 and Law No 84-148 of 1 March 1984 of the French Republic, any similar or future federal or state bankruptcy, insolvency, reorganisation, moratorium, rehabilitation, liquidation, conservation, fraudulent conveyance or similar law, statute or regulation of the French Republic or any other applicable jurisdiction for the relief of debtors.

"**IIG Outstanding Principal Amount**" means on any date in relation to:

(i) the Class A Bonds, Class B Bonds, Class R Bonds, Class C Bonds and Class D Bonds, the equivalent amount in the Base Currency of the aggregate Principal Amount Outstanding (as defined in the Conditions) of the relevant Class or Classes of the outstanding Bonds (including any premium or indexation);

(ii) Authorised Loan Facilities provided to the Issuer, the equivalent amount in the Base Currency of the outstanding principal amount of any drawn amounts; and

(iii) any other permitted debt, the equivalent amount in the Base Currency of the outstanding principal amount of such debt in accordance with the relevant underlying debt documentation.

"**Issuer Instructing Group**" means (except with respect of the termination of any Standstill) the Issuer Qualifying Debt Representatives in respect of Qualifying Debt who, prior to a Default Situation, have provided an Appropriate Indemnity (other than the Bond Trustee) to the Issuer Security Trustee and to whom are owed more than 50 per cent. of the aggregate IIG Outstanding Principal Amount of the Qualifying Debt.

"**Issuer Qualifying Debt Representative**" means in relation to:

(i) the Class A Bonds, until the full and complete payment by the Issuer of all sums due under the Class A Bonds, the relevant Financial Guarantor unless and until:

(a) such time as the Issuer Security Trustee has received notice from the Bond Trustee or the Financial Guarantor that a FG Event of Default has occurred and is continuing (and has not otherwise been waived or cured to the satisfaction of the Bond Trustee); or

(b) notwithstanding the absence of any FG Event of Default, no amounts could become payable by the Issuer to the Financial Guarantor under the Issuer Transaction Documents,

in which case the Qualifying Debt Representative for the Class A Bonds shall be the Bond Trustee on behalf of the Class A Bondholders;

(ii) the Class B Bonds, the Class R Bonds, the Class C Bonds and the Class D Bonds, the Bond Trustee on behalf of the holders thereof (excluding, in the case of the Class R Bonds, the Issuer or any affiliate thereof); and

(iii) any Authorised Loan Facility provided to the Issuer, the facility agent acting on the instructions of an instructing group of lenders in accordance with the terms of such Authorised Loan Facility or, where there is no facility agent, the Authorised Lender under such Authorised Loan Facility.

"**Qualified DCC Secured Creditor**" means:

(i) each Authorised Lender and each DCC Finance Lessor which, prior to a Default Situation, provides an Appropriate Indemnity to the DCC Security Trustee; and

(ii) the Issuer, on whose behalf the Issuer Security Trustee shall vote (provided that, prior to a Default Situation it provides an Appropriate Indemnity in respect of the proportionate votes received by it from the Issuer Instructing Group). In this respect, the Issuer Security Trustee will split its portion of the aggregate BIG Outstanding Principal Amount of the Qualified DCC Secured Creditors into Proportions (as set out above); or

(iii) if none of the above, then the DCC Qualifying Debt Representative (provided, prior to a Default Situation, it provides an Appropriate Indemnity) of the DCC Secured Creditor (or DCC Secured Creditors if more than one such *pari passu* ranking DCC Secured Creditor) who at such time has/have the highest ranking in respect of its/their outstanding principal amount in the applicable DCC Post-Enforcement Payments Priorities.

"**Qualifying Debt**" means the outstanding principal amount of:

(i) the Class A Bonds provided that the Issuer Qualifying Debt Representative is the relevant Financial Guarantor; and

(ii) debt financing provided to the Issuer pursuant to Authorised Loan Facilities (which for the avoidance of doubt will not include any Liquidity Facility Agreements or any Hedging Agreements); and

(iii) where there is either no Qualifying Debt as referred to in (i) and (ii) above or there is a Default Situation or the relevant Financial Guarantor is not the Issuer Qualifying Debt Representative in relation to any Class A Bonds, the outstanding Class A Bonds (unless included in (i) above), Class B Bonds and Class R Bonds together (as provided in the Conditions of the Bonds and subject to the provisions of the Issuer STID); or

(iv) where there is no Qualifying Debt as referred to in (i), (ii) or (iii) above, the outstanding Class C Bonds; or

(v) where there is no Qualifying Debt as referred to in (i), (ii), (iii) or (iv) above, the outstanding Class D Bonds; or

(vi) where there is no Qualifying Debt as referred to in (i), (ii), (iii), (iv) or (v) above, any remaining secured liabilities of the Issuer.

"**Qualifying Debt Representative**" means an Issuer Qualifying Debt Representative and/or a DCC Qualifying Debt Representative, as the case may be.

SUMMARY OF FINANCE DOCUMENTS

Intercompany Loan Agreements

The Issuer has on-loaned or will on-lend an amount equal to the sterling equivalent of the gross proceeds of issue of each Sub-Class of Bonds of each Series (or, in the case of Class R Bonds, the proceeds of sale of such Sub-Class) to DCC under the terms of an intercompany loan agreement (each such agreement an "**Intercompany Loan Agreement**"). Such issue proceeds and each drawing under each Authorised Loan Facility available to the Issuer or, in certain circumstances, Liquidity Facility has or will be used to fund a separate corresponding advance under the corresponding Intercompany Loan Agreement. All advances to be made by the Issuer under each Intercompany Loan Agreement have been or will be in sterling and at rates of interest set out in the relevant Pricing Supplement, Authorised Loan Facility, or applicable Liquidity Facility or, if hedged in accordance with the hedging policy (see "*Hedging Agreements*" below) at the hedged rate plus, in each case, a margin. An advance under an Intercompany Loan Agreement will generally be repayable or prepayable by DCC in the same circumstances as the Issuer is obliged to repay or prepay principal in respect of the relevant Bonds, Authorised Loan Facility or, as applicable Liquidity Facility the issue or drawdown proceeds of which were used to fund that advance.

All payments of principal and interest under an Intercompany Loan Agreement are to be made free and clear of, and without withholding or deduction for, tax, if any, applicable to such payments in the United Kingdom or any other jurisdiction unless such withholding or deduction is required by law. In that event, DCC will be obliged to pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received by it if no such withholding or deduction had been required.

Each Intercompany Loan Agreement is or will be subject to the Common Terms Agreement which sets out, *inter alia*, the representations and warranties, covenants and events of default or termination events which apply to DCC under, *inter alia*, each Intercompany Loan Agreement and in the case of Holdings, Glas and Glas Securities, the representations and warranties, covenants and enforcement events under the DCC Security Documents to which they are a party (see "*Common Terms Agreement*" below).

Holdings/DCC Loan Agreement

On the Initial Issue Date, DCC entered into an agreement with Holdings pursuant to which DCC made advances to Holdings (the "**Holdings/DCC Loan Agreement**") in an aggregate amount not exceeding £459 million to enable Holdings to pay the cash consideration payable by Holdings to Hyder Utilities (Holdings) Limited and Hyder Securities (Utilities) Limited as consideration for the acquisition by Holdings of all the issued shares in DCC. Holdings does not have resources with which to repay the Holdings/DCC Loan Agreement other than the DCC dividends paid to Holdings.

Repayment

The loan will be repayable in full (including all accrued interest, deferred interest, deferred increased costs and other fees and charges on the later to occur of (i) 31 March 2035 and (ii) the date which is two years and one day after the final maturity date of the longest dated Bond issued from time to time by the Issuer.

Common Terms Agreement

Each of the Finance Lessors, the Existing DCC Hedge Counterparties, the Account Bank, the DCC Security Trustee, DCC, the Initial Authorised Lender, the Issuer and Holdings, Glas Securities and Glas entered into a

common terms agreement on the Initial Issue Date (as amended, the "**Common Terms Agreement**"). Certain additional DCC Finance Lessors have subsequently acceded to the Common Terms Agreement. The Common Terms Agreement sets out the representations, warranties, covenants (positive, negative and financial) and events of default which apply to each Intercompany Loan Agreement, each Authorised Loan Facility available to DCC, the Finance Leases and the Gen Re Swap (each as supplemented and amended thereby), the DCC Security Documents (as defined below) and each other agreement between or in respect of DCC and any of the Issuer, the DCC Finance Lessors, the Initial Authorised Lender, the Existing DCC Hedge Counterparty, the Account Bank, the DCC Security Trustee, the Standstill Cash Manager and any Additional Beneficiary as defined therein (the "**DCC Secured Creditors**"). The Common Terms Agreement also sets out the cash management arrangements applying to DCC (see "*DCC Cash Management*" below) for so long as there has been no acceleration of liabilities against DCC or for so long as no Standstill Period subsists. It is a requirement of the Common Terms Agreement that certain future providers of Permitted Indebtedness (as defined below) must also accede to the Common Terms Agreement.

A summary of the representations, warranties, covenants and events of default included in the Common Terms Agreement is set out below.

DCC Representations and Warranties

On each Issue Date and each DCC Payment Date, DCC makes a number of representations and warranties in respect of itself to the DCC Secured Creditors which are customary in facilities of this sort, including (subject to agreed exceptions and qualifications as to materiality and reservations of law) as to corporate capacity, the binding nature of its obligations, the ranking of its obligations, the absence of security over its assets, the obtaining of relevant consents and approvals, the maintenance of insurance, there being no breach under the Licence and certain contracts to which it is party and the preparation of accounts being in accordance with applicable accounting standards.

"**DCC Security Documents**" means the DCC STID, the DCC Deed of Charge, the Holdings Deed of Charge, the Glas Securities Deed of Charge and the Glas Deed of Charge and any other document agreed by DCC and the DCC Security Trustee to be a DCC Security Document.

"**DCC Transaction Documents**" includes the Common Terms Agreement, the DCC Security Documents, the Intercompany Loan Agreements, DCC's Authorised Loan Facilities, the DCC Finance Leases and related agreements (including the Supply Agreements, as defined below, and the Existing DCC Hedging Agreement), the DCC Hedge Documents, the CfD, the Holdings/DCC Loan Agreement, the DCC Account Bank Agreement and related bank mandates in respect of the DCC Accounts, the facility letter in respect of the Overdraft Facility (as defined below) and any relevant documents entered into by DCC with any Additional Beneficiaries.

"**Material Entity Event**" means certain defaults under certain material contracts in respect of a counterparty to such contracts including non-payment, misrepresentation, breach of obligation, insolvency events, failure to comply with final judgement, illegality and non-compliance where, in each case, such default would be reasonably likely to have a Material Adverse Effect (as defined below).

Guarantor Representations and Warranties

Each of Holdings, Glas Securities and Glas (as applicable) also give certain customary representations and warranties in favour of the DCC Secured Creditors on each Issue Date and on each DCC Payment Date including (subject to agreed exceptions and qualifications as to materiality and reservations of law), as to corporate capacity, the binding nature of its obligations, the ranking of its obligations, the absence of security over its assets and the obtaining of relevant consents and approvals.

DCC Covenants – positive

Subject to agreed exceptions and materiality qualifications, DCC gives certain covenants in favour of the DCC Secured Creditors, including customary covenants relating to maintenance of legal validity and legal status, maintenance of its insurances, compliance with environmental laws and maintenance of any necessary environmental permits, compliance with DCC's obligations with respect to cash management, notification of potential DCC Events of Default and DCC Events of Default, ranking of claims, compliance with consents and approvals necessary for the conduct of its business (including the leasing of the Equipment (as defined below)), notification of material litigation, timely payment of outgoings and taxes, the preparation of accounts and adequacy of systems, further assurance, perfection and protection of security interests under the DCC Security Documents. In addition, DCC undertakes, *inter alia*, to:

- notify the DCC Security Trustee, the Issuer Security Trustee, the other DCC Secured Creditors and the Issuer Secured Creditors other than the Bond Trustee in writing of the occurrence of:
    - any Potential Trigger Event, Trigger Event, potential DCC Event of Default or DCC Event of Default;
    - any event which would reasonably be expected to give rise to a material claim; or
    - any other event which has a Material Adverse Effect,

  in each case as soon as reasonably practicable upon becoming aware of such event;

"**Material Adverse Effect**" means a material adverse effect (taking into account the timing and availability of any rights and remedies under the WIA or the Licence) on (a) the business, operations, property or financial condition of DCC; or (b) the ability of DCC to perform its obligations under the DCC Transaction Documents, certain material contracts or the Licence; or (c) the validity or enforceability of the DCC Transaction Documents, certain material contracts, or the rights or remedies of the DCC Secured Creditors or DCC thereunder; or (d) the ability of DCC to carry on the business of a water and sewerage undertaker.

- deliver to the DCC Secured Creditors promptly after any reasonable request therefor made by the Issuer Security Trustee, a certificate signed on its behalf by an authorised signatory of DCC (a) confirming that no Potential Trigger Event, Trigger Event, potential DCC Event of Default or DCC Event of Default has occurred since the date of the last such certificate setting out details of any such event which has occurred (other than those previously notified) and of which it is aware having made all reasonable enquiries, and of any action taken or proposed to be taken to remedy such event, and (b) dealing with such other matters in relation to which the Issuer Security Trustee may reasonably require to be satisfied or to receive information for the purposes of the Common Terms Agreement;
- provide the Investor Reports and other information as set out in Chapter 1 "*The Programme*" under "*Investor Information*";
- provide the DGWS with all information required by him in accordance with the Licence on a timely basis;
- use all reasonable endeavours to procure that the DCC Security Trustee is joined in the consultation process with the DGWS if DCC becomes subject to any transfer scheme (as defined in the WIA);
- not make any Restricted Payments (as defined below) and only to the extent of the balance in the Customer Payments Account unless:
    - no drawings are outstanding under Tranche R1, the Overdraft Facility or any other Authorised Loan Facility provided directly to DCC by any Authorised Lender to the extent that such drawings relate to working capital requirements;

- the balance on the Debt Service Payment Account on the required date is not less than the required debt service payment account balance for the time being;
- the backward looking and forward looking ICR is greater than or equal to 2.0:1 after taking into account the effect of the proposed Restricted Payment;
- the RAR is less than or equal to 0.90:1 after deducting the proposed Restricted Payment from available cash;

- no Standstill is continuing; and
- no Potential DCC Event of Default, DCC Event of Default, Potential Trigger Event or Trigger Event is subsisting;

"**Restricted Payment**" means (i) any dividend or distribution by DCC (other than, *inter alia*, any dividends paid to Holdings which are effectively set off under the Holdings/DCC Loan Agreement so that on a net basis no payment of cash is made by DCC to Holdings), (ii) the payment of any rebate to any customer of DCC made by or on behalf of DCC and (iii) any revenue of DCC voluntarily foregone by it as a result of setting charges below those allowed under its price cap as determined from time to time.

- ensure that it has adequate financial and management resources to enable it to discharge its core obligations under the Licence and under the DCC Transaction Documents and, in respect of performance obligations which are passed down to certain material Contractors, it has retained sufficient control to discharge its obligations under the Licence and the DCC Transaction Documents;
- enter into and comply with hedging arrangements in accordance with the agreed hedging policy;
- ensure that the nature of its business is limited to performing the functions of a water and sewerage undertaker as defined in the WIA (the "**Permitted Business**");
- operate, maintain and conduct its business in accordance with, *inter alia*, the Licence, the WIA and its constitutional documents;
- procure that any future outsourcing contracts comply with public procurement rules and that they shall comply with the Outsourcing Policy;

"**Outsourcing Policy**" means the schedule of provisions and procedures to be applied by DCC in the course of procuring and entering into any further outsourcing agreements, to be reviewed and amended from time to time in accordance with DCC's Procurement Plan (as defined below) and good industry practice.

- maintain a majority of non-executive directors (not being employees of any member of the Glas Group) on its board of directors;
- use its reasonable endeavours (to the extent it is within its control to do so) to maintain the shadow credit rating of the Class A Bonds and the credit rating of the Class B Bonds and Class R Bonds at investment grade or better with any two of the Rating Agencies; and
- in the event that any of the Local Authority Loans becomes, pursuant to its terms, capable of being declared due and payable prior to its scheduled payment date, DCC shall, within the agreed time period or, if earlier, by no later than the day on which such Local Authority Loan is declared to be due and payable, repay such Local Authority Loan in full.

"**Local Authority Loans**" means the local authority loans referred to in "*Additional Resources Available*" below.

In respect of each of the above covenants requiring any action or discretion on the part of the DCC Security Trustee, the DCC Security Trustee only acts under instructions of the Beneficiary Instructing Group in accordance with the DCC STID.

DCC Covenants – negative

Subject to agreed exceptions and materiality qualifications, DCC undertakes, among other things, not to:

- change its tax residence from the United Kingdom or (unless otherwise permitted under the DCC Transaction Documents) surrender any tax losses or allowances on other than arm's length terms;
- permit or agree to any suspension or abandonment of all or a material part of its business except in accordance with the provisions of the WIA;
- create or permit to subsist any encumbrance over all or any of its present or future revenue, leased Equipment or assets other than a Permitted Encumbrance. "**Permitted Encumbrances**" include: (a) specified existing encumbrances; (b) certain encumbrances over after-acquired assets which are discharged within the agreed time or in respect of which the holder becomes a party to the DCC STID; (c) encumbrances under finance leases and similar agreements where the counterparty becomes a party to the DCC STID; (d) certain encumbrances arising in favour of the Account Bank; and (e) any other encumbrances (not within the specified categories of Permitted Encumbrances) provided that the aggregate principal amount secured by such encumbrances does not exceed £10,000,000 (indexed) and provided further that, in the case of any encumbrance under (a), (b), (c), (d) or (e) above, such encumbrance does not contravene the WIA, the Licence or any requirements thereof;
- make any loans, grant any credit or other financial accommodation or give any guarantee to or for the benefit of any person or otherwise voluntarily assume any liability in respect of any obligation of any other person (except under the DCC/Holdings Loan Agreement and certain other agreed exceptions) other than Permitted Indebtedness (as defined below) provided that no DCC Event of Default or Potential DCC Event of Default is subsisting at the time such Permitted Indebtedness is proposed to be made or would result from such indebtedness;
- incur, create or permit to subsist or have outstanding any indebtedness for borrowed money other than Permitted Indebtedness. "**Permitted Indebtedness**" includes indebtedness for borrowed money incurred (a) which ranks *pari passu* with Advances made under an Intercompany Loan Agreement from the proceeds of issue of Class A, Class B, Class R or Class C Bonds, if the financial ratio tests in respect of the raising of new debt described in "*DCC Covenants – Financial*" below would be met after incurring such indebtedness or, if they would not be met, the additional requirements in respect of the raising of new debt described in "*DCC Covenants – Financial*" would be met and (b) which is subordinated either pursuant to the Issuer STID (or the DCC STID in relation to any indebtedness under the Intercompany Loan Agreements) such that it ranks subordinate to any Class C Bonds or, as the case may be, any advance made under an Intercompany Loan Agreement from the proceeds of issue of Class C Bonds;

"**DCC Finance Leases**" means the Finance Leases, together with any other finance leases entered into by DCC in respect of plant, machinery and/or equipment as permitted by the Common Terms Agreement and the DCC STID;

- make any disposal of the whole or any part of its revenues or its assets, leased Equipment or its business or undertaking other than Permitted Disposals. "**Permitted Disposals**" includes certain disposals, *inter alia*, (a) on arm's length terms of assets in the ordinary course of trade or in connection with arm's length transactions entered into for bona fide commercial purposes for the benefit of the Permitted Business, (b) of obsolete or surplus assets, (c) of protected land made in accordance with the

Licence, (d) of leased Equipment pursuant to a DCC Finance Lease, (e) provided that the consideration received by DCC in respect of the relevant disposal when aggregated with all other disposals by it made in the immediately preceding twelve month period does not exceed 2.5 per cent. of RAV (as defined below) for the time being and (f) that are Restricted Payments which are permitted to be made;

- merge or consolidate with any other person or participate in any other type of corporate reconstruction without the prior written consent of the DCC Security Trustee (acting on the instructions of the Beneficiary Instructing Group) and, other than Permitted Acquisitions, acquire any shares, assets, leased Equipment or form or enter into any partnership, consortium, joint venture or other like arrangement. "**Permitted Acquisitions**" will include acquisitions of assets made (a) in the ordinary course of trade or in connection with arm's length transactions entered into for bona fide commercial purposes in furtherance of DCC's statutory obligations, (b) in accordance with the agreed capital expenditure plan and (c) to replace surplus or obsolete assets;
- to the extent its agreement is required for the same, agree any variation to the Licence which would reasonably be expected to have a Material Adverse Effect;
- unless permitted under the DCC STID and the Common Terms Agreement pay, prepay or repay or defease, exchange or purchase any amount under any loan or other indebtedness subordinated to its obligations under the DCC Transaction Documents or redeem or repurchase any of its share capital;
- enter into any treasury transaction which is not a Permitted Treasury Transaction. A "**Permitted Treasury Transaction**" includes (a) a transaction entered into accordance with the agreed hedging policy, (b) the Gen Re Swap and (c) certain foreign exchange transactions entered into in the ordinary course of business;
- dispose of assets on a sale and leaseback basis or any of its receivables on recourse terms or in relation to a securitisation (except for factoring and the discounting of bills and notes in the ordinary course of its business) unless the resulting indebtedness is Permitted Indebtedness and provided that, in any such case, the consideration in respect of such sales, leases, transfers or disposals is received in cash payable in full at the time and does not exceed the agreed threshold in aggregate at any time; or
- have greater than 20 per cent. of its aggregate nominal outstanding external indebtedness for borrowed money fall due for scheduled final repayment within any 24 month period.

Other covenants (subject to agreed exceptions and materiality qualifications) given by DCC include covenants relating to the operation and abandonment of its business, not to create or acquire subsidiaries, not to enter into any arrangement or contract with any of its affiliates or any entity otherwise than on arms' length terms, not to amend its constitutional documents, certain material contracts, or the Licence, and not to compromise or settle any material claim without prior notification to the DCC Security Trustee, the other DCC Secured Creditors and the Issuer Secured Creditors.

DCC is required periodically to certify to the DCC Secured Creditors and indirectly to the Issuer Secured Creditors whether it is in compliance with its obligations under the DCC Transaction Documents (and whether a DCC Event of Default or potential DCC Event of Default has occurred). The DCC Security Trustee and the Issuer Security Trustee shall not be responsible for monitoring such compliance by DCC except, in the case of the Issuer Security Trustee (in its role as Qualifying Debt Representative), by means of receipt from DCC of such certificates of compliance pursuant to the provisions of any Intercompany Loan Agreement and shall be entitled to assume until receipt of express notice to the contrary that no such breach, DCC Event of Default or potential DCC Event of Default has occurred.

In particular, where a DCC Event of Default, covenant, representation or warranty refers to Material Adverse Effect, material adverse change, materiality or like terminology, the DCC Security Trustee and the Issuer Security Trustee (including in its role as Qualifying Debt Representative) will not determine such matters (or the absence thereof). The Issuer Instructing Group or the Beneficiary Instructing Group (as the case may be) may instruct the Issuer Security Trustee or the DCC Security Trustee (as applicable) whether any such breach by DCC, DCC Event of Default or potential DCC Event of Default has occurred. The Issuer Security Trustee or the DCC Security Trustee shall be bound to act on such instructions in accordance with the Issuer STID or DCC STID (as the case may be). Where the Issuer Instructing Group consists of the Bond Trustee acting on behalf of the relevant Bondholders as referred to in the Issuer STID, the Bond Trustee will not determine Material Adverse Effect, material adverse change, materiality or like terminology, but will instead seek that such determination be made by such relevant Bondholders by means of an Extraordinary Resolution (see Condition 3(h) in Chapter 7 under "*Terms and Conditions of the Bonds*").

DCC Covenants – Financial

Among the covenants which DCC makes in favour of the DCC Secured Creditors under the Common Terms Agreement, DCC also undertakes to maintain certain financial ratios and take certain actions in the event that such financial ratios fall below specified levels.

The two key financial ratios which DCC is required to comply with are as follows:

Interest Cover Ratio

The interest cover ratio ("**ICR**") is calculated on a backward-looking basis for the previous financial year and projected on a forward-looking basis for the current financial year and for each future financial year until the next periodic review. DCC is required to maintain each of these backward-looking and forward-looking ratios at a level of at least 1.6:1. This ratio comprises the amount of Net Cash Flow (as defined below) from operations for a financial year to the amount of Net Debt Service (as defined below) for the relevant financial year.

Regulated Asset Ratio

The regulated asset ratio ("**RAR**") is also calculated on a backward-looking basis as at the previous financial year end and projected on a forward-looking basis for each financial year end date until the next periodic review. Each of these ratios is subject to a maximum level of 0.95:1 which DCC covenants to maintain. This ratio represents Total Net Indebtedness (as defined below) of the Glas Group (other than Class D Bonds) as at a date to RAV as at such date.

"**Calculation Date**" means each 31 March and 30 September in each year starting on 30 September 2001.

"**Net Debt Service**" means, in relation to a financial year, an amount equal to the aggregate of all interest payable on the Issuer's obligations under and in connection with the Class A Bonds, the Class B Bonds and the Class R Bonds (together "**Senior Bonds**"), DCC's obligations under and in connection with the DCC Finance Leases and any other senior debt of any member of the Glas Group during such financial year less all indexation on any such liabilities to the extent included in the interest payable on such liabilities during such financial year, all interest receivable by any member of the Glas Group from a third party during such financial year except to the extent included in Net Cash Flow and excluding amortisation of the costs of issue of any Senior Bonds for such financial year.

"**Net Cash Flow**" means, in respect of a financial year, an amount equal to the actual pre-tax operating profit (after adding back depreciation, any exceptional items, any customer rebates, any infrastructure renewals charge and any impairment of fixed assets written off and deducting any amortisation of fixed asset grants and contributions (as such terms are used in, and each case calculated in accordance with the methodology used

in, the most recent financial statements of the Glas Group)) of the Glas Group (on a consolidated basis) for such financial year.

"**RAV**" means, in relation to a Calculation Date, the regulated asset value for such Calculation Date as last determined by Ofwat (interpolated as necessary) and adjusted as appropriate for out-turn inflation.

"**Total Net Indebtedness**" means, as at any date, all the Issuer's nominal debt outstanding under and in connection with the Bonds (excluding any Class D Bonds) and any other indebtedness for borrowed money of the Glas Group (on a consolidated basis) including all principal indexation on any such liabilities which are indexed together with any accrued but unpaid interest but after adding back any costs of the issue of or premia associated with the Bonds (excluding any Class D Bonds) (to the extent such costs or premia are not already included in the nominal debt outstanding under and in connection with the Bonds) and less cash (excluding an amount equal to any customer rebate declared by DCC for the following year to the extent that there are funds in the Customer Payment Account to pay such a rebate) and cash investments.

Both the ICR and the RAR relate to the Glas Group on a consolidated basis and are required to be calculated on a backward-looking basis and projected on a forward-looking basis on each Calculation Date.

If the ICR falls below 1.75:1 or the RAR rises above 0.925:1 then DCC is required to apply to the DGWS for an interim determination on any available grounds (see Chapter 4 "*Water Regulation*" under "*Interim Determinations of K*" for further details on interim determinations).

Whenever DCC seeks an interim determination or there is a periodic review, it must apply to the DGWS for a determination which will allow it to maintain a minimum credit rating in the A category for Class B and Class R Bonds and a minimum "shadow" credit rating in the A category for Class A Bonds.

There is flexibility to alter the ratio threshold levels and the minimum and maximum levels specified above for these financial ratios with the agreement of the DCC Security Trustee and additionally provided that two of the Rating Agencies confirm that the alteration will not lead to a downgrade of the rating for any of the Bonds (other than Class D Bonds) below their respective ratings on the date of their original issue.

DCC is permitted to raise new debt (other than debt which is subordinate to Class C Bonds) unless it meets certain ratio tests (subject to an exception). To raise new senior debt, the RAR and Senior RAR (as defined below and each calculated on the basis of taking into account such proposed senior debt) must be equal to or less than the levels specified in the tables below for the current and each future financial year until the next periodic review. To raise new debt ranking *pari passu* with Class C Bonds (calculated on the basis of taking into account such proposed debt), the RAR must be equal to or less than the levels specified in the relevant table below for the current and each future financial year until the next periodic review.

Maximum Senior RAR (%) at 31 March

2002	2003	2004	2005	2006	2007	2008	2009	2010	After
78.0	77.5	77.0	76.5	76.0	75.5	75.5	75.0	75.0	75.0

Maximum RAR (%) at 31 March

2002	2003	2004	2005	2006	2007	2008	2009	2010	After
89.0	88.5	88.0	88.0	87.5	87.5	87.0	87.0	86.5	86.0

If these ratio levels would be breached, DCC is only permitted to raise new debt if:

- two of the Rating Agencies confirm that the raising of the proposed new debt will not result in any Bonds (other than any Class D Bonds) being rated below the rating at the time the Bonds were issued; and
- the consent of the DCC Security Trustee to the raising of the proposed new debt has been obtained.

"**Senior RAR**" means the ratio of Senior Total Net Indebtedness to RAV.

"**Senior Total Net Indebtedness**" means, as at any date, all the Issuer's nominal debt outstanding under and in connection with the Senior Bonds and DCC's nominal debt outstanding under and in connection with the DCC Finance Leases and any other senior debt including all principal indexation on any such liabilities which are indexed together with any accrued but unpaid interest but after adding back any costs of the issue of or premia associated with the Senior Bonds (to the extent such costs or premia are not already included in the nominal debt outstanding under and in connection with the Senior Bonds) and less cash (excluding an amount equal to any customer rebate declared by DCC for the following year to the extent that there are funds in the Customer Payment Account to pay such a rebate) and cash investments.

Guarantor Covenants

Under the Common Terms Agreement, each Guarantor covenants in favour of the DCC Secured Creditors, *inter alia*, to provide the DCC Security Trustee, the other DCC Secured Creditors and the Issuer Secured Creditors with certain financial and other information, to pay all taxes due in a timely manner, to comply with all laws, all DCC Transaction Documents to which it is a party and to notify the DCC Security Trustee of any potential DCC Event of Default or DCC Event of Default under the Common Terms Agreement of which it becomes aware. In addition, each Guarantor covenants, *inter alia*, not to carry on any business other than that of a holding company (provided that Holdings is permitted to enter into and perform its obligations under the Holdings/DCC Loan Agreement), incur any liabilities, permit any encumbrance to subsist or have any employees or premises (subject to such exceptions as may be required to enable Glas or, as the case may be, Glas Securities to conduct its permitted business) or acquire or establish any further subsidiaries (excluding in the case of Glas any subsidiaries ("**Relevant Subsidiaries**") as may be required for the sole purpose of (i) acquiring Bonds of any Class issued from time to time by the Issuer after the Initial Issue Date and issuing preference shares to any person and/or subscribing for preference shares issued by another Relevant Subsidiary; and (ii) entering into documentation relating to the same (including put and call options with any holder of any preference shares or any trustee on behalf of such holder)).

Trigger Events

The Common Terms Agreement also sets out certain trigger events (the "**Trigger Events**"), the occurrence of which will enable the DCC Security Trustee, acting on the instructions of a Beneficiary Instructing Group, to require DCC to take certain remedial action. The specific Trigger Events and the consequences which flow from the occurrence of those events (the "**Trigger Event Consequences**", as described more particularly at "Trigger Event Consequences" below) are summarised below.

Trigger Events

The occurrence of any of the following events is a Trigger Event for the purposes of the DCC STID:

(1) ICR and RAR

On any Calculation Date:

(i) the ICR for the previous financial year or for any financial year up to the next periodic review is or is estimated to be less than 2.0:1;

(ii) the RAR for the previous financial year or for any financial year up to the next periodic review is or is estimated to be more than 0.90:1; or

(iii) the ICR (adjusted to deduct actual or planned capital maintenance expenditure from the numerator) is less than 1:1.

See "*DCC Covenants – Financial*" above for further details of the financial ratios referred to above.

(2) Credit Rating Downgrade

(i) the shadow credit rating of the Class A Bonds by any two of the Rating Agencies falls to BBB, Baa2 or BBB respectively or below;

(ii) the credit rating of the Class B Bonds or Class R Bonds by any two of the Rating Agencies falls to BBB, Baa2 or BBB respectively or below; or

(iii) the credit rating of the Class C Bonds by any two of the Rating Agencies falls below investment grade.

Each credit rating referred to above is the "**Trigger Credit Rating**" for the relevant Class of Bonds.

(3) Debt Service Payment Account Shortfalls

The failure to maintain the required credit balance in the Debt Service Payment Account on the required day.

(4) Material Deviation in Projections

On any Calculation Date, the estimated actual capital expenditure over any five year period between periodic reviews exceeds the capital expenditure for that period assumed by the DGWS in the last periodic review in respect of DCC by 10 per cent. or more.

In each case, deviations resulting from variances in real construction prices from assumed construction prices or additional capital expenditure incurred or to be incurred in respect of items for which DCC is entitled to make an application for an Interim Determination shall be ignored for the purposes of determining if the 10 per cent. threshold deviation level has been breached.

(5) Capex Reserve Shortfalls

As at any Calculation Date, the aggregate of (i) the amount credited to the Reserves Account and (ii) the undrawn commitment under (a) Tranche R2 under the Intercompany Loan Agreement entered into on the Initial Issue Date and any replacement or supplemental facility provided for capital expenditure under any further Intercompany Loan Agreement and (b) any Authorised Loan Facility made available to DCC for capital expenditure ((i) and (ii) together, the "**Capex Reserve Facility Amount**") is less than the amount (the "**Net Capex Requirement**") equal to the difference between (x) the forecast capital expenditure requirement of DCC for the twelve months following such Calculation Date and (y) the amount of operating cashflow forecast as at such Calculation Date to be available to fund such capital expenditure during such twelve month period and the Capex Reserve Facility Amount is less than the Net Capex Requirement on the date which is two months after such Calculation Date.

(6) Drawdown on Liquidity Facility

The Issuer draws down under any Liquidity Facility (except for the purpose of making a Standby Drawing).

(7) Enforcement Orders

The making of any Enforcement Order (as defined in the WIA) under Part II, Chapter II of the WIA against DCC which would reasonably be expected to lead to the loss of the Licence or a material fine being levied against DCC.

(8) Circumstances leading to a Special Administration Order

Any indication arising from notices and/or correspondence issued by, or during correspondence with, Ofwat or any other circumstance of which DCC is aware that would reasonably be expected to lead to an application by the DGWS or the Assembly for a special administration order to be made in respect of DCC.

(9) Termination of Licence

The giving of a notice to terminate DCC's Licence under the WIA.

(10) Event of Default

A DCC Event of Default occurs which is continuing.

(11) Material Entity Event

A Material Entity Event occurs which is continuing.

Trigger Event Consequences

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived by the DCC Security Trustee, remedied in accordance with Trigger Event Remedies (as described below) or otherwise remedied to the satisfaction of the DCC Security Trustee, the provisions set out below shall apply:

(1) No Restricted Payments

DCC shall not make any Restricted Payments and, in respect of customer rebates, if these have not yet been implemented, shall stop their implementation and shall not declare any customer rebates.

(2) Further Information and Remedial Action

(i) DCC shall provide such information as to the relevant Trigger Event (including its causes and effects) as may be requested by the DCC Security Trustee.

(ii) DCC shall discuss and agree with the DCC Security Trustee (the agreement of the DCC Security Trustee not to be unreasonably withheld or delayed) its plans for appropriate remedial action and the timetable for implementation of such action. The agreed remedial plan shall then be implemented by DCC.

(3) Independent Review

(i) The DCC Security Trustee may, at its discretion, commission an independent review (the "**Independent Review**") to be undertaken on the timetable stipulated by the DCC Security Trustee. The Independent Review will be conducted by technical advisers to the DCC Security Trustee appointed from time to time or such other person as the DCC Security Trustee may decide.

(ii) The Independent Review shall examine the causes of the relevant Trigger Event and recommend appropriate corrective measures.

(iii) DCC shall cooperate with the person appointed to prepare the Independent Review including providing access to its books and records and personnel and facilities as may be required for those purposes.

(4) Consultation with Ofwat

The DCC Security Trustee shall be entitled to discuss the relevant Trigger Event and the agreed remedial plan with Ofwat at any time.

(5) *Appointment of Additional Non-executive Directors*

If the relevant Trigger Event has not otherwise been remedied or waived and:

(i) the agreed remedial plan has not been implemented to the reasonable satisfaction of the DCC Security Trustee within the agreed timetable;

(ii) any agreed remedial plan does not continue to be implemented to the reasonable satisfaction of the DCC Security Trustee; or

(iii) DCC and the DCC Security Trustee fail to agree on a remedial plan within the stipulated time limit,

the DCC Security Trustee shall be entitled to procure the appointment of additional non-executive directors to the board of DCC.

In respect of any of the Trigger Event Consequences described above which require the DCC Security Trustee to exercise its discretion, it shall do so upon instructions of the Beneficiary Instructing Group. The DCC Security Trustee is entitled to assume that no Trigger Event has occurred unless informed otherwise.

Trigger Event Remedies

At any time when DCC believes that a Trigger Event has been remedied by virtue of any of the following, it shall serve notice on the DCC Security Trustee to that effect, and the DCC Security Trustee shall respond within the agreed time limit confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event shall continue to be a Trigger Event until such time as the DCC Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

The following shall constitute remedies to the Trigger Events:

(1) ICR and RAR

The occurrence of a Trigger Event referred to in paragraph 1 of Trigger Events shall be remedied if, on any subsequent date:

(i) the ICR for the immediately preceding financial year is, and for each subsequent financial year until the next periodic review is projected to be, 2.0:1 or greater; and

(ii) the RAR for the immediately preceding financial year is, and for each subsequent financial year until the next periodic review is projected to be, 0.90:1 or less; and

(iii) the ICR for the immediately preceding financial year is, and for each subsequent financial year is projected to be, (adjusted to deduct actual or planned capital maintenance expenditure from the numerator) is greater than 1:1.

(2) Credit Rating Downgrade

The occurrence of a Trigger Event referred to in paragraph 2 of Trigger Events shall be remedied if the credit rating of the relevant class of Bonds given by any two of the Rating Agencies is above the Trigger Credit Rating.

(3) Debt Service Payment Account Shortfall

The occurrence of a Trigger Event referred to in paragraph 3 of Trigger Events shall be remedied if the credit balance of the Debt Service Payment Account is restored to the required level.

(4) Material Deviation in Projections

The occurrence of a Trigger Event referred to in paragraph 4 of Trigger Events shall be remedied if the deviations referred to in that paragraph, on any subsequent date, are less than 10 per cent.

(5) Capex Reserve Shortfalls

The occurrence of a Trigger Event referred to in paragraph 5 of Trigger Events shall be remedied on any subsequent date if the Capex Reserve Facility Amount is equal to or greater than the Net Capex Requirement for the twelve months immediately following the relevant Calculation Date.

(6) Drawdown on Liquidity Facility

The occurrence of a Trigger Event referred to in paragraph 6 of Trigger Events shall be remedied if the drawing under the relevant Liquidity Facility is repaid in full without such repayment being funded by the making of any further drawing under that Liquidity Facility and that such Liquidity Facility or another Liquidity Facility is available for drawing in the future.

(7) Enforcement Orders

The occurrence of a Trigger Event referred in paragraph 7 of Trigger Events shall be remedied if DCC has complied with the terms of the relevant Enforcement Order to the reasonable satisfaction of the DCC Security Trustee or if the Enforcement Order has been effectively withdrawn or if, in the opinion of the DCC Security Trustee (acting reasonably), the relevant fine will not have a Material Adverse Effect or that the Licence will not be terminated.

(8) Circumstances leading to a Special Administration Order

The occurrence of a Trigger Event referred to in paragraph 8 of Trigger Events shall be remedied if (a) a special administration order is not made within six months of the relevant Trigger Event occurring or (b) the DCC Security Trustee is reasonably satisfied that a special administration order will not be made in respect of DCC.

(9) Termination of Licence

The occurrence of a Trigger Event referred to in paragraph 9 of Trigger Events will be remedied by agreement by DCC of a transfer scheme which is reasonably satisfactory to the DCC Security Trustee.

(10) Event of Default

The occurrence of a Trigger Event referred to in paragraph 10 of Trigger Events will be remedied upon the acceptance by the DCC Security Trustee of an agreed remedial plan and implementation of such plan has commenced to the reasonable satisfaction of the DCC Security Trustee.

(11) Material Entity Event

The occurrence of a Trigger Event referred to in paragraph 11 of Trigger Events will be remedied upon the acceptance by the DCC Security Trustee of an agreed remedial plan and implementation of such plan has commenced to the reasonable satisfaction of the DCC Security Trustee.

In respect of any of the Trigger Event Remedies described above which require the DCC Security Trustee to exercise its discretion, it shall do so upon instructions of the Beneficiary Instructing Group, and any reference to reasonableness and reasonable time shall be interpreted accordingly.

DCC Events of Default

The Common Terms Agreement contains a number of events of default (the "**DCC Events of Default**"). Subject to agreed exceptions, materiality qualifications and grace periods, DCC Events of Default include

non-payment, misrepresentation, breach of covenant (including financial covenants and failure to comply with the Outsourcing Policy), default under DCC's own contracts, insolvency events (including special administration), insolvency proceedings (including the appointment of a special administrator), execution or distress, failure to comply with final judgment, a change of control of any Obligor, illegality, governmental intervention, litigation, change of business, termination of the Licence or, if a notice to terminate the Licence is served, the failure to implement an agreed transfer scheme at least two years prior to the termination date specified in such notice.

In respect of each DCC Event of Default requiring any action or discretion on the part of the relevant creditor, the relevant Security Trustee will act in accordance with the instructions of the Beneficiary Instructing Group or the Issuer Instructing Group in accordance with the DCC STID and the Issuer STID, respectively.

The occurrence of a DCC Event of Default will automatically give rise to a Standstill Event under the DCC STID (see "*DCC STID*" below).

DCC Deed of Charge

DCC has entered into a deed of charge (the "**DCC Deed of Charge**") with the DCC Security Trustee pursuant to which DCC has secured its obligations to the DCC Secured Creditors. The creation, perfection and enforcement of such security is each subject to the WIA, the Licence and requirements thereunder. The DCC Deed of Charge, to the extent applicable, incorporates the provisions of the Common Terms Agreement.

The security constituted by the DCC Deed of Charge (the "**DCC Security**") is expressed to include a first fixed charge over DCC's right, title and interest from time to time in and to:

(i) any real property currently owned by DCC or acquired after the date of the DCC Deed of Charge;

(ii) the proceeds of disposal of any protected land;

(iii) any tangible moveable property;

(iv) DCC's Accounts;

(v) any intellectual property rights owned by DCC;

(vi) any goodwill and rights in relation to the uncalled capital of DCC;

(vii) each investment of DCC's funds in certain eligible investments;

(viii) all shares of DCC in WWUF, all dividends, interest and other monies payable in respect thereof and all other rights related thereto;

(ix) an assignment of DCC's right, title and interest from time to time in and to:

  (1) the proceeds of any insurance policies and all rights related thereto;

  (2) all rights and claims in relation to the DCC Accounts;

  (3) all contracts (subject to certain exceptions) with third parties (including each of the Contractors);

  (4) all monetary claims and all rights related thereto, including all accounts receivable (and to the extent that any accounts receivable cannot be effectively assigned as described, DCC shall hold the same on trust for the DCC Security Trustee absolutely);

  (5) the DCC Transaction Documents; and

  (6) a first floating charge of the whole of the undertaking, property, assets and rights whatsoever and wheresoever present and future of DCC,

to the extent that, in all cases, such security is not created over protected land or would otherwise contravene the terms of the WIA, the Licence and requirements thereunder, or any other applicable statute or law.

The DCC Security is held on trust by the DCC Security Trustee for itself and on behalf of the DCC Secured Creditors in accordance with and subject to the terms of the DCC STID.

For a description of certain limitations on the ability of DCC to grant security and certain limitations and restrictions on the security purported to be granted, see Chapter 4 "*Water Regulation*" under "*Security*". In addition, notice of the creation of the DCC Security has not been given initially to DCC's customers or to DCC's contractual counterparties in respect of its contracts (other than certain material contracts). Each charge over DCC's land as purported to be granted also takes effect in equity only. Accordingly, until any such assignment is perfected, registration effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, any such assignment or charge may be or become subject to prior equities arising (such as rights of set-off).

Guarantor Security

Each of the Guarantors has entered into a guarantee and deed of charge (respectively, the "**Holdings Deed of Charge**", the "**Glas Securities Deed of Charge**" and the "**Glas Deed of Charge**" and, together, the "**Deeds of Charge**") with the DCC Security Trustee, for itself and on behalf of the DCC Secured Creditors, pursuant to which each of them has guaranteed to the DCC Security Trustee, for itself and on behalf of the DCC Secured Creditors, the obligations of DCC to the DCC Secured Creditors.

The guarantee from Holdings (the "**Holdings Guarantee**") is secured by a first fixed charge over its shares in DCC and the Issuer, an assignment of its rights under the Holdings/DCC Loan Agreement and a first ranking floating charge over all the assets and undertaking of Holdings. The guarantee from Glas Securities (the "**Glas Securities Guarantee**") is secured by first fixed charges over its shares in Holdings and a first ranking floating charge over all the assets and undertaking of Glas Securities. The guarantee from Glas (the "**Glas Guarantee**" and, together with the Holdings Guarantee and the Glas Securities Guarantee, the "**Guarantees**") is secured by a first fixed charge over its shares in Glas Securities and a first ranking floating charge over all the assets and undertaking of Glas.

Each of the Deeds of Charge, to the extent applicable, incorporates the provisions of the Common Terms Agreement.

The Holdings Guarantee and the security constituted by the Holdings Deed of Charge (the "**Holdings Security**"), the Glas Securities Guarantee and security constituted by the Glas Securities Deed of Charge (the "**Glas Securities Security**") and the Glas Guarantee and security constituted by the Glas Deed of Charge (the "**Glas Security**" and, together with the Holdings Security, and the Glas Securities Security, the "**Guarantor Security**") is held by the DCC Security Trustee for itself and on behalf of the DCC Secured Creditors in accordance with, and subject to, the terms of the DCC STID and will be enforceable if (a) the respective Guarantor defaults under its respective Deed of Charge which default or breach is not remedied, (b) such Guarantor breaches any of its covenants set out in the Common Terms Agreement which default or breach is not remedied or (c) a DCC Event of Default occurs. In addition, if a Guarantor breaches any of its respective representations, warranties or covenants under the Common Terms Agreement and such breach is not remedied within any applicable grace period or if a Standstill occurs, such Guarantor will jointly and severally be obliged, together with each other Guarantor, to deposit in an account with the Account Bank in the name of the DCC Security Trustee by way of security for its guarantee obligations the aggregate principal amount outstanding under the Intercompany Loan Agreements.

None of Holdings, Glas Securities or Glas has any significant assets other than the shares in their respective subsidiaries.

DCC STID

Each of the DCC Security Trustee and the other DCC Secured Creditors, DCC, Holdings, Glas Securities, Glas, the Issuer Security Trustee and the DCC Security Trustee entered into, on the Initial Issue Date, or in the case of certain DCC Secured Creditors subsequently acceded to, the DCC STID pursuant to which, *inter alia*, the DCC Security Trustee has been appointed as trustee of the DCC Security, and of the Guarantor Security. The DCC STID regulates, *inter alia*, the rights of the DCC Secured Creditors to require the DCC Security Trustee to enforce the DCC Security and the Guarantor Security and sets out the ranking in point of payment of the claims of the DCC Secured Creditors to the proceeds of such enforcement.

The DCC Security Trustee acts as trustee on behalf of the DCC Secured Creditors in connection with the DCC Security and the Guarantor Security. In such capacity, the DCC Security Trustee has agreed that it will exercise any right which it may have in respect of the DCC Transaction Documents only as directed by the Beneficiary Instructing Group (subject to certain entrenched rights and reserved matters). See "*Intercreditor Arrangements*" above.

The DCC STID provides that except with respect to any vote which would have the effect of terminating any Standstill (as to which, see "Standstill" below), the DCC Security Trustee will take action only when the instructions for or against such matter exceed 50 per cent. of the Qualified DCC Secured Liabilities. In each case, the DCC Security Trustee will not be liable to any person in relation to actions taken or not taken by it and will not be obliged to take action unless indemnified and/or secured to its satisfaction.

Entrenched Rights of DCC Secured Creditors

The rights of a Beneficiary Instructing Group to make decisions as to, *inter alia*, waivers of DCC Events of Default, modifications to DCC Transaction Documents and other issues potentially affecting the rights of one or more DCC Secured Creditors are subject to certain entrenched rights of each DCC Secured Creditor. These entrenched rights cannot be changed without the consent of the relevant DCC Secured Creditors and include any:

- change to their ranking in priority as against other DCC Secured Creditors;
- change to the date fixed for payment of principal or interest under, or reduction in the amount of principal or interest payable on any date or any alteration in the method of calculating the amount or date of any payment under, any DCC Transaction Document;
- substitution of the principal obligor under any DCC Transaction Document;
- change in the currency of any payment due under a DCC Transaction Document; or
- modification of certain key terms in the DCC Transaction Documents.

Undertakings of DCC Secured Creditors

Pursuant to the terms of the DCC STID each DCC Secured Creditor (other than the DCC Security Trustee) undertakes that it will not, unless the Beneficiary Instructing Group otherwise agrees:

- permit or require any of DCC, Holdings, Glas Securities and Glas (each an "**Obligor**") to discharge any of the DCC Secured Liabilities (as defined in the Common Terms Agreement) owed to it save to the extent permitted by the Common Terms Agreement and the DCC STID;
- permit or require any Obligor to pay, prepay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the DCC Secured Liabilities owed to it save to the extent permitted by the Common Terms Agreement and the DCC STID;

- take, accept or receive the benefit of any security interest, guarantee, indemnity or other assurance against financial loss in respect of any of the DCC Secured Liabilities owed to it except the security interests under the DCC Security Documents or pursuant to the terms of the DCC Transaction Documents;
- take or receive from any of the Obligors by cash receipt, set-off or in any other manner whatsoever, the whole or any part of the DCC Secured Liabilities owed to it (save as permitted by the terms of the Common Terms Agreement and the DCC STID); or
- subject to agreed exceptions, agree to any amendment of the DCC Transaction Documents to which it is a party.

Undertakings of Obligors

Pursuant to the terms of the DCC STID, each Obligor has undertaken that it will not, unless the Beneficiary Instructing Group otherwise agrees:

- discharge any of the DCC Secured Liabilities save to the extent permitted by the Common Terms Agreement and the DCC STID;
- pay, prepay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the DCC Secured Liabilities owed by it save to the extent permitted by the Common Terms Agreement and the DCC STID;
- create or permit to subsist any security interest over any of its assets for, or any guarantee, indemnity or other assurance against financial loss in respect of any of the DCC Secured Liabilities owed by it except the security interests under or pursuant to the terms of the DCC Transaction Documents;
- discharge any of the DCC Secured Liabilities by set-off, any right of combination of accounts or otherwise (save as permitted by the terms of the Common Terms Agreement and the DCC STID);
- subject to agreed exceptions, agree to any amendment to the DCC Transaction Documents to which it is a party; or
- take or omit to take any action whereby any subordination contemplated by the DCC STID may be impaired.

Standstill

Immediately upon notification to the DCC Security Trustee of the occurrence of a DCC Event of Default under the Common Terms Agreement or the occurrence of any deferral of interest in respect of any amount of interest payable on each DCC Payment Date in respect of each Term Advance and Revolving Advance (each as defined below) (a "**Scheduled Interest Amount**") under any advance of the proceeds of Class C Bonds under any Intercompany Loan Agreement (each such occurrence a "**Standstill Event**"), the DCC STID provides for an automatic standstill of claims of the DCC Secured Creditors against DCC (the "**Standstill**"). The period of the Standstill (the "**Standstill Period**") will be the period from the date of such notification to the earlier of (i) except in the case of a Standstill Extension, the date on which a Beneficiary Instructing Group comprising more than 66⅔ per cent. of the aggregate BIG Outstanding Principal Amount of the Qualified DCC Secured Liabilities elects to terminate the Standstill, (ii) the date on which a petition is presented for the special administration of DCC, (iii) the date on which the Standstill Event is remedied or waived, (iv) the date on which any acceleration of the Issuer Secured Liabilities occurs, and (v) in the case of a Standstill Extension, the date on which the relevant percentage of the aggregate BIG Outstanding Principal Amount of the Qualified DCC Secured Liabilities elects to terminate the Standstill.

During the Standstill Period:

- none of the DCC Secured Creditors will be entitled to accelerate any of the DCC Secured Liabilities or direct the DCC Security Trustee to take any steps to recover payment of any DCC Secured Liabilities from DCC or to enforce the DCC Security save to the extent permitted by the Common Terms Agreement and the DCC STID;
- the Guarantor Security will be enforceable at any time by the DCC Security Trustee at the direction of the Beneficiary Instructing Group; and
- the claims of the DCC Secured Creditors will be ranked in accordance with the DCC Standstill Priority (see "*DCC Cash Management*" below).

In the event that a Standstill Period has not been terminated prior to the date 18 months after the occurrence of the Standstill Event, on or before the last day of such 18 month period the Beneficiary Instructing Group will vote whether to terminate the Standstill Period. Unless the Beneficiary Instructing Group comprising those DCC Secured Creditors holding more than 66⅔ per cent. of the DCC Secured Liabilities determines to terminate the Standstill Period, the Standstill Period will be extended (a "**Standstill Extension**") for a period of two months. On or before the last day of the Standstill Extension a further vote of the Beneficiary Instructing Group will be taken, provided that, for the purposes of such further vote (the "**Second Standstill Vote**"), the Beneficiary Instructing Group shall comprise those DCC Secured Creditors holding more than 50 per cent. of the DCC Secured Liabilities. Unless the Beneficiary Instructing Group determines to terminate the Standstill Period at the Second Standstill Vote, a Standstill Extension of another two months will occur. On or before the last day of the second Standstill Extension, a third vote (the "**Third Standstill Vote**") of the Beneficiary Instructing Group will be taken, provided that, for the purposes of such Third Standstill Vote, the Beneficiary Instructing Group shall comprise those DCC Secured Creditors holding more than 33⅓ per cent. of the DCC Secured Liabilities. Unless the Beneficiary Instructing Group determines to terminate the Standstill Period at the Third Standstill Vote, a Standstill Extension of another two months will occur. On or before the last day of the third Standstill Extension, a fourth vote (the "**Fourth Standstill Vote**") of the Beneficiary Instructing Group will be taken, provided that, for the purposes of such Fourth Standstill Vote, the Beneficiary Instructing Group shall comprise those DCC Secured Creditors holding more than 10 per cent. of the DCC Secured Liabilities. Unless the Beneficiary Instructing Group determines to terminate the Standstill Period at the Fourth Standstill Vote, a Standstill Extension of another six months will occur. On or before the last day of the Fourth Standstill Extension, a fifth vote (the "**Fifth Standstill Vote**") of the Beneficiary Instructing Group will be taken, provided that, for the purposes of such Fifth Standstill Vote, the Beneficiary Instructing Group shall comprise those DCC Secured Creditors holding more than 5 per cent. of the DCC Secured Liabilities. Unless the Beneficiary Instructing Group determines to terminate the Standstill at the Fifth Standstill Vote, the Standstill shall continue until the Beneficiary Instructing Group comprising DCC Secured Creditors comprising those DCC Secured Creditors holding more than 5 per cent. of the DCC Secured Liabilities determines to terminate the Standstill and a vote shall be taken on the expiry of each period of two months for so long as the Standstill continues. Accordingly, provided the thresholds above are met, the Standstill Period will terminate notwithstanding any votes to the contrary. Following termination of the Standstill Period, if a DCC Event of Default is still continuing, any DCC Secured Creditor may accelerate its DCC Secured Liabilities, at which point all other DCC Secured Liabilities will automatically accelerate, and the enforcement of the DCC Security and the Guarantor Security shall be undertaken by the DCC Security Trustee on behalf of the DCC Secured Creditors pursuant to the provisions of the DCC STID.

Standstill Cash Manager

Following the occurrence of a Standstill Event and for so long as a Standstill Period subsists, money credited to the Debt Service Payment Account will be applied by the Standstill Cash Manager in accordance with the

DCC Standstill Priority and the Standstill Cash Management Agreement (see "*DCC Standstill Priority*" below).

Enforcement

Subject to certain matters and with certain exceptions, following an enforcement, any proceeds of enforcement or other monies held by the DCC Security Trustee under the DCC STID will be applied by the DCC Security Trustee in accordance with the DCC Post-Enforcement Payments Priorities (see "*DCC Cash Management*" below).

Accession of Additional DCC Secured Creditors

The DCC STID requires that, to the extent that DCC wishes any Authorised Lender, further DCC Finance Lessor or other person to obtain the benefit of the DCC Security, such Authorised Lender, further DCC Finance Lessor or other person must sign an accession memorandum whereby it agrees to be bound by the terms of the DCC STID, including those provisions which prohibit individual DCC Secured Creditors from taking certain actions against DCC without the consent of the DCC Security Trustee and/or the Beneficiary Instructing Group. Such additional DCC Secured Creditor will also be required to accede to the terms of the Common Terms Agreement.

Master Framework Agreement

Introduction

The Issuer Security Trustee, for itself and on behalf of the Issuer Secured Creditors, the Cash Manager and the Issuer, on the Initial Issue Date, entered into a master framework agreement (as amended, the "**Master Framework Agreement**"). The Master Framework Agreement sets out the common terms, representations, warranties and covenants (positive, negative and financial) (collectively, the "**Issuer Common Terms**") which, to the extent incorporated, applies to the Trust Deed, the Issuer Deed of Charge, the Liquidity Facility Agreements, the Hedging Agreements, the Paying Agency Agreement, the Issuer STID and certain other agreements between or in respect of the Issuer and the Issuer Secured Creditors. It also contains the Issuer cash management provisions (see "*Issuer Cash Management*" below).

Issuer Warranties and Covenants

The Issuer provides warranties and covenants standard for a special purpose vehicle of its sort issuing debt obligations such as the Bonds. The Issuer's warranties include (i) corporate warranties in respect of its due incorporation, solvency and residency and in respect of there being no breaches of its general obligations, no litigation involving it or its assets, no outstanding consents required for its business and no involvement in business activities other than as permitted by the Issuer Transaction Documents (as defined below); and (ii) transaction warranties in respect of the due authorisation and execution of the Issuer Transaction Documents, the due issuance of and the status and ranking of the Bonds, the accuracy of the information contained in this Information Memorandum and the absence of any outstanding consents or breaches of its obligations in respect of the Bonds.

The Issuer's covenants include (i) corporate covenants to prepare audited financial statements, to conduct its business in accordance with applicable law, to obtain all necessary consents and, other than as permitted by or pursuant to the Issuer Transaction Documents, not to carry on any business, incur any indebtedness, permit to exist or create any security, make any loans, merge or consolidate with any other entity or amend its constitutional documents or any of the agreements to which it is party; (ii) transaction covenants to comply with all its obligations under the Issuer Transaction Documents, to preserve all its rights thereunder, to provide the Issuer Secured Creditors with all necessary information and to notify the relevant parties of any Issuer Event of Default or potential Issuer Event of Default; (iii) asset covenants to maintain proper books and records in respect of its assets, to protect all its rights in respect thereof and to take all such further actions as

may be necessary to preserve its assets; and (iv) bond covenants to obtain and maintain the listings of the Bonds, to provide all notices under the Conditions (including to the Bondholders, the Paying Agents, the Transfer Agents, the Registrar and the Rating Agencies) and to notify the appropriate parties of potential late payments or any proposed early redemptions of any of the Bonds.

Issuer Events of Default

The Issuer Events of Default are set out in Condition 11(a) in Chapter 7: "*Terms and Conditions of the Bonds*".

The Issuer Deed of Charge

The Issuer, on the Initial Issue Date, entered into the Issuer Deed of Charge with the Issuer Security Trustee (for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bondholders), the Financial Guarantors, the Liquidity Facility Providers, the Hedge Counterparties, the Account Bank, the Authorised Lenders, the Registrar, the Transfer Agents, the Paying Agents, the Agent Bank, the Cash Manager, any receiver and any other creditor of the Issuer which accedes to the Issuer STID (together the "**Issuer Secured Creditors**")). Pursuant to the Issuer Deed of Charge, the Issuer secured its obligations to the Issuer Secured Creditors by granting the following security:

- a first fixed sub-charge of the benefit of the Issuer's interest in and to the DCC STID;
- a first fixed charge of each investment of the Issuer's funds in certain eligible investments;
- a first fixed charge of the benefit of the Issuer Accounts and any bank or other accounts in which the Issuer may at any time have or acquire any benefit;
- an assignment of the benefit of each Issuer Transaction Document; and
- a first floating charge of the whole of the undertaking, property, assets and rights whatsoever and wheresoever present and future of the Issuer,

such security expressly to exclude all monies constituting the issued share capital of the Issuer not otherwise utilised by the Issuer from time to time and the corporate benefits fee of £1,000 payable by DCC to the Issuer on the Initial Issue Date.

The Issuer Deed of Charge, to the extent applicable, incorporates the Issuer Common Terms as set out in the Master Framework Agreement.

The Issuer Security is held on trust by the Issuer Security Trustee for itself and on behalf of the Issuer Secured Creditors in accordance with, and subject to, the Issuer Deed of Charge and the Issuer STID.

Issuer STID

The Issuer, the Issuer Security Trustee, the Bond Trustee (for itself and on behalf of the Bondholders), MBIA, the Initial Liquidity Providers, the Initial Hedge Counterparties, the Initial Authorised Lender, the Account Bank, the Principal Paying Agent, the Paying Agent, the Cash Manager, the Agent Bank, the Registrar and the Transfer Agent, on the Initial Issue Date, entered into the Issuer STID. Certain additional Issuer Secured Creditors have subsequently acceded to the Issuer STID. Under the Issuer STID, the Issuer Security Trustee was appointed as trustee for the Issuer Secured Creditors and the parties agreed to certain intercreditor arrangements. The composition of the Issuer Instructing Group through which instructions will be given to the Issuer Security Trustee in respect of, *inter alia*, the exercise of any rights of the Issuer under the DCC Transaction Documents or the enforcement of the DCC Security or the Guarantor Security or the giving of

any consent or the making of any amendments has been described previously (see "*Intercreditor Arrangements*" above).

Entrenched Rights of Issuer Secured Creditors

The rights of an Issuer Instructing Group to make decisions as to matters potentially affecting the rights of one or more Issuer Secured Creditors are subject to certain entrenched rights of each Issuer Secured Creditor. The specific entrenched rights of each of the Issuer Secured Creditors are intended to ensure that an Issuer Secured Creditor's consent will be required to any action which would materially adversely affect such Issuer Secured Creditor's rights, including any:

- change to their ranking in priority as against other Issuer Secured Creditors;
- change to the date fixed for payment of principal or interest under, or reduction in the amount of principal or interest payable on any date or any alteration in the method of calculating the amount or date of any payment under, any Issuer Transaction Document;
- change in the currency of any payment due under an Issuer Transaction Document;
- modification of certain key terms in the Issuer Transaction Documents; or
- modifications causing a rating downgrade below the original ratings of the Bonds (other than the Class D Bonds).

Exercise of Rights by Bond Trustee

When exercising any rights, powers, trusts, authorities and discretions relating to or contained in the Conditions or the Trust Deed (other than in respect of any Entrenched Right or Reserved Matter or Basic Terms Modification, or determining the occurrence of an Entrenched Right, Reserved Matter or Basic Terms Modification) which affects or relates to any Class A Bonds, the Bond Trustee shall only act with the consent of the Issuer Instructing Group (unless the Bond Trustee is the Issuer Instructing Group) or subject to any Reserved Matter in accordance with the provisions of the Issuer STID, and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting (see Condition 16(b) in Chapter 7 "*Terms and Conditions of the Bonds*").

The Financial Guarantor of the first Series of Class A Bonds has additional entrenched rights so as to ensure, *inter alia*, that certain core covenants of DCC regarding its business activities and operations and certain key financial ratios contained in the Common Terms Agreement cannot be changed or waived without the prior consent of that Financial Guarantor.

Acknowledgement Regarding Issuer Transaction Documents

Each Issuer Secured Creditor which signed the Issuer STID as at the Initial Issue Date or acceded to it thereafter (a) agreed to be bound by the terms of the Issuer STID, including the intercreditor arrangements, and (b) was deemed to have knowledge of, and will be bound by, the terms of all the Issuer Transaction Documents.

Actions Requiring Consent

The consent of the Issuer Security Trustee (acting on instructions from the Issuer Instructing Group) is required, *inter alia*:

- for any modification (i.e., waiver, variation or amendment) of any of the Issuer Transaction Documents, or any exercise of any right, power or discretion thereunder (other than modifications of a minor or technical nature);

- for any release of or impairment to any part of the Issuer Security except as expressly permitted by the Issuer Transaction Documents; and
- for any action (including the withdrawal of most sums from any of the Issuer Accounts) following an event of default under the Issuer Transaction Documents which remains unremedied and unwaived.

Accession of Additional Issuer Secured Creditors

The Issuer Deed of Charge and the Issuer STID require that, to the extent that the Issuer wishes any additional creditor to obtain the benefit of the Issuer Security, such creditor must sign an accession memorandum whereby it (a) agrees to be bound by the terms of the Issuer STID, including the intercreditor arrangements, and (b) will be deemed to have knowledge of, and will be bound by, the terms of all the Issuer Transaction Documents.

If the Issuer wishes to raise additional financing through the issue of further Bonds under the Programme or through Authorised Loan Facilities or otherwise, it may only do so provided that the DCC financial covenants set out in the Common Terms Agreement (see "Common Terms Agreement" above) are not breached as a result of the Issuer making a corresponding advance under an Intercompany Loan Agreement with the proceeds of such additional financing.

Financial Guarantor Documents

The Bond Policies

On the Initial Issue Date, MBIA issued in favour of the Bond Trustee (for itself and on behalf of the relevant Class A Bondholders) a Bond Policy for each Sub-Class of the Class A Bonds issued on the Initial Issue Date in respect of scheduled interest (other than any Subordinated Coupon Amounts) and principal (other than any accelerated amounts) on the relevant Sub-Class of Class A Bonds. To the extent that any other Financial Guarantors issue Bond Policies in respect of any further Series of Class A Bonds, such Bond Policies are expected to be issued by such Financial Guarantor(s) on terms substantially similar thereto.

Upon an early redemption of the relevant Class A Bonds or an acceleration of the relevant Class A Bonds, MBIA's obligations will continue to be to pay the Insured Amounts as they fall Due for Payment (as defined in MBIA's Bond Policies) on each Issuer Payment Date. MBIA will not be obliged under any circumstances to accelerate payment under its Bond Policies. However, if it does so, it may do so in its absolute discretion in whole or in part, but only after an acceleration of the Bonds, and the amount payable by MBIA will be the outstanding principal amount (or pro rata amount that has become due and payable) of the relevant Class A Bonds together with accrued interest. Any amounts due in excess of such outstanding principal amount (and any accrued interest thereon) and any Subordinated Coupon Amounts will not be guaranteed by MBIA or any other Financial Guarantor under any of the Bond Policies.

The Bond Trustee as party to the Bond Policies issued by MBIA on the Initial Issue Date will have the right to enforce the terms of such Bond Policies, and any right of any other person to do so is expressly excluded.

Insurance and Indemnity Agreements

On each relevant Issue Date, the Issuer has entered or will enter into an insurance and indemnity agreement (each an "**I&I Agreement**") with the relevant Financial Guarantor, pursuant to which the Issuer is or will be obliged, *inter alia*, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Bond Policy and to pay any reasonable fees and expenses of such Financial Guarantor in respect of the provision of the relevant Bond Policy. Insofar as a Financial Guarantor makes payment under the relevant Bond Policy in respect of Insured Amounts (as defined in such Bond Policy), it will be subrogated to the present and future rights of the relevant Class A Bondholders against the Issuer in respect of any payments made.

DCC CASH MANAGEMENT

In this section:

any reference to a "**month**" is a reference to an accounting month of DCC;

"**Additional Amounts**" means an amount which is equal to the difference between the interest accrued under the relevant Liquidity Facility Agreement on the Standby Drawings (as defined in "*Additional Resources Available*") and the amount earned by way of investment of the amount representing such Standby Drawing.

"**New Money Advance**" means any drawing during a Standstill under the Tranche R1 or Tranche R2 of any Intercompany Loan Agreement or any Authorised Loan Agreement provided to DCC which is not made (or to the extent not made) for the purpose of refinancing a maturing R1 Advance or R2 Advance or refinancing a drawing under such Authorised Loan Agreement;

"**Relevant Series Proportion**" means the proportion represented by the fraction the numerator of which is the Principal Amount Outstanding of all Bonds issued under the relevant Series and the denominator of which is the Principal Amount Outstanding of all Bonds issued under all Series;

"**R Advances**" means, together, each advance under Tranche R1 and each advance under Tranche R2;

"**Revolving Advance**" means each advance under a revolving credit facility under an Intercompany Loan Agreement;

"**Revolving Tranche**" means, together, Tranche L and the R Tranches;

"**Subordinated Authorised Loan Amounts**" means, in relation to any Authorised Loan Agreement, the aggregate of any amounts payable by the Issuer to such Authorised Lender in respect of its obligation to gross up any payments made by it in respect of such Authorised Loan Agreement or to make any payment of increased costs to such Authorised Lender;

"**Subordinated Commissions**" means:

- in respect of any R Tranche, any amounts by which the commitment commissions on the undrawn portion of such R Tranche exceed the initial commitment commissions on the undrawn portion of such R Tranche as at the date on which the R Tranche was first made available; and
- in respect of any Class R Bonds, any amounts by which the underwriting commissions on the Class R Bonds exceed the initial underwriting commissions on the Class R Bonds as at the date on which the Class R Bonds were first issued;

"**Subordinated Coupon Amounts**" means, in respect of any Sub-Class of Bonds, any amounts (other than deferred interest) by which the Coupon on such Sub-Class exceeds the initial Coupon on such Sub-Class of Bonds as at the date on which such Sub-Class of Bonds was issued;

"**Subordinated Interest**" means, in respect of any Term Advances or Revolving Advances under any Intercompany Loan Agreement, any amounts by which the applicable margin on such Term Advances or Revolving Advances exceed the initial applicable margin on such Term Advances or Revolving Advances as at the date that such Intercompany Loan Agreement was first entered into; and

"**Subordinated Liquidity Facility Amounts**" has the meaning given to it in the section below entitled "*The Liquidity Facilities*";

"**Tranche A**" or "**Tranche A Facility**" means a tranche of a term facility under an Intercompany Loan Agreement corresponding to a Sub-Class of Class A Bonds;

"**Tranche A Advance**" means an advance under a Tranche A Facility;

"**Tranche B**" or "**Tranche B Facility**" means a tranche of a term facility under an Intercompany Loan Agreement corresponding to a Sub-Class of Class B Bonds;

"**Tranche B Advance**" means an advance under a Tranche B Facility;

"**Tranche C**" or "**Tranche C Facility**" means a tranche of a term facility under an Intercompany Loan Agreement corresponding to a Sub-Class of Class C Bonds;

"**Tranche C Advance**" means an advance under a Tranche C Facility;

"**Tranche D**" or "**Tranche D Facility**" means a tranche of a term facility under an Intercompany Loan Agreement corresponding to a Sub-Class of Class D Bonds;

"**Tranche D Advance**" means an advance under a Tranche D Facility;

"**Tranche L**" or "**Tranche L Facility**" means a tranche of a term facility under an Intercompany Loan Agreement corresponding to an advance under a Liquidity Facility;

"**Tranche L Advance**" or "**L Advance**" means an advance under a Tranche L Facility;

"**Tranche R**" means, together, Tranche R1 and Tranche R2;

"**Tranche R1**" or "**Tranche R1 Facility**" means a tranche of a revolving credit facility corresponding to a Sub-Class of Class R1 Bonds;

"**Tranche R2**" or "**Tranche R2 Facility**" means a tranche of a revolving credit facility corresponding to a Sub-Class of Class R2 Bonds.

DCC's Accounts and Ledgers

DCC has the following bank accounts with the Account Bank: a receipts account (the "**Receipts Account**"), a payments account (the "**Payments Account**"), a debt service payment account (the "**Debt Service Payment Account**"), a reserves account (the "**Reserves Account**"), a customer payments account (the "**Customer Payments Account**") and a rejected direct debits account (the "**RDD Account**"). DCC may not establish any further bank accounts unless it has first met certain conditions in respect thereof, which are set out in the Common Terms Agreement (including that such further accounts are (a) required for the operation of DCC's Permitted Business, (b) the subject of a first fixed security under the DCC Deed of Charge and (c) are opened and maintained with a bank that has the Requisite Ratings). These accounts include foreign currency accounts for the purpose of clearing payments to suppliers in foreign currencies, and a treasury account for pooling certain credit balances for cash management purposes.

The Receipts Account, the Payments Account, the Debt Service Payment Account, the Reserves Account, the Customer Payments Account, the RDD Account and each other permitted bank account of DCC from time to time are collectively referred to as "**DCC's Accounts**". DCC's Accounts are held with the Account Bank pursuant to an account agreement (the "**DCC Account Bank Agreement**") dated on the Initial Issue Date between DCC, the Account Bank and the DCC Security Trustee.

Receipts Account

Under the Common Terms Agreement, DCC covenants in favour of the DCC Security Trustee that all of DCC's revenues will be paid directly into the Receipts Account or be directed to be paid into the Payments Account. Monies credited from time to time to the Receipts Account are transferred periodically at the discretion of DCC to the Payments Account or to the RDD Account (as described below) but not otherwise. On any Business Day (as defined in the Common Terms Agreement) DCC may direct that an amount equal to the aggregate amount of rejected direct debits from customers for any period as determined by DCC may be transferred from the Receipts Account to the RDD Account.

Payments Account

The Payments Account is the current account of DCC through which all sterling denominated operating and capital expenditure of DCC is cleared. Operating expenditure (including payments to Contractors and to WPD Realisations (Cayman) Limited under the CfD) are funded by cash transfers from the Receipts Account and through drawings, as and when required, under an overdraft facility in the amount of £20,000,000 provided by the Overdraft Bank before the Initial Issue Date (the "**Overdraft Facility**") and, if applicable, drawings under the Tranche R2 Facility or a DCC Authorised Loan Facility. Capital expenditure is funded from available cashflow and cash transfers made during the course of each month from the Reserves Account.

Under the Common Terms Agreement, DCC covenants in favour of the DCC Security Trustee that on the opening of business on the first Business Day of each month an amount equal to 1/12th of DCC's Annual Finance Charge for the time being will be transferred from the Payments Account to the Debt Service Payment Account and credited to the Debt Service Ledger.

DCC's "**Annual Finance Charge**" is required to be calculated by DCC on 1 April of each year (or, if such day is not a Business Day, the immediately preceding Business Day) to be the sum of the following payments scheduled (or, where uncertain, estimated by DCC in good faith) to fall due and payable in the twelve month period commencing on 1 April of that year and ending on 31 March of the following year (each such period, a "**Relevant Year**"):

(i) the aggregate amount of interest due on each outstanding Advance under the Intercompany Loan Agreements;

(ii) the aggregate amount of rental payments due to the DCC Finance Lessors under the DCC Finance Leases inclusive of any VAT (after (a) deducting any amount representing a repayment of capital under the DCC Finance Leases and any estimated rental rebates (inclusive of any VAT) and (b) adding back any further rentals due (inclusive of any VAT), in each case, as determined by DCC in good faith);

(iii) the aggregate amount of fees and commissions due to the Issuer under each Intercompany Loan Agreement; and

(iv) the aggregate amount of interest, fees and commissions due during the Relevant Year under any Authorised Loan Agreement provided to DCC.

DCC's Annual Finance Charge is required to be adjusted during the course of a Relevant Year, upwards or downwards, as appropriate, to ensure that the annual amount reserved for within the Debt Service Payment Account will always be sufficient to meet in full the liabilities described above in any Relevant Year if, for any reason, any of those liabilities are modified (including as a result of any deferral) pursuant to, and as permitted by, the terms of the DCC Transaction Documents.

DCC's Annual Finance Charge is required to additionally be increased to cover the aggregate amount of interest due to the Issuer in respect of any Revolving Advances made during a Relevant Year and to any Authorised Lender in respect of any drawings made by DCC under any Authorised Loan Agreement during a Relevant Year.

Reserves Account

No monies may be withdrawn from the Reserves Account except for the purpose of any transfer to the Payments Account on account of DCC's forecast capital expenditure for the month in which such transfer occurs. Except for reconciliation payments made pursuant to the arrangements referred to below, in no circumstances shall DCC transfer in any month any monies from the Reserves Account to the Payments Account in excess of DCC's forecast capital expenditure for that month.

By no later than the last Business Day of each month DCC is required to reconcile, by reference to the management accounts prepared for the preceding month, the actual amount of capital expenditure incurred in the preceding month against the aggregate amount transferred during the preceding month from the Reserves Account on account of forecast capital expenditure for such preceding month. In the event that actual capital expenditure incurred in any preceding month exceeded the amount transferred on account of forecast capital expenditure, the amount required to be transferred to the Payments Account in respect of forecast capital expenditure for the month following the month in which such management accounts have been prepared shall be increased by the amount of such excess less any amounts arising from DCC's operating cashflows applied in payment of such actual capital expenditure. In the event that actual capital expenditure incurred was less than the amount transferred on account of forecast capital expenditure, an amount equal to the difference shall be transferred forthwith from the Payments Account to the Reserves Account or, alternatively, at DCC's discretion, netted against amounts required to be transferred from the Reserves Account to the Payments Account on account of forecast capital expenditure in the month following the month in which such management accounts have been prepared.

DCC is not required to maintain any minimum credit balance on the Reserves Account. However, it may be a condition precedent to the making of any further Term Advances under any further Intercompany Loan Agreement, that DCC pays into the Reserves Account a specified portion of such further Term Advances. Furthermore, DCC covenants in favour of the DCC Security Trustee in the Common Terms Agreement that on each Calculation Date the aggregate of (a) the amount credited to the Reserves Account and (b) the aggregate undrawn commitment under the Tranche R2 Facility under the Intercompany Loan Agreements and any replacement or supplemental facility provided for capital expenditure will be at least equal to the Net Capex Requirement for the following twelve months.

Debt Service Payment Account

DCC maintains in its books two ledgers in respect of the Debt Service Payment Account (respectively the "**Debt Service Ledger**" and the "**Insurance Proceeds Ledger**").

Debt Service Ledger

Prior to the occurrence of a Standstill, monies credited to the Debt Service Ledger shall be applied by DCC only for the purpose of making the following payments ("**DCC Payments**") as and when the same fall due for payment:

- to the Issuer, in or towards satisfaction of any scheduled fees and interest due under each Tranche of each Intercompany Loan Agreement;
- to the DCC Security Trustee, in or towards satisfaction of any scheduled fees due to the DCC Security Trustee under the terms of the DCC STID;
- to the Standstill Cash Manager, in or towards satisfaction of any scheduled fees due to the Standstill Cash Manager;
- to the DCC Finance Lessors, in or towards satisfaction of any scheduled rental payments (inclusive of VAT) due to the DCC Finance Lessors under the DCC Finance Leases (except for any capital repayments); and
- to any DCC Hedge Counterparty under any Permitted Treasury Transaction, in or towards satisfaction of any scheduled sums due to such DCC Hedge Counterparty under such Permitted Treasury Transaction.

Interest charges under the Overdraft Facility, repayment of the principal debit balance under the Overdraft Facility and any payments due under the CfD will be paid as and when the same fall due and payable out of sums paid into the Payments Account from the Receipts Account and/or the Customer Payments Account for the purpose of meeting operating expenditure.

For so long as a Standstill Event has not occurred, DCC shall, on the date which is five Business Days prior to each DCC Payment Date, determine whether the aggregate amount of monies then credited is at least equal to the DCC Payments falling to be paid on such DCC Payment Date. If there is an insufficiency of funds, then DCC shall promptly request from the Issuer the making of a Tranche L advance in an amount equal to the shortfall, such amount to be paid to DCC no later than the relevant DCC Payment Date.

Insurance Proceeds Ledger

Prior to an Acceleration of Liabilities DCC is required to direct that all insurance proceeds are paid directly into the insurance proceeds ledger. Monies credited to the insurance proceeds ledger are applied in payment for repair or reinstatement of the relevant equipment.

Customer Payments Account

DCC maintains in its books two ledgers in respect of the Customer Payments Accounts (respectively, the "**General Ledger**" and the "**Customer Rebate Ledger**").

DCC may on the close of business of the last Business Day of each month transfer Available Monies from the Payments Account to the Customer Payments Account for the credit of the General Ledger provided that:

- the backward-looking and forward-looking ICR is greater than or equal to 2.0:1; and
- the RAR is less than or equal to 0.90:1.

"**Available Monies**" means the amount credited to the Payments Account as at the close of business on the last Business Day of each month after deducting the amount required to be transferred on the next following Business Day to the Debt Service Payment Account.

Rebates to customers may only be granted to the extent of monies credited to the General Ledger subject always to satisfaction of the conditions for the making of a Restricted Payment as set out in the Common Terms Agreement and provided further that the Customer Rebate Ledger is then credited with an amount equal to the aggregate amount of the relevant rebate. An amount equal to 1/12th of the aggregate amount of rebates declared by DCC in respect of any Relevant Year shall be transferred from the Customer Payments Account to the Payments Account on the first Business Day of each month of the Relevant Year in which such rebate is to apply.

Monies credited to the Customer Payments Account constitute the only source of funds available to DCC to make Restricted Payments.

DCC is entitled to invest monies credited to DCC's Accounts in certain eligible investments and may for cash management purposes pool credit balances on all of DCC's Accounts (excluding the Debt Service Payment Account) through a separate investment account.

The cash management arrangements described above continue to apply until the occurrence of a Standstill Event. In the event of a Standstill occurring and during the period it is continuing, the arrangements described above shall be modified as follows:

- DCC's Annual Finance Charge shall be adjusted upwards to include the cost of any Tranche L Advances made under any Intercompany Loan Agreement and any payments to be made by DCC under the CfD;

- an amount equal to the aggregate sum credited to the Customer Payments Account shall be forthwith transferred to the Debt Service Payment Account;
- no payments may be made to WPD Realisations (Cayman) Limited under the CfD except out of sums credited to the Debt Service Payment Account and then only to the extent that such sums are available for that purpose in accordance with the priority described below (the "**DCC Standstill Priority**"); and
- the claims ("**Claims**") of the DCC Security Trustee, the Account Bank, the Standstill Cash Manager, the Issuer, the DCC Finance Lessors, each Authorised Lender, the Existing DCC Hedge Counterparty, each other party that enters a DCC Hedge Document, as defined in the DCC STID (each a "**DCC Hedging Counterparty**"), WPD Realisations (Cayman) Limited, any receiver of the Guarantors and any other creditor of DCC which accedes to the DCC STID (together the "**Standstill Creditors**") against DCC in respect of each Relevant Year shall be ranked in point of priority strictly in accordance with the order of priority as set out immediately below under the heading "*DCC Standstill Priority*".

DCC Standstill Priority

The DCC Standstill Priority is as follows:

(i) first, pro rata according to the respective amounts thereof, (a) the DCC Security Trustee in respect of the fees or other remuneration and indemnity payments (if any) payable to the DCC Security Trustee in respect of such Relevant Year and any costs, charges, liabilities and expenses incurred by the DCC Security Trustee under the DCC STID and the DCC Security Documents; and (b) any receiver of any Guarantor appointed under the Security Documents in respect of the fees or other remuneration and indemnity payments (if any) payable to such receiver in respect of such Relevant Year (such claims of the DCC Security Trustee and any receiver (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 1 Claim**");

(ii) second, pro rata according to the respective amounts thereof, (a) the Issuer in respect of scheduled fees (other than commitment fees under Tranche R) due in respect of such Relevant Year under the Intercompany Loan Agreements and indemnity payments (if any) payable to the Issuer (in relation to any costs, charges, liabilities and expenses incurred by the Bond Trustee or the Issuer Security Trustee under the Issuer Transaction Documents in respect of such Relevant Year) under the Intercompany Loan Agreements and (b) the Standstill Cash Manager in respect of fees or remuneration due to the Standstill Cash Manager and (c) each Authorised Lender in respect of fees, costs and expenses (other than interest) due in respect of such Relevant Year under the relevant Authorised Loan Facility (such claims of the Issuer, the Standstill Cash Manager and the Authorised Lenders (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 2 Claim**");

(iii) third, pro rata according to the respective amounts thereof:

(a) the Issuer in respect of:

(1) any Additional Amounts due in respect of such Relevant Year under the Intercompany Loan Agreements and any interest due in respect of the Relevant Year under any Tranche L Advances; and

(2) any interest and principal due in respect of such Relevant Year under any New Money Advances; and

(b) each Authorised Lender in respect of any interest and principal due in respect of such Relevant Year under any New Money Advances,

(such claims of the Issuer and such Authorised Lender (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 3 Claim**");

(iv) fourth, pro rata according to the respective amounts thereof:

(a) each DCC Hedging Counterparty under a Permitted Treasury Transaction, in respect of payments to be made or any other sums due and payable in such Relevant Year under any interest rate hedging agreement (excluding any termination payment arising as a result of a default by such DCC Hedging Counterparty);

(b) the Issuer in respect of:

(1) interest due on any Tranche A Advances in respect of such Relevant Year (excluding any Subordinated Interest);

(2) interest due on any Tranche B Advances in respect of such Relevant Year (excluding any Subordinated Interest);

(3) interest due on any Revolving Advances in respect of such Relevant Year (excluding any Subordinated Interest and under any Tranche L Advances); and

(4) commitment fees on the R Advances in respect of such Relevant Year (excluding any Subordinated Commissions);

(c) each DCC Finance Lessor in respect of payments due in respect of such Relevant Year under the DCC Finance Leases (excluding any capital repayments or indemnity payments);

(d) each Authorised Lender in respect of interest due on any advances (other than any New Money Advances) under the Authorised Loan Facility in respect of the Relevant Year;

(such claims of each Hedging Counterparty, the Issuer, each DCC Finance Lessor and each Authorised Lender (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 4 Claim**");

(v) fifth, pro rata according to the respective amounts thereof:

(a) the Issuer in respect of:

(1) any principal repayment on any Tranche A Advances in respect of such Relevant Year;

(2) any principal repayment on any Tranche B Advances in respect of such Relevant Year; and

(3) any principal repayment on any Revolving Advances in respect of such Relevant Year (excluding, for this purpose, any principal repayment to be applied by the Issuer in making a further Tranche R Advance);

(b) each DCC Finance Lessor, in respect of any capital repayment due in respect of such Relevant Year under the relevant DCC Finance Lease;

(c) to each Authorised Lender in respect of any principal repayment on any advances under the relevant Authorised Loan Facility in respect of such Relevant Year;

(such claims of the Issuer and each DCC Finance Lessor and each Authorised Lender (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 5 Claim**");

(vi) sixth, the Issuer in respect of interest due in respect of such Relevant Year under the Tranche C Advances (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 6 Claim**");

(vii) seventh, the Issuer in respect of any principal repayments due in respect of such Relevant Year under the Tranche C Advances (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 7 Claim**");

(viii) eighth, the Issuer in respect of interest due in respect of the Relevant Year under the Tranche D Advances (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 8 Claim**");

(ix) ninth, the Issuer in respect of any principal repayments due in respect of such Relevant Year under the Tranche D Advances (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 9 Claim**");

(x) tenth, pro rata according to the respective amounts thereof:

(a) the DCC Finance Lessors in respect of any other amounts due to them under the DCC Finance Leases in respect of such Relevant Year;

(b) the Issuer in respect of any other sums due to the Issuer in respect of such Relevant Year (excluding Subordinated Interest);

(c) each Authorised Lender in respect of any other sums due in respect of such Relevant Year to such Authorised Lender; and

(d) each DCC Hedging Counterparty under a Permitted Treasury Transaction in respect of any termination payment due to such DCC Hedging Counterparty arising as a result of a default by such DCC Hedging Counterparty,

(such claims of the DCC Finance Lessors, the Issuer, each Authorised Lender and each DCC Hedging Counterparty (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 10 Claim**");

(xi) eleventh, WPD Realisations (Cayman) Limited, in respect of any sums due in respect of such Relevant Year from DCC under the CfD (such claims of WPD Realisations (Cayman) Limited (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 11 Claim**");

(xii) twelfth, the Issuer in respect of any Subordinated Interest due in respect of such Relevant Year under any Tranche A Advances, Tranche B Advances and Tranche R Advances pro rata to the respective amounts thereof (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 12 Claim**");

(xiii) thirteenth, the Issuer in respect of any Subordinated Interest due in respect of such Relevant Year under any Tranche C Advance (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 13 Claim**"); and

(xiv) fourteenth, the Issuer in respect of any Subordinated Interest due in respect of such Relevant Year under any Tranche D Advance (such claims of the Issuer (and any such claims arising on any acceleration of liabilities against DCC under the DCC STID), a "**Tier 14 Claim**").

To the extent there arises any requirement to gross up any payment under the Intercompany Loan Agreements or Authorised Loan Facilities made available to DCC, the payment in respect of such requirement will rank *pari passu* with the primary payment obligation which gave rise thereto.

Upon the occurrence of the Standstill, the Standstill Cash Manager on behalf of the DCC Security Trustee shall open and maintain the following ledgers ("**Standstill Ledgers**") in respect of the Debt Service Payment Account:

(i) a ledger ("**Tier 1 Ledger**") in respect of Tier 1 Claims which shall be divided into separate sub-ledgers for each person holding a Tier 1 Claim (such person a "**Tier 1 Creditor**");

(ii) a ledger ("**Tier 2 Ledger**") which shall be divided into separate sub-ledgers ("**Tier 2 Sub-Ledgers**") for each person holding a Tier 2 Claim (such person a "**Tier 2 Creditor**");

(iii) a ledger ("**Tier 3 Ledger**") which shall be divided into separate sub-ledgers ("**Tier 3 Sub-Ledgers**") for each person holding a Tier 3 Claim (such person a "**Tier 3 Creditor**") and, in the case of the Issuer, shall be further divided into sub-sub ledgers ("**Tier 3 Sub-Sub Ledgers**") in respect of each separate Tier 3 Claim of the Issuer;

(iv) a ledger ("**Tier 4 Ledger**") which shall be divided into separate sub-ledgers ("**Tier 4 Sub-Ledgers**") for each person holding a Tier 4 Claim (such person a "**Tier 4 Creditor**") and, in the case of the Issuer, shall be further divided into further sub-sub ledgers ("**Tier 4 Sub-Sub Ledgers**") in respect of each separate Tier 4 Claim of the Issuer;

(v) a ledger ("**Tier 5 Ledger**") which shall be divided into separate sub-ledgers ("**Tier 5 Sub-Ledgers**") for each person holding a Tier 5 Claim (such person a "**Tier 5 Creditor**") and, in the case of the Issuer, shall be further divided into further sub-sub ledgers ("**Tier 5 Sub-Sub Ledgers**") in respect of each separate Tier 5 Claim of the Issuer;

(vi) a ledger ("**Tier 6 Ledger**") in respect of the Issuer's Tier 6 Claim;

(vii) a ledger ("**Tier 7 Ledger**") in respect of the Issuer's Tier 7 Claim;

(viii) a ledger ("**Tier 8 Ledger**") in respect of the Issuer's Tier 8 Claim;

(ix) a ledger ("**Tier 9 Ledger**") in respect of the Issuer's Tier 9 Claim;

(x) a ledger ("**Tier 10 Ledger**") which shall be divided into separate sub-ledgers ("**Tier 10 Sub-Ledgers**") for each person holding a Tier 10 Claim (such person a "**Tier 10 Creditor**");

(xi) a ledger ("**Tier 11 Ledger**") in respect of WPD Realisations (Cayman) Limited's Tier 11 Claim;

(xii) a ledger ("**Tier 12 Ledger**") which shall be sub-divided into separate sub-ledgers ("**Tier 12 Sub-Ledgers**") in respect of each separate Tier 12 Claim of the Issuer;

(xiii) a ledger ("**Tier 13 Ledger**") in respect of the Issuer's Tier 13 Claim; and

(xiv) a ledger ("**Tier 14 Ledger**") in respect of the Issuer's Tier 14 Claim.

Subject to the entrenched rights of the Issuer Security Trustee and the other Issuer Secured Creditors (including the Bond Trustee), the terms of the DCC Standstill Priority may change if the Issuer issues a further Series of Bonds or enters into further Authorised Loan Facilities the proceeds of which are then advanced to DCC.

Promptly following the occurrence of a Standstill, each Standstill Creditor will notify the Standstill Cash Manager and the DCC Security Trustee of the amount of each of its individual tiered claims against DCC (adjusted subsequently, if appropriate) for the remainder of the Relevant Year during which the Standstill has occurred. Promptly following receipt of such notifications from each of the Standstill Creditors, the Standstill Cash Manager on behalf of the DCC Security Trustee shall notionally apply the balance then credited to the Debt Service Payment Account in accordance with the DCC Standstill Priority and (without double counting) credit each Standstill Ledger, Sub-Ledger and Sub-Sub Ledger with the amount, if any, credited to such Standstill Ledger, Sub-Ledger and Sub-Sub Ledger as a result of such notional application.

All monies credited on a monthly basis to the Debt Service Payment Account during the remainder of the Relevant Year shall be notionally applied by the Standstill Cash Manager on behalf of the DCC Security

Trustee in accordance with the DCC Standstill Priority and each Standstill Ledger, Sub-Ledger and Sub-Sub Ledger shall be credited by the Standstill Cash Manager on behalf of the DCC Security Trustee (without double counting) with the amount, if any, credited to such Standstill Ledger, Sub-Ledger and Sub-Sub Ledger as a result of such notional application.

Each Standstill Creditor shall notify the Standstill Cash Manager and the DCC Security Trustee of the amount of each of its individual tiered claims against DCC for each Relevant Year during which the Standstill continues promptly upon the commencement of such Relevant Year and all monies credited each month to the Debt Service Payment Account during such Relevant Year shall continue to be notionally applied in accordance with the DCC Standstill Priority.

No amounts may be withdrawn from the Debt Service Payment Account during a Standstill to meet any Claim unless and until each Ledger, Sub-Ledger and Sub-Sub Ledger in respect of each prior ranking Claim has and remains credited with an amount equal to not less than 100 per cent. of the outstanding liability in respect of which such Ledger, Sub-Ledger and Sub-Sub Ledger has been established.

If on any day that a Claim of a Standstill Creditor (a "**Relevant Standstill Creditor**") represented by a Sub-Ledger or a Sub-Sub Ledger of the Relevant Standstill Creditor falls to be paid, there are insufficient sums credited to that Sub-Ledger or, as the case may be, Sub-Sub Ledger to meet the Relevant Standstill Creditor's Claim in full, then the Standstill Cash Manager on behalf of the DCC Security Trustee shall debit each other Sub-Ledger or, as the case may be, Sub-Sub Ledger which ranks equally with the Relevant Standstill Creditor's Claim pro rata according to the respective amounts credited to each other Sub-Ledger or, as the case may be, Sub-Sub Ledger (without double counting), by an amount equal to the lower of (a) the shortfall and (b) the aggregate amount then credited to each other equal ranking Sub-Ledger or, as the case may be, Sub-Sub Ledger and credit such amount to the relevant equal ranking Sub-Ledger or Sub-Sub Ledger of the Relevant Standstill Creditor which has fallen to be paid.

The Standstill Cash Manager on behalf of the DCC Security Trustee shall, in respect of (a) each Sub-Ledger or Sub-Sub Ledger of any Standstill Creditor (such Standstill Creditor, an "**Affected Standstill Creditor**") from which amounts have been debited to make good shortfalls to meet a Claim of the Relevant Standstill Creditor and (b) in respect of the Sub-Ledger or Sub-Sub Ledger of the Relevant Standstill Creditor which has been credited to make up the relevant shortfall, open and maintain a separate Ledger (each such Ledger, a "**Notional Liquidity Ledger**") and shall credit each Notional Liquidity Ledger in respect of each Affected Standstill Creditor (without double counting) with the amount debited from the corresponding Sub-Ledger or, as the case may be, Sub-Sub Ledger of that Affected Standstill Creditor and shall debit the Notional Liquidity Ledger of the Relevant Standstill Creditor with the amount so credited. A credit balance at any time on a Notional Liquidity Ledger of an Affected Standstill Creditor shall represent an advance (a "**Notional Liquidity Advance**") from that Affected Standstill Creditor to the Relevant Standstill Creditor. For so long as an Affected Standstill Creditor has a debit balance on its Notional Liquidity Ledger, all amounts notionally credited to the Sub-Ledger or Sub-Sub Ledger of the Relevant Standstill Creditor ranking equally with the Sub-Ledger or Sub-Sub Ledger of the Affected Standstill Creditor in accordance with the DCC Standstill Priority shall instead be applied, pro rata to the respective amounts credited to the relevant Notional Liquidity Ledgers of all equal ranking Affected Standstill Creditors, in reducing the credit balance on each relevant Notional Liquidity Ledger (with a corresponding credit to the Notional Liquidity Ledger of the Relevant Standstill Creditor) until such time as there is a zero balance on each relevant Notional Liquidity Ledger.

If after making any transfer from an equal ranking Sub-Ledger or Sub-Sub Ledger to the relevant Sub-Ledger or Sub-Sub Ledger of the Relevant Standstill Creditor there remains an insufficiency of funds available to DCC to meet that Claim, then DCC shall request the making of an L Advance in the amount of such shortfall.

The arrangements described above shall continue for so long as there is a Standstill. In the event that the Standstill is discharged, then the pre-Standstill cash allocation procedures described previously shall be reinstated. The DCC Security Trustee shall not be responsible for monitoring the performance of the Standstill Cash Manager.

If, following the implementation of a Standstill, there is an acceleration of Claims under the DCC STID then, upon such acceleration occurring, all monies credited to DCC's Accounts together with the proceeds of enforcement of any of the Security Documents shall be applied strictly in accordance with the priority of payments set out below (the "**DCC Post-Enforcement Payments Priorities**"):

(i) first, pro rata according to the respective amounts thereof, in or towards satisfaction of each Tier 1 Claim and in or towards satisfaction of each Tier 2 Creditor's Tier 2 Claim;

(ii) second, pro rata according to the respective amounts thereof:

  (a) to the Overdraft Bank, in or towards satisfaction of any fees, interest and principal outstanding under the Overdraft Facility; and

  (b) to the Account Bank, in or towards satisfaction of any accrued and unpaid fees and charges due to the Account Bank under the DCC Account Bank Agreement;

(iii) third, pro rata according to the respective amounts thereof:

  (a) to the Issuer, in or towards satisfaction of the Issuer's Tier 3 Claim; and

  (b) to each Authorised Lender in or towards satisfaction of such Authorised Lender's Tier 3 Claim;

(iv) fourth, pro rata according to the respective amounts thereof:

  (a) to each DCC Hedging Counterparty, in or towards satisfaction of such Hedging Counterparty's Tier 4 Claim;

  (b) to the Issuer, in or towards satisfaction of the Issuer's Tier 4 Claim;

  (c) to each DCC Finance Lessor, in or towards satisfaction of such DCC Finance Lessor's Tier 4 Claim; and

  (d) to each Authorised Lender, in or towards satisfaction of such Authorised Lender's Tier 4 Claim;

(v) fifth, pro rata according to the respective amounts thereof:

  (a) to the Issuer, in or towards satisfaction of the Issuer's Tier 5 Claim;

  (b) to each DCC Finance Lessor, in or towards satisfaction of such DCC Finance Lessor's Tier 5 Claim; and

  (c) to each Authorised Lender, in or towards satisfaction of such Authorised Lender's Tier 5 Claim;

(vi) sixth, to the Issuer, in or towards satisfaction of the Issuer's Tier 6 Claim;

(vii) seventh, to the Issuer in or towards satisfaction of the Issuer's Tier 7 Claim;

(viii) eighth, to the Issuer, in or towards satisfaction of the Issuer's Tier 8 Claim;

(ix) ninth, to the Issuer, in or towards satisfaction of the Issuer's Tier 9 Claim;

(x) tenth, pro rata according to the respective amounts thereof:

(a) to each DCC Finance Lessor, in or towards satisfaction of such DCC Finance Lessor's Tier 10 Claim;

(b) to the Issuer, in or towards satisfaction of the Issuer's Tier 10 Claim;

(c) to each Authorised Lender, in or towards satisfaction of such Authorised Lender's Tier 10 Claim; and

(d) to each DCC Hedging Counterparty, in or towards satisfaction of such DCC Hedging Counterparty's Tier 10 Claim;

(xi) eleventh, to the Issuer, in or towards satisfaction of the Issuer's Tier 12 Claim;

(xii) twelfth, to the Issuer, in or towards satisfaction of the Issuer's Tier 13 Claim; and

(xiii) thirteenth, pro rata according to the respective amounts thereof:

(a) to WPD Realisations (Cayman) Limited, in or towards satisfaction of WPD Realisations (Cayman) Limited's Tier 11 Claim; and

(b) to the Issuer, in or towards satisfaction of the Issuer's Tier 14 Claim.

The proceeds of enforcement of the Guarantor Security will also be applied in accordance with the DCC Post-Enforcement Payments Priorities in circumstances where such enforcement occurs during a Standstill Period or following an acceleration of Claims under the DCC STID.

ISSUER CASH MANAGEMENT

The Issuer has established sterling, euro and U.S. dollar operating accounts (the "**Issuer Operating Accounts**") and an initial liquidity facility reserve account (the "**Initial Liquidity Account**"). The Issuer Accounts (as defined below) are held with the Account Bank pursuant to an account agreement (the "**Issuer Account Bank Agreement**") dated on the Initial Issue Date between the Issuer, the Account Bank and the Issuer Security Trustee. DCC acts as Cash Manager of the Issuer and, pursuant to the terms of the Master Framework Agreement manages amounts standing to the credit of the Issuer Accounts and any other accounts of the Issuer from time to time.

Each Liquidity Facility Agreement will require the establishment of a further liquidity facility reserve account ("**Further Liquidity Accounts**" which, together with the Initial Liquidity Account, are referred to as the "**Liquidity Accounts**" and, collectively with the Issuer Operating Accounts, are referred to as the "**Issuer Accounts**").

The Cash Manager has opened and maintains in respect of the sterling denominated Issuer Operating Account a ledger in respect of each Series (a "**Series Ledger**") for the purpose of recording all payments made by or to the Issuer under the Intercompany Loan Agreement entered into in connection with such Series.

Prior to the service of an Enforcement Notice under the Issuer Deed of Charge all monies credited to a Series Ledger rank for payment in accordance with the priority of payments ("**Issuer Pre-Enforcement Payments Priorities**") set out in the Issuer STID as set out below:

(i) first, pro rata according to the respective amounts thereof, in or towards satisfaction of the Relevant Series Proportion of the remuneration, costs and expenses of the Bond Trustee and Issuer Security Trustee;

(ii) second, in or towards satisfaction of, on a pro rata basis, (a) the Relevant Series Proportion of the remuneration, costs and expenses of the Paying Agents, the Agent Bank, the Registrar, the Transfer Agents, the Luxembourg Listing Agent and any other agents appointed under the Paying Agency Agreement or otherwise (collectively, the "**Agents**"), (b) the Relevant Series Proportion of the remuneration, costs and expenses of the Account Bank under the Issuer Account Bank Agreement, (c) the remuneration, costs and expenses of the Liquidity Facility Agent under the Liquidity Facility Agreement applicable to the relevant Series, (d) the remuneration, costs and expenses of the Class R Agent (if any) for the relevant Series, (e) the remuneration, costs and expenses of the Authorised Loan Facility Agent under each Authorised Loan Agreement (if any) for the relevant Series, (f) the Relevant Series Proportion of the costs and expenses of the Cash Manager and (g) the fees, expenses and premia of the Financial Guarantor for the relevant Series pursuant to the relevant I&I Agreement for the relevant Series;

(iii) third, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue under the Liquidity Facility Agreement for the relevant Series, (b) all amounts of interest and principal due or overdue under the Class R Bonds to the extent that such Class R Bonds were re-sold to fund a New Money Advance and (c) all amounts of interest and principal due or overdue in respect of any drawing under an Authorised Loan Agreement to the extent that such drawing was made by the Issuer to fund a New Money Advance;

(iv) fourth, pro rata according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Hedge Counterparty under any Interest Rate Hedging Agreement;

(v) fifth, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of interest due or overdue in respect of all of the Class A Bonds, Class B Bonds and Class R Bonds (if any) (in each case, other than any Subordinated Coupon Amounts in respect thereof), (b) all scheduled amounts payable to each Hedge Counterparty under any Currency Hedging Agreement entered into in respect of all of the Class A Bonds or the Class B Bonds (if any), (c) all amounts of underwriting commissions (other than Subordinated Commissions) due or overdue in respect of all of the Class R Bonds (if any), (d) all reimbursement sums owed under the relevant I&I Agreement to the Financial Guarantor (if any) of the relevant Series in respect of payments of interest on any Class A Bonds of the relevant Series guaranteed by such Financial Guarantor and (e) all amounts of interest and commitment commissions due or overdue in respect of the Authorised Loan Facilities available to the Issuer (if any, other than any Subordinated Authorised Loan Amounts) established in connection with the relevant Series;

(vi) sixth, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of principal due or overdue in respect of the Class A Bonds, Class B Bonds and Class R Bonds (if any) of the relevant Series, (b) all principal exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement entered into in respect of the Class A Bonds or the Class B Bonds of the relevant Series (if any), (c) any other sums due and payable to each Hedge Counterparty under any Hedging Agreement in respect of the Class A Bonds and Class B Bonds subject to (iv) and (v) above and (ix) below, (d) all reimbursement sums owed to the Financial Guarantor (if any) of the relevant Series under the relevant I&I Agreement in respect of payments of principal on the Class A Bonds of the relevant Series and (e) all amounts of principal due or overdue under the Authorised Loan Facility (if any) established for the relevant Series;

(vii) seventh, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of (a) interest due or overdue on the Class C Bonds of the relevant Series (other than any Subordinated Coupon Amounts) and (b) all scheduled amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement entered into in respect of the Class C Bonds of the relevant Series;

(viii) eighth, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of principal due or overdue on the Class C Bonds of the relevant Series, (b) all principal exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement entered into in respect of the Class C Bonds of the relevant Series, and (c) any other sums due and payable to each Hedge Counterparty under a Hedging Agreement in respect of the Class C Bonds subject to (iv) and (vii) above and (xiii) below;

(ix) ninth, in or towards satisfaction of any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement entered into in respect of the Class A Bonds or Class B Bonds which arises as a result of a default by such Hedge Counterparty;

(x) tenth, in or towards satisfaction of all amounts of interest due or overdue on the Class D Bonds of the relevant Series (other than any Subordinated Coupon Amounts);

(xi) eleventh, in or towards satisfaction of all amounts of principal due or overdue on the Class D Bonds of the relevant Series;

(xii) twelfth, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all Subordinated Liquidity Facility Amounts due or overdue under the Liquidity Facility Agreement provided in connection with the relevant Series, (b) all Subordinated Authorised Loan Amounts due or overdue under the Authorised Loan Facilities available to the Issuer provided in connection with the relevant Series and (c) any other indemnified amounts due or overdue to the Financial Guarantor of the relevant Series;

(xiii) thirteenth, in or towards satisfaction of any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement entered into in respect of the Class C Bonds which arises as a result of a default by such Hedge Counterparty;

(xiv) fourteenth, pro rata according to the respective amounts thereof, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of the Class A Bonds, Class B Bonds and Class R Bonds (if any) of the relevant Series;

(xv) fifteenth, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of the Class C Bonds of the relevant Series;

(xvi) sixteenth, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of the Class D Bonds of the relevant Series; and

(xvii) seventeenth, the surplus, if any, to the Issuer or other persons entitled thereto.

After the service of an Enforcement Notice by the Issuer Security Trustee under the Issuer Deed of Charge, the Issuer Security Trustee (or any substitute cash manager appointed by the Issuer Security Trustee to act on its behalf) shall (to the extent that such funds are available) use funds standing to the credit of the Issuer Accounts to make payments in accordance with the following order of priority (the "**Issuer Post-Enforcement Payments Priorities**"):

(i) first, pro rata according to the respective amounts thereof, in or towards satisfaction of all of the remuneration, costs and expenses of the Bond Trustee and the Issuer Security Trustee and any receiver or receivers appointed by the Issuer Security Trustee pursuant to the Issuer Deed of Charge;

(ii) second, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all of the remuneration, costs and expenses of the Agents, (b) all of the remuneration, costs and expenses of the Account Bank under the Issuer Account Bank Agreement, (c) all of the remuneration, costs and expenses of each Liquidity Facility Agent under each Liquidity Facility Agreement, (d) all of the remuneration, costs and expenses of each Class R Agent, (e) all of the remuneration, costs and expenses of each Authorised Loan Facility Agent under each Authorised Loan Agreement available to the Issuer, and (e) all of the fees, expenses and premia of each Financial Guarantor pursuant to each I&I Agreement;

(iii) third, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue under each Liquidity Facility Agreement, (b) all amounts of interest and principal due or overdue under the Class R Bonds to the extent that such Class R Bonds were sold to fund a New Money Advance and (c) all amounts of interest and principal due or overdue in respect of any drawing under any Authorised Loan Agreement to the extent that such drawing was made by the Issuer to fund a New Money Advance;

(iv) fourth, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of interest due or overdue in respect of all Class A Bonds, Class B Bonds and Class R Bonds (in each case, other than any Subordinated Coupon Amounts in respect thereof), (b) all sums due and payable to each Hedge Counterparty under any Hedging Agreement entered into in respect of the Bonds of any Class subject to (viii) below, (c) all amounts of underwriting commissions (other than Subordinated Commissions) due or overdue in respect of all Class R Bonds, (d) all reimbursement sums owed under the relevant I&I Agreement to each Financial Guarantor in respect of payments of interest on any Class A Bonds guaranteed by such Financial Guarantor and (e) all amounts of interest and commitment commissions due or overdue in respect of each Authorised Loan Facility (other than any Subordinated Authorised Loan Amounts);

(v) fifth, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of principal due or overdue in respect of all Class A Bonds, Class B Bonds and Class R Bonds, (b) all reimbursement sums owed to each Financial Guarantor under the relevant I&I Agreement in respect of payments of principal on Class A Bonds and (c) all amounts of principal due or overdue under each Authorised Loan Facility;

(vi) sixth, in or towards satisfaction of all amounts of interest due or overdue on the Class C Bonds of the relevant Series (other than any Subordinated Coupon Amounts in respect thereof);

(vii) seventh, in or towards satisfaction of all amounts of principal due or overdue on the Class C Bonds of the relevant Series;

(viii) eighth, in or towards satisfaction of any termination sum due or overdue to any Hedge Counterparty under any Hedging Agreement which arises as a result of a default by such Hedge Counterparty;

(ix) ninth, in or towards satisfaction of all amounts of interest due or overdue on all Class D Bonds (other than any Subordinated Coupon Amounts in respect thereof);

(x) tenth, in or towards satisfaction of all amounts of principal due or overdue on all Class D Bonds;

(xi) eleventh, pro rata according to the respective amounts thereof, in or towards satisfaction of (a) all Subordinated Liquidity Facility Amounts due or overdue under each Liquidity Facility Agreement, (b) all Subordinated Authorised Loan Amounts due or overdue under each Authorised Loan Facility available to the Issuer and (c) all other indemnified amounts due or overdue to each Financial Guarantor;

(xii) twelfth, pro rata according to the respective amounts thereof, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of all Class A Bonds, Class B Bonds and Class R Bonds;

(xiii) thirteenth, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of all Class C Bonds;

(xiv) fourteenth, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of all Class D Bonds;

(xv) fifteenth, in or towards satisfaction of all amounts owing to the Cash Manager under the Master Framework Agreement; and

(xvi) sixteenth, the surplus, if any, to the Issuer or other persons entitled thereto.

Subject to the entrenched rights of the Issuer Security Trustee and the other Issuer Secured Creditors (including the Bond Trustee) the terms of the Issuer Pre-Enforcement Payments Priorities and the Issuer Post-Enforcement Payments Priorities may change if the Issuer issues further Series of Bonds or enters into further Authorised Loan Facilities in the future.

ADDITIONAL RESOURCES AVAILABLE

Finance Leases

Supply Agreements

DCC has entered into (a) an equipment supply agreement dated 26 March 1992 with Abbey National March Leasing (1) Limited ("**Abbey National**"), (b) an equipment supply agreement dated 28 June 1996 with Lloyds Plant Leasing Limited ("**Lloyds**"), (c) two reimbursement and hire purchase agreements (for the supply of equipment which is to be leased under the 17 year and 31 year finance Leases referred to below) dated 7 March 2002, with W&G Lease Finance Limited ("**W&G**"), (d) two reimbursement and hire purchase agreements (for the supply of equipment which is to be leased under the 18 year and 20 year Finance Leases referred to below) dated 31 May 2002 with Bayerische Landesbank Girozentrale ("**Bayerische**"), (e) a reimbursement and hire purchase agreement dated 21 November 2002 with Sovereign Financial Services (Manchester) Limited ("**Sovereign Financial**") and (f) a reimbursement and hire purchase agreement dated 21 November 2001 with Sovereign Commercial Limited ("**Sovereign Commercial**"). These agreements are collectively the "**Supply Agreements**".

Pursuant to the Supply Agreements DCC has sold or otherwise procured (or is entitled to sell or otherwise procure) the supply of certain equipment to such companies (or in respect of equipment which constitutes Fixtures (as defined below) has been reimbursed (or, in respect of the Supply Agreements with W&G, Bayerische, Sovereign Financial and Sovereign Commercial, is entitled to be reimbursed) for capital expenditure in respect thereof). The financial facilities available under the Supply Agreements with each of Abbey National, Lloyds, W&G, Bayerische and Sovereign are approximately £75 million, £100 million, £120 million, £100 million, and £75 million respectively and, in respect of the Supply Agreements with each of Bayerische (20 year facility), Sovereign Financial and Sovereign Commercial, are available for drawing up to December 2005, March 2005 and March 2005 respectively.

The equipment supplied (or to be supplied) under the Supply Agreements (the "**Equipment**") consists of equipment for use in the water and sewerage operations of DCC, including generators, compressors, tanks, pipework, filter pressure vessels, pumps valves and other such process plant equipment. The Equipment is comprised of moveable equipment ("**Moveables**") and fixed equipment (that is, Equipment which is so affixed to real estate so as to become part of that real estate as a matter of law, "**Fixtures**").

Finance Leases

Each of Abbey National, Lloyds, W&G, Bayerische, Sovereign Financial and Sovereign Commercial (each a "**Finance Lessor**" and together, the "**Finance Lessors**") has leased (or, in certain cases, will lease) the items of Equipment purchased or supplied (or, in certain circumstances, to be purchased or supplied) by them under the Supply Agreements to DCC on the terms, and subject to the conditions, set out in the following lease agreements between DCC as lessee and the respective Finance Lessor as lessor (each a "**Finance Lease**" and, together, the "**Finance Leases**"): (a) a lease agreement dated 26 March 1992 with Abbey National whose principal lease period is 20 years; (b) a lease agreement dated 28 June 1996 with Lloyds whose principal lease period is 25 years; (c) two lease agreements dated 7 March 2002 with W&G, whose principal lease periods are 17 and 20 years respectively (although the 20 year period may upon agreement be extended up to 31 years) from the date of commencement of such periods; (d) two lease agreements dated 31 May 2002 with Bayerische, whose principal lease periods are 18 and 20 years respectively from the date of commencement of such periods; (e) four lease agreements dated 21 November 2002 with Sovereign Financial, whose principal lease periods are 11 years respectively from the date of commencement of such periods; (f) a lease agreement dated 21 November 2002, with Sovereign Commercial whose principle lease period is 20 years.

Each of the Finance Leases with Abbey National and Lloyds were amended on the Initial Issue Date so as to be subject to the Common Terms Agreement and the DCC STID. Additionally on 20 December 2002 Abbey National was sold by Abbey National Treasury Services plc to Cheriton Resources 13 Limited (a subsidiary of Eurotunnel plc). As part of such sale the finance lease with Abbey National was amended pursuant to an agreement ("**Lease Amendment Agreement**") so as to take account of (*inter alia*) certain new funding and security arrangements being put in place principally between Société Generale and ING Bank N.V. The Lease Amendment Agreement imposes a number of controls on the participants in the new funding and security arrangements referred to above, which participants have (where appropriate) acceded to the terms of the Common Terms Agreement and the DCC STID.

The leasing of the Equipment under each of the Finance Leases, subject to any full or partial early termination (see below), is for a period (a) in respect of Fixtures (other than under the Finance Lease with Lloyds where certain extensions are possible), of no longer than the respective principal lease period (see below) relating thereto and (b) in respect of Moveables, a period of no longer than the respective principal lease period (see below) relating thereto, save that the leasing of certain Moveables may be extended for further 12 month periods, or until the end of the useful life of any such Moveable, at the option of DCC.

Terms and Conditions

Each Finance Lease is subject to the Common Terms Agreement, which sets out certain of the representations and warranties, covenants and events of default which apply to the Finance Leases (see "*Common Terms Agreement*" above). In addition the Finance Leases are subject to the DCC STID which regulates the claims of Finance Lessors against DCC and termination and enforcement rights under the Finance Leases.

Rental

DCC is obliged to pay rental payments ("**Rental**") under each Finance Lease annually in advance on 28 March of each year in respect of the Finance Lease with W&G, and on 31 March of each year in respect of the Finance Leases with each of Lloyds, Bayerische, Sovereign Financial and Sovereign Commercial and on 1 April of each year in respect of the Finance Lease with Abbey National (each, a "**Rental Payment Date**").

The primary period Rental payable under each of the Finance Leases (except the Finance Lease with Abbey National) is calculated by reference to a number of assumptions made at the time of execution of the relevant Finance Lease (including a specific assumed rate of interest) and if any such assumption proves to be incorrect, the primary rental payments under the relevant Finance Lease are adjusted to levels that seek to (or if all those rentals have been paid additional rentals or rebates of rental are made in order to) preserve the relevant Finance Lessor's agreed after-tax rate of return on its acquisition cost of the Equipment leased under that Finance Lease. The rental payments payable during any secondary periods are also set out in the relevant Finance Lease.

The assumptions set out in each Finance Lease (except the Finance Lease with Abbey National) are the type of tax and financial assumptions customarily found in leases of this kind and include (*inter alia*) matters such as the rate of corporation tax, the rate of writing down allowances, the amount of group relief on tax losses which may be claimed by the relevant Finance Lessor and other changes in applicable law or regulation.

The primary period Rental payable under the Finance Lease with Abbey National was amended on 20 December 2002 pursuant to the Lease Amendment Agreement referred to above. Prior to 20 December 2002 such Rental was adjustable in similar fashion to the other Finance Leases as referred to above. However after 20 December 2002 such Rental can only be adjusted to reflect changes in the assumed rate of interest. A separate arrangement has been made between DCC and Abbey National to make adjustment payments between them upon general assumption failure in respect of the accounting period falling prior to 20 December 2002.

DCC will pay any VAT (if payable) due in respect of any payments under the Finance Leases.

General Payment Provisions

Default interest is payable under each Finance Lease in respect of any late payments.

All payments of principal and interest under each Finance Lease will be made free and clear of, and without withholding or deduction for, tax, if any, applicable to such payments unless such withholding or deduction is required by law. In that event, DCC will be obliged to pay such additional amounts as will result in the receipt by the relevant Finance Lessor of such amounts as would have been received by it if no such withholding or deduction had been required.

DCC Obligations

In addition to the representations and warranties made by DCC and the obligations placed upon DCC pursuant to the Common Terms Agreement, the Finance Leases also include certain standard finance lease representations, warranties and covenants.

In particular, DCC is required, in accordance with the Finance Leases (although not always in each case), *inter alia*, (1) to maintain, service, repair and overhaul the Equipment so as to keep the Equipment in good repair, condition and working order in accordance with customary practice of a prudent and responsible water and sewerage undertaking; (2) promptly to replace any item of Equipment which is worn out, obsolete or damaged; (3) to maintain third party liability and property and damage insurances in respect of the Equipment, satisfactory to the Finance Lessors; and (4) to perform all acts or provide all assistance necessary and/or desirable to preserve each Finance Lessor's tax benefits and/or position under the Finance Lease, including entering into elections that entitle the relevant Finance Lessor to claim capital allowances on any of the Equipment which constitutes Fixtures.

A breach of any of these representations and/or obligations in a Finance Lease which would be reasonably likely to have a material adverse effect will (to the extent not waived) oblige DCC to prepay all sums due and payable under the relevant Finance Lease. Such prepayment shall be funded solely from Permitted Indebtedness (as summarised above, see "*Common Terms Agreement*") and subject to the Common Terms Agreement and the DCC STID. If DCC does not make such prepayment in accordance with the Common Terms Agreement, an Event of Default under the Common Terms Agreement will arise (to the extent not waived) and the Standstill Period will automatically commence (see "*DCC STID – Standstill*" above).

Indemnities

Each Finance Lease contains a general indemnity whereby DCC agrees to indemnify the relevant Finance Lessor (and/or, in respect of certain indemnities under certain of the Finance Leases, the relevant Finance Lessor corporate group) on demand against all losses, payments, damages, liabilities, claims, proceedings, actions, penalties, fines or other sanctions of a monetary nature, costs and expenses (including legal expenses, out-of-pocket expenses and, in certain cases, costs of management time) in any way associated with the transactions contemplated in the relevant Finance Lease ("**Losses**") other than Losses (i) arising as a result of the wilful default or negligence of the relevant Finance Lessor or (ii) compensated for elsewhere in the relevant Finance Lease.

Each Finance Lease typically (but not in all cases) provides that DCC shall indemnify under the Finance Leases the relevant Finance Lessor against all losses incurred or suffered by it, *inter alia*, in relation to the Equipment or as a result of failure by DCC to comply with its obligations under the relevant Finance Lease.

In respect of the Finance Lease with Abbey National, the general indemnity referred to above has been extended to include the relevant "lease administrator" and "lessor's lender" pursuant to the terms of the Lease Amendment Agreement referred to above. Additionally, the Lease Amendment Agreement contains an indemnity by DCC in favour of ING Bank N.V. which on 20 December 2002 provided a letter of credit to

Abbey National, (*inter alia*) to secure the repayment of amounts by DCC under its Finance Lease with Abbey National.

Tax Indemnities

Under the terms of the Finance Leases, DCC is required to compensate the Finance Lessors for certain tax events, either by variation of the Rental payment amounts (see "*Rental*" above)or by contractual indemnity payments.

Typically these indemnities survive any termination of the leasing of the Equipment under the Finance Leases and the termination of the Finance Leases themselves.

Termination of Finance Leases

Subject to the terms of the DCC STID (including the provisions applying during a Standstill Period), the leasing of part or all of the Equipment under the Finance Leases may be terminated on the occurrence of any of the DCC Events of Default specified in the Common Terms Agreement.

In addition, subject to the terms of the Common Terms Agreement, the DCC STID and the Finance Leases (as amended and supplemented) and provided DCC is able to fund such termination or prepayment from Permitted Indebtedness (as specified above, see "*Common Terms Agreement*"):

- DCC may, for any reason, terminate the leasing of all or part of the Equipment under any Finance Lease and DCC may prepay all Rentals due thereunder in advance of the expiry of the relevant lease period; and
- each Finance Lessor may terminate the leasing of the Equipment under its Finance Lease if (a) an illegality event in respect of that Finance Lessor occurs; (b) a total loss of its leased Equipment occurs; or (c) in respect of Lloyds, it exercises its option to terminate the relevant Finance Lease on 1 April 2018.

If DCC fails to make any such prepayment in accordance with the Common Terms Agreement, a DCC Event of Default will arise under the Common Terms Agreement and the Standstill Period will automatically commence (see "*DCC STID – Standstill*" above).

The Termination payment payable by DCC upon termination of a Finance Lease varies according to the termination event which takes place and the date thereof. The termination payment is calculated, broadly speaking, by the production of a revised cashflow as at the date of the relevant termination and based upon certain assumptions which if subsequently proven to be incorrect may give rise to a further payment or rebate in the future.

The termination payment payable by DCC under the Finance Lease with Abbey National has been amended pursuant to the Lease Amendment Agreement (see above) so that it is calculated by reference to certain scheduled amounts and fixed assumptions.

Repossession of Moveables on Termination

Pursuant to the terms of the Supply Agreements, the Finance Lessors purchased (or may purchase) the legal and beneficial title to Moveables. Upon the affixing of certain Moveables to real estate in accordance with the relevant Finance Leases, such Moveables may become Fixtures. Upon the creation of such Fixtures, legal and beneficial title to the same is transferred from the relevant Finance Lessor to the owner of the relevant real estate (albeit that, for fiscal purposes only, title is deemed to rest with the relevant Finance Lessors). There is no ability for a Finance Lessor to repossess Equipment which becomes or has become fixtures.

Following a termination event under the Finance Leases, DCC is required, at its own cost and expense, to redeliver possession of any Equipment which remains a Moveable to the relevant Finance Lessor. The

Finance Lessors shall sell, if possible, the returned Moveables and shall share the net sale proceeds of any such sale with the other DCC Secured Creditors.

Insurance and Total Loss

Upon a total loss of certain items of Equipment, the leasing of such items will terminate and DCC must pay a termination payment (from insurance proceeds or otherwise) within a specified number of business days following such a total loss or within a certain number of business days after the date of receipt of insurance proceeds in relation to such Equipment.

Local Authority Loans

DCC has outstanding loans of approximately £5,000,000 from certain local authorities in Wales. The local authorities who have made these loans available to DCC have not acceded, and will not be required to accede, to the Common Terms Agreement, the DCC STID or the Intercreditor Arrangements.

Class R Bonds

The proceeds of the issue of the Class R Bonds were immediately applied by the Issuer to repurchase the Class R Bonds, which the Issuer was permitted to do under its Memorandum of Association and pursuant to the Conditions applicable thereto. The Class R Bonds so repurchased were not cancelled but remain within the clearing systems and are available to be resold from time to time subject to certain criteria set out in Chapter 9: "*Subscription and Sale*" and specified in the Class R Underwriting Agreement. Any Class R Bonds so resold may be repurchased by the Issuer on any day and will be repurchased by the Issuer no later than the Issuer Payment Date which immediately follows their resale, provided that no Issuer Event of Default under the Bonds has occurred and is continuing. The Issuer will not be required to repurchase any Class R Bonds on an Issuer Payment Date to the extent that any Class R Underwriter fails to finance such repurchase by subscribing for new Class R Bonds. In such event, the Class R Bonds which are not repurchased will remain in issue and interest will continue to accrue on them. Whilst held by, for or on behalf of the Issuer, Holdings or DCC or any of their respective affiliates, the Class R Bonds will not accrue interest and will not confer any voting rights. The proceeds of the Class R Bonds which are resold by the Issuer will be applied in making R Advances under the Initial Intercompany Loan Agreement from time to time. (See "*Intercompany Loan Agreements*" above.)

The Issuer has covenanted that it will use its best endeavours on and from 31 March 2006 to repurchase all Class R Bonds then outstanding. After 31 March 2006 any outstanding Class R Bonds will bear interest at a higher margin and they will cease to revolve.

Authorised Loan Facilities

The Issuer and DCC each entered into a facility agreement (each an "**Initial Authorised Loan Facility**") with an aggregate facility amount of £150,000,000 with the Initial Authorised Lender on the Initial Issue Date. The Initial Authorised Loan Facility made available to DCC is a revolving credit facility of £30,000,000 which is available to DCC for working capital and capital expenditure requirements from the Initial Issue Date until the final maturity date of the day before the fifth anniversary of the Initial Issue Date. The Initial Authorised Loan Facility made available to the Issuer is a revolving credit facility of £120,000,000 which is available to the Issuer to fund working capital and capital expenditure requirements of DCC from the Initial Issue Date until the final maturity date of the day before the fifth anniversary of the Initial Issue Date. The Initial Authorised Loan Facility made available to the Issuer has since been syndicated in accordance with the terms of such Initial Authorised Loan Facility and the relevant lenders have acceded to the Issuer STID.

Interest accrues on any drawing under the Initial Authorised Loan Facilities calculated at a daily rate by reference to applicable sterling LIBOR plus a margin and mandatory costs.

Each of DCC and the Issuer makes representations and warranties to the Authorised Lenders on terms as set out, respectively, in the Common Terms Agreement and the Master Framework Agreement. Certain representations and warranties are repeated at the date of drawing a loan and on certain Issuer Payment Dates or DCC Payment Dates, as the case may be.

Each of DCC and the Issuer makes covenants and undertakings to the Authorised Lenders on terms as set out, respectively, in the Common Terms Agreement and the Master Framework Agreement.

The DCC Events of Default under the Common Terms Agreement apply to DCC under its Initial Authorised Loan Facility (see "*Common Terms Agreement*" above). Events of default similar to the Issuer Events of Default under the Bonds apply to the Issuer under its Initial Authorised Loan Facility (see Condition 11 in Chapter 7 "*Terms and Conditions of the Bonds*").

The ability of the Initial Authorised Lender to accelerate any sums owing to it under DCC's Initial Authorised Loan Facility upon or following the occurrence of a DCC Event of Default thereunder is subject to the DCC STID. The ability of the Authorised Lenders to accelerate any sums owing under the Issuer's Initial Authorised Loan Facility upon or following the occurrence of an event of default thereunder is subject to the Issuer STID.

The Issuer and/or DCC may enter into further Authorised Loan Facilities on terms similar to those in the relevant Initial Authorised Loan Facility except that any Authorised Loan Facilities entered into by DCC for working capital and capital expenditure purposes will be subject to an aggregate cap of £50,000,000 (indexed), and the aggregate amount of drawings under the Overdraft Facility and such Authorised Loan Facilities from time to time shall not, in the aggregate, exceed £50,000,000 (indexed). Each additional Authorised Lender will be given the benefit of the Issuer Security or the DCC Security, as the case may be, and will be required to accede to the Issuer STID or the DCC STID, as the case may be.

The Liquidity Facilities

Liquidity facilities (each a "**Liquidity Facility**") are required to be established under agreements (each a "**Liquidity Facility Agreement**") entered into in connection with each Series of Bonds issued.

Each Liquidity Facility Provider must be a bank which as at the relevant Issue Date has a rating assigned for its short-term unsecured, unsubordinated and unguaranteed debt obligations of at least A-1/P-1/F-1 from the relevant Rating Agencies or such other short-term rating as is commensurate with the original issue ratings assigned to the Class A Bonds, Class B Bonds and Class R Bonds remaining outstanding from each of the Rating Agencies (the "**Requisite Ratings**").

Under the terms of each Liquidity Facility Agreement, one or more Liquidity Facility Providers have provided or will provide a 364-day commitment in an aggregate amount specified in each Liquidity Facility Agreement to permit drawings to be made in circumstances where (i) the Issuer has or will have insufficient funds available on an Issuer Payment Date to pay in full its obligations in respect of scheduled interest on the Class A Bonds, Class B Bonds, Class R Bonds and (subject to certain limits) Class C Bonds and scheduled interest on its Authorised Loan Facilities, or (ii) DCC has or will have insufficient funds available on a DCC Payment Date to pay in full its obligations in respect of scheduled interest on its Authorised Loan Facilities or the notional scheduled interest payments under the DCC Finance Leases (each a "**Liquidity Shortfall**"). The amount which may be drawn under a Liquidity Facility Agreement applicable to any Series to make up any Liquidity Shortfall arising on the Class C Bonds of the relevant Series shall be limited to the proportion that the Outstanding Principal Amount of the Class C Bonds of that Series bears to the aggregate Principal

Amount Outstanding of the Class A Bonds, Class Bonds, Class R Bonds (if any) and Class C Bonds of that Series. No drawings will be permitted under any Liquidity Facility Agreement in respect of any Liquidity Shortfall on the Class D Bonds.

The Cash Manager on behalf of the Issuer may also, at any time, replace any Liquidity Facility Provider provided that such Liquidity Facility Provider is replaced by a bank with Requisite Ratings and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Amounts drawn by the Issuer under a Liquidity Facility (except by way of a Standby Drawing) will be lent by the Issuer to DCC as an L Advance under the relevant Intercompany Loan Agreement (see "*Intercompany Loan Agreements*" above). The Issuer will repay each drawing under a Liquidity Facility Agreement upon repayment of the corresponding amount of the relevant L Advance under the relevant Intercompany Loan Agreement. Amounts repaid may, subject to various conditions precedent, be redrawn. The Initial Liquidity Facility Providers are The Royal Bank of Scotland plc and Lloyds TSB Bank plc.

Each Liquidity Facility Agreement provides or will provide that if (i) at any time the rating of the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the relevant Liquidity Facility Provider falls below the Requisite Ratings or (ii) the relevant Liquidity Facility Provider does not renew such Liquidity Facility prior to the expiry of the 364-day period, the Issuer will either:

- request (in the case of (i) above) such Liquidity Facility Provider, or (in case of (ii) above) all parties then comprising the Liquidity Facility Provider in relation to that Liquidity Facility, to pay into the relevant Liquidity Account or other such agreed account established for the Series to which such Liquidity Facility relates, an amount equal to (in the case of (i) above), the affected party's undrawn commitment under such Liquidity Facility or (in the case of (ii) above), all commitments then available under such Liquidity Facility (a "**Standby Drawing**"); or

- (in the case of (i) above) replace each affected party with a party having the Requisite Ratings (whether by way of novation of the relevant Liquidity Facility Agreement or the entry into of a new Liquidity Facility Agreement with a party having the Requisite Ratings).

The Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is re-rated with the Requisite Ratings or a replacement liquidity facility on terms acceptable to the Rating Agencies is entered into or if and to the extent such facility is no longer required to maintain the original issue ratings on the Class A Bonds, the Class B Bonds or the Class R Bonds from the relevant Rating Agencies. The proceeds of the Standby Drawing will be placed in the relevant Liquidity Account over which the Issuer will grant security pursuant to the terms of the Issuer Deed of Charge.

Interest will accrue on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by the Initial Liquidity Facility Providers at a reference rate per annum plus a margin except where a Standby Drawing has been outstanding for 60 months, in which case the margin will increase by an agreed amount (the "**LF Step-Up**") until such drawing is repaid. Under the Initial Liquidity Facility Agreement, the Issuer will also be required to pay additional amounts if: (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Liquidity Facility Provider; or (ii) if the relevant Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility (together with the LF Step-Up "**Subordinated Liquidity Facility Amounts**"). Drawings under any further Liquidity Facilities will accrue interest subject to the specific terms of the relevant Liquidity Facility Agreement.

Upon the enforcement of the Issuer Security pursuant to the Issuer Deed of Charge, all indebtedness outstanding under any Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

Hedging Agreements

Hedging Policy

The Glas Group enters into hedging transactions in accordance with an agreed hedging policy, pursuant to the Common Terms Agreement and Master Framework Agreement, as applicable. This, *inter alia*, requires that the Glas Group does not maintain any open currency positions and that it enters into appropriate hedging instruments to limit exposure to inflation and interest rate fluctuations to a prudent level. The Glas Group is prohibited from entering into any form of hedging arrangement or swaps contract of a speculative nature or otherwise than in accordance with the agreed hedging policy. The Glas Group will maintain the hedging policy over time in accordance with good industry practice and regulatory developments.

Initial Hedging Agreements

The Issuer hedged its interest rate and currency exposure in respect of Sub-Classes of Bonds issued on the Initial Issue Date that accrued interest at a floating rate and were denominated in U.S. dollars. Payments are made between the Issuer and the Initial Hedge Counterparties under the Initial Hedging Agreements on Issuer Payment Dates.

Under the terms of the Initial Hedging Agreements, in the event that the ratings of the Initial Hedge Counterparties fall below the required credit ratings and, as a result the ratings of the relevant Classes of Bonds may be downgraded below the original issue rating, the relevant Initial Hedge Counterparty will either: (i) provide collateral for its obligations; (ii) arrange for its obligations under the relevant Initial Hedging Agreement to be transferred to, or guaranteed by, an appropriate Hedge Counterparty with the required credit ratings, or, with the prior consent of the Rating Agencies, an entity that has a lesser rating (to the extent that such action does not cause a reduction in the original issue ratings of the relevant Classes of Bonds); (iii) arrange for the appointment of a co-obligor with such ratings as, when combined with the relevant Initial Hedge Counterparty's then current ratings, will not cause a reduction in the original issue ratings of the relevant Classes of Bonds; or (iv) take such other action agreed with the relevant Rating Agencies that will not lead to a reduction in the original issue ratings of the relevant Classes of Bonds.

The Initial Hedge Counterparties are obliged to make payments under the Initial Hedging Agreements without any withholding or deduction of taxes, unless required by law. If any such withholding or deduction is required by law, the Initial Hedge Counterparties are required to pay any such additional amount as is necessary to ensure that the net amount received by the Issuer equals the full amount the Issuer would have received had no such deduction or withholding been required. The Issuer makes payments under the Initial Hedging Agreements subject to any withholding or deduction of taxes required by law, but is not required to pay any additional amount to any Initial Hedge Counterparty in respect thereof. However, in either case, if any such withholding or deduction is required, which cannot be avoided by both parties using reasonable endeavours to avoid such withholding or deduction, the Initial Hedge Counterparty may terminate the relevant Initial Hedging Agreement.

The Issuer has rights to terminate an Initial Hedging Agreement, in certain circumstances, relating to the relevant Initial Hedge Counterparty (or, in certain circumstances, any credit support provider relating to it) including: a failure to pay amounts when due; the occurrence of an insolvency event; a breach of a term of the Initial Hedging Agreement or any credit support document; a merger without assumption; a default under specified types of transaction; and in the case of an event of illegality under the swap transactions.

Each Initial Hedge Counterparty's rights to terminate its Initial Hedging Agreement are restricted to: (i) a failure by the Issuer to make a payment under the Initial Hedging Agreement when due; (ii) certain insolvency-related events with respect to the Issuer; (iii) illegality affecting the Initial Hedging Counterparty's ability to make or receive a payment; and (iv) where either the Hedge Counterparty or the Issuer is required to withhold for tax, which cannot be avoided, as described above. Each Initial Hedge Counterparty is a party to

the Issuer STID and its rights (including, in particular, its rights to receive any termination payment) are governed thereby and subject thereto. Accordingly, any termination payment will be paid to an Initial Hedge Counterparty in accordance with the Issuer Pre-Enforcement Payments Priorities or the Issuer Post-Enforcement Payments Priorities, as the case may be.

In addition to the above, the Issuer and each Initial Hedge Counterparty has the right to terminate a relevant Initial Hedging Agreement upon a delivery of a notice by the Bond Trustee, under Condition 11 of the Bonds, that the Bonds have become immediately due and payable. Further, the Issuer and each Initial Hedge Counterparty has termination rights if the Issuer redeems any of the relevant Classes of Bonds prior to their Expected Maturity Date.

The Gen Re Swap

On 15 March 1994, DCC entered into an interest rate swap transaction with Gen Re Securities Limited (the "**Existing DCC Hedge Counterparty**") in order to hedge a proportion of its floating rate interest exposure under the Abbey National Finance Lease (the "**Gen Re Swap**").

The Gen Re Swap may, save to the extent described below, be terminated by the Existing DCC Hedge Counterparty only upon the occurrence of a DCC Event of Default. The Existing DCC Hedge Counterparty has, notwithstanding the provisions of the Common Terms Agreement, the right to terminate the Gen Re Swap if it is required, due to a change in tax law, to gross-up any payment due from it under the Gen Re Swap or if there is a substantial likelihood that it will be required to gross-up due to action taken by a tax authority or brought in court.

DCC and Gen Re both have the option to terminate the Gen Re Swap on 1 April 2004 and DCC has the option to terminate the Gen Re Swap in whole or in part on five business days' notice.

CHAPTER 7
TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions which (subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement and, save for the italicised paragraphs) will be incorporated by reference into each Global Bond representing Bonds in bearer form, Bond in definitive form (if any) issued in exchange for the Global Bond(s) representing Bonds in bearer form, Regulation S Global Registered Bond Certificate representing Bonds in registered form and Regulation S Individual Registered Bond Certificate representing Bonds in registered form (only if such incorporation by reference is permitted by the relevant stock exchange and agreed by the Issuer). If such incorporation by reference is not so permitted and agreed, each Bond in bearer form and each Regulation S Individual Registered Bond Certificate representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Sub-Class of Bonds will be given in the relevant Pricing Supplement which will provide for those aspects of these Conditions which are applicable to such Sub-Class of Bonds, including, in the case of Class A Bonds, the form of Bond Policy and endorsement and, in the case of all Classes, the terms of the relevant Term Advance or Revolving Advance under the relevant Intercompany Loan Agreement. References in the Conditions to "Bonds" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.

The Issuer will issue bonds pursuant to a trust deed dated on or about 10 May 2001 (the "**Initial Issue Date**") (as amended, supplemented, restated and/or novated from time to time, the "**Trust Deed**") between Dwr Cymru (Financing) Limited (the "**Issuer**"), MBIA Assurance S.A. ("**MBIA**"), any other Financial Guarantor (as defined below) acceding thereto and Bankers Trustee Company Limited as trustee (the "**Bond Trustee**", which expression includes the trustee or trustees for the time being of the Trust Deed).

The Class A Bonds (as defined in Condition 1(a) below) alone will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (as adjusted for indexation but excluding any accelerated amounts or amounts by which the Coupons (as defined below) exceed the Initial Coupons on such Sub-Class as at the relevant Issue Date (the "**Subordinated Coupon Amounts**")) in respect of such Class A Bonds pursuant to a financial guarantee insurance policy (each, a "**Bond Policy**") to be issued by MBIA or another financial guarantor (each a "**Financial Guarantor**") in conjunction with the issue of each Sub-Class (as defined in Condition 1(a) below) of Class A Bonds.

None of the Class B Bonds, Class R Bonds, Class C Bonds or Class D Bonds (each as defined in Condition 1(a) below) will have the benefit of any such Bond Policy.

The Bonds will have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the "**Paying Agency Agreement**") dated the Initial Issue Date (as to which the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) and the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "**Principal Paying Agent**", "**Paying Agents**", "**Transfer Agents**" and/or "**Registrar**" means, in relation to the Bonds, the persons specified below relating to the Bonds as the Principal Paying Agent, Paying Agents, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity.

The relevant Pricing Supplement relating to the Bonds will be endorsed upon or attached to the Bonds and will supplement these terms and conditions (the "**Conditions**") and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of the Bonds.

On the Initial Issue Date, the Issuer entered into a deed of charge (the "**Issuer Deed of Charge**") with Bankers Trustee Company Limited as security trustee (the "**Issuer Security Trustee**"), pursuant to which the Issuer granted certain fixed and floating charge security (the "**Issuer Security**") to the Issuer Security Trustee for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bond holders), the Financial Guarantor(s), the Liquidity Facility Providers, the Hedge Counterparties, the Account Bank, the Authorised Lenders, the Paying Agents, the Registrar, the Transfer Agents, the Cash Manager (each as defined therein), any receiver and any additional creditor of the Issuer which accedes to the Issuer STID (as defined below) (together, the "**Issuer Secured Creditors**").

On the Initial Issue Date, the Issuer entered into a security trust and intercreditor deed (the "**Issuer STID**") with the Issuer Security Trustee and other Issuer Secured Creditors, pursuant to which the Issuer Security Trustee holds the Issuer Security on trust for the Issuer Secured Creditors and the Issuer Secured Creditors agree to certain intercreditor arrangements.

The Issuer has entered or may enter into a dealership agreement (together, the "**Dealership Agreements**") with the dealers named therein (the "**Dealers**") in respect of each Sub-Class of Bonds issued by the Issuer, pursuant to which the Dealers have agreed to purchase the relevant Sub-Class of Bonds on behalf of the Issuer.

On the Initial Issue Date, the Issuer entered into an underwriting agreement (the "**Class R Underwriting Agreement**") with the underwriters named therein (the "**Class R Underwriters**") pursuant to which the Class R Underwriters agreed to underwrite the sale of the Class R Bonds.

On the Initial Issue Date, the Issuer entered into a master framework agreement (the "**Master Framework Agreement**") with the Issuer Security Trustee for itself and on behalf of the Issuer Secured Creditors, which contains certain representations, warranties and covenants of the Issuer.

The Issuer has entered or may enter into liquidity facility agreements (together, the "**Liquidity Facility Agreements**") with certain liquidity facility providers (together, the "**Liquidity Facility Providers**") in respect of each Series of Bonds issued by the Issuer, pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls.

The Issuer has entered or may enter into certain revolving credit facilities (together, the "**Authorised Loan Facilities**") with certain lenders (the "**Authorised Lenders**"), pursuant to which the Authorised Lenders agree to make certain facilities available to the Issuer for the purpose of funding certain working capital, capital expenditure and other expenses of DCC.

The Issuer has entered or may enter into certain currency and interest-rate hedging agreements (together, the "**Hedging Agreements**") with certain hedge counterparties (together, the "**Hedge Counterparties**") in respect of certain Sub-Classes of Bonds, pursuant to which the Issuer hedges certain of its currency and interest-rate obligations.

The Trust Deed, the Issuer Deed of Charge, the Issuer STID, the Paying Agency Agreement, the Dealership Agreements, the Class R Underwriting Agreement, the Pricing Supplements, the Liquidity Facility Agreements, the Hedging Agreements, the Authorised Loan Facilities, the Intercompany Loan Agreements (as defined below), the Insurance and Indemnity Agreements (as defined below) and the Master Framework Agreement are together referred to as the "**Issuer Transaction Documents**".

Certain statements in these Conditions are summaries of the detailed provisions in the relevant Pricing Supplement or in the Trust Deed, the Issuer Deed of Charge or the Issuer STID. Copies of, *inter alia*, the Trust Deed, the Issuer Deed of Charge, the Issuer STID, the relevant Pricing Supplement, the Paying Agency Agreement, the Dealership Agreements, the Class R Underwriting Agreement, the Liquidity Facility Agreements, the Authorised Loan Facilities, the Hedging Agreements, the Insurance and Indemnity

Agreements, the Intercompany Loan Agreements and the Master Framework Agreement are available for inspection at the specified offices of the Principal Paying Agent or the Paying Agents (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds).

The Bondholders (as defined in Condition 1(c) below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Issuer Deed of Charge, the Issuer STID, the Master Framework Agreement and the relevant Pricing Supplement and to have notice of those provisions of the Paying Agency Agreement and the other Issuer Transaction Documents applicable to them.

Any reference in these conditions to a matter being "specified" means as the same may be specified in the relevant Pricing Supplement.

1 Classes, Form, Denomination and Title

(a) Classes and Sub-Classes of Bonds

Bonds issued on the same Issue Date (as defined in Condition 6(i)) comprise a series (each a "**Series**" (as specified in the relevant Pricing Supplement)). Each Series comprises one or more classes of Bonds (each a "**Class**"). The available Classes of Bonds will be "**Class A Bonds**", "**Class B Bonds**", "**Class R Bonds**", "**Class C Bonds**" and "**Class D Bonds**". Each Class of Bonds will be further sub-divided into non-fungible sub-classes (each a "**Sub-Class**" (as specified in the relevant Pricing Supplement)) of Bonds, with each Sub-Class being denominated in different specified currencies or having different Aggregate Nominal Amounts, Interest Rates, Maturity Dates, Issue Prices or other terms (as specified in the relevant Pricing Supplement).

Bonds of any Sub-Class may be fixed rate ("**Fixed Rate Bonds**"), floating rate ("**Floating Rate Bonds**") or index-linked including limited indexed ("**Indexed Bonds**"), depending on the method of calculating interest payable in respect of such Bonds.

(b) Form and Denomination

The Bonds will be issued either (i) in bearer form ("**Bearer Bonds**"), serially numbered in a Specified Denomination (as specified in the relevant Pricing Supplement) or an integral multiple thereof, or (ii) in registered form ("**Registered Bonds**") serially numbered in a Specified Denomination or an integral multiple thereof. References in these Conditions to "**Bonds**" include Bearer Bonds and Registered Bonds and, where the context requires, Bonds of all Sub-Classes, Classes and Series.

Interest-bearing Bearer Bonds are issued with Coupons (and, where appropriate, a Talon) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the principal amount of which is redeemable in instalments may be issued with one or more Receipts attached thereto.

"**Maturity Date**" means the date specified in the relevant Pricing Supplement as the final date on which the principal amount of the Bond is due and payable.

A Regulation S Individual Registered Bond Certificate (a "**Registered Bond Certificate**") substantially in the form of Schedule 3, Part B to the Trust Deed will be issued to each Bondholder in respect of its registered holding.

(c) Title

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the "**Register**"), which the Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each of "**Bondholder**" (in relation to a Bond, Coupon, Receipt or Talon), "**holder**" and "**Holder**" means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be) and (ii) in relation to Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions "Bondholder", "holder" and "Holder" include the holders of instalment receipts (the "**Receipts**") appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the "**Receiptholders**") and the holders of the coupons (the "**Coupons**") (if any) appertaining to interest bearing Bonds in bearer form (the "**Couponholders**", which expression includes the holders of talons (the "**Talons**") (if any) for further coupons attached to such Bonds (the "**Talonholders**")).

The holder of any Bond, Coupon, Receipt or Talon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond or Registered Bond Certificate, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Registered Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

(d) Fungible Issues of Bonds comprising a Sub-Class

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Series of such Sub-Class, each of which will be issued on identical terms save for the first interest payment. Such further issues of the same Sub-Class will be fungible with the prior issue.

2 Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds

(a) Exchange of Bonds

Subject to Condition 2(e), Bearer Bonds may, if so specified in the relevant Pricing Supplement, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined in Condition 9(b)) for any payment of interest or Interest Amount (as defined in Condition 6(h)), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) Transfer of Registered Bonds

A Registered Bond may be transferred upon the surrender of the relevant Registered Bond Certificate, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Authorised Denominations. In the case of a transfer of part only of a holding of Registered Bonds represented by a Registered Bond Certificate, a

new Registered Bond Certificate in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) Delivery of New Registered Bond Certificates

Each new Registered Bond Certificate to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Registered Bond Certificate to such address as may be specified in such request or form of transfer. For these purposes, a request for exchange or form of transfer received by the Registrar after the Record Date in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the business day following the due date for such payment.

(d) Exchange at the Expense of Transferor Bondholder

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) Closed Periods

No transfer of a Registered Bond to be registered, nor exchange of a Bearer Bond for a Registered Bond may occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount or Redemption Amount (as defined in Condition 6(i) below) on that Bond.

3 Status of Bonds and Bond Policy

(a) Status of Class A Bonds, Class B Bonds and Class R Bonds

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds, Class B Bonds or Class R Bonds.

The Bonds, Coupons, Talons and Receipts (if any) are direct and unconditional obligations of the Issuer, secured in the manner described in Condition 4 and will rank *pari passu* without any preference among themselves. However, the Class B Bonds and the Class R Bonds will not have the benefit of any Bond Policy.

(b) Status of Class C Bonds

This Condition 3(b) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class C Bonds.

The Bonds, Coupons, Talons and Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4, are subordinated to the Class A Bonds, Class B Bonds and Class R Bonds and rank *pari passu* without any preference among themselves.

(c) Status of Class D Bonds

This Condition 3(c) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class D Bonds.

The Bonds, Coupons, Talons and Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4, are subordinated to the Class A Bonds,

Class B Bonds, Class R Bonds and Class C Bonds and rank *pari passu* without any preference among themselves.

(d) Bond Policy Issued by Financial Guarantor

This Condition 3(d) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

Class A Bonds will have the benefit of a Bond Policy issued by a Financial Guarantor specified in the relevant Pricing Supplement, issued pursuant to an insurance and indemnity agreement between the Issuer and the relevant Financial Guarantor dated on or before the relevant Issue Date (as defined in Condition 6(i)) of such Bonds (each an "**Insurance and Indemnity Agreement**"). Under the relevant Bond Policy, the relevant Financial Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest (adjusted for indexation in accordance with these Conditions but not any Subordinated Coupon Amounts) and payment of principal (but not any accelerated amounts) on such Class A Bonds, all as more particularly described in the relevant Bond Policy. However, the Issuer is required to draw upon certain liquidity facilities available to it before the relevant Financial Guarantor is required to pay under the relevant Bond Policy.

The terms of the relevant Bond Policy provide that amounts of principal on any such Bonds which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) other than on the relevant Scheduled Payment Date (as defined under such Bond Policy) will not be treated as Insured Amounts (as defined in such Bond Policy) which are Due for Payment (as defined in such Bond Policy) under such Bond Policy unless the relevant Financial Guarantor in its sole discretion elects so to do by notice in writing to the Bond Trustee. If no such election is made, the relevant Financial Guarantor will continue to be liable to make payments in respect of the Bonds pursuant to the relevant Bond Policy on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable but on the basis that amounts paid by the Issuer in respect of principal would be applied to reduce the relevant Financial Guarantor's obligations *pari passu* in inverse order of maturity.

To the extent that the early redemption price of any Bonds exceeds the aggregate of the Principal Amount Outstanding of and any accrued interest outstanding on any such Bonds to be redeemed, payment of such early redemption price will not be guaranteed by the relevant Financial Guarantor under the relevant Bond Policy.

(e) Status of Bond Policy

This Condition 3(e) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The relevant Bond Policy provided by the relevant Financial Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of the relevant Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(f) Class R Underwriting Agreement

This Condition 3(f) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class R Bonds.

During the Underwriting Period (as defined in Condition 8(e)(vii)), the Issuer will have the benefit of the Class R Underwriting Agreement. Under the Class R Underwriting Agreement, the Class R

Underwriters (as defined in Condition 8(e)(vii)) may agree to purchase, subject to certain conditions, Class R Bonds in an aggregate principal amount not exceeding £100,000,000 from the Issuer. The Class R Underwriting Agreement also sets out the terms on which the Class R Underwriters can novate their underwriting commitments and also contains certain warranties and indemnities given to the Class R Underwriters by the Issuer.

(g) Related Agreements

The primary asset of the Issuer will be its rights against Dŵr Cymru Cyfyngedig (an affiliate of the Issuer) ("**DCC**") under the intercompany loan agreements (the "**Intercompany Loan Agreements**") to be entered into by the Issuer with DCC, in respect of which the Issuer will have the benefit of certain security granted by DCC (the "**DCC Security**") and the benefit of certain guarantees and related security granted by affiliates of DCC (the "**Guarantor Security**"). Certain terms of the relevant Intercompany Loan Agreement relating to the Series of Bonds are specified in the relevant Pricing Supplement.

(h) Issuer Security Trustee not responsible for monitoring compliance

As a consequence of the assignment by the Issuer in the Issuer Deed of Charge of the Issuer's rights under the Intercompany Loan Agreements, the Issuer Security Trustee will have all the rights of the Issuer thereunder (except as provided in the Issuer STID and the Issuer Deed of Charge) which rights it will exercise in accordance with the directions of the Issuer Instructing Group. The Issuer Security Trustee shall not be responsible for monitoring compliance by DCC with its obligations under the Intercompany Loan Agreements and the other DCC Transaction Documents (as defined in the Master Framework Agreement) except by means of receipt from DCC of certificates of compliance pursuant to the provisions of the Intercompany Loan Agreements. In particular, where a DCC Event of Default, representation or warranty refers to Material Adverse Effect, material adverse change, materiality or like terminology, the Issuer Security Trustee will not determine such matters (or the absence thereof). DCC has, in the Intercompany Loan Agreement, covenanted with and undertaken to deliver to the Issuer Security Trustee certificates stating whether or not such obligations have been complied with (and whether a DCC Event of Default or potential DCC Event of Default has occurred) and giving details of any non-compliance. The Issuer Security Trustee shall be entitled to rely on such certificates absolutely unless it is instructed otherwise by the Issuer Instructing Group, in which case it will be bound to act on such instructions in accordance with the Issuer STID. Where the Issuer Instructing Group consists of the Bond Trustee acting on behalf of the relevant Bondholders as referred to in the Issuer STID, the Bond Trustee will not determine Material Adverse Effect, material adverse change, materiality or like terminology, but will instead seek that such determination be made by such relevant Bondholders by means of an Extraordinary Resolution.

All Bondholders shall be entitled to a copy of the Periodic Information (as defined in the Master Framework Agreement) as and when available and to a copy of the unaudited interim accounts and audited annual accounts of DCC within 90 days of 30 September and 31 March, respectively. The information referred to in this paragraph is publicly available information, in contrast to the Company Information and the Investors' Report (each as defined below). Such Periodic Information and such accounts will be made available to Bondholders on the website of Glas Cymru Cyfyngedig ("**Glas**").

All DCC Secured Creditors and Issuer Secured Creditors (including the Bondholders) shall be entitled to a copy of the Investors' Report (as defined in the Master Framework Agreement) produced by DCC within 45 days of each of 31 March and 30 September and within 60 days of each of 30 June and 31 December. Such Investors' Report will be made available to Bondholders on a secure part of the Glas website, with the password to such part of the website being provided to the Bondholders (whenever

the Investors' Report is produced) in accordance with Condition 17 (although no such notice shall be required to be published in a newspaper). Any Bondholder who provides sufficient evidence of identity may obtain the current password upon application to the Principal Paying Agent or the Registrar (as applicable).

In addition, DCC has covenanted to provide the DCC Secured Creditors and Issuer Secured Creditors who are entitled to vote in accordance with the DCC STID or the Issuer STID, as the case may be, with detailed information on its performance (the "**Company Information**"), as a consequence of which it is possible that the Issuer Instructing Group may direct the Issuer Security Trustee to take action in relation to DCC. After a Default Situation (as defined in the Master Framework Agreement), or where the relevant Financial Guarantor (as defined in the Master Framework Agreement) is not the Issuer Qualifying Debt Representative (as defined in the Master Framework Agreement) for the Class A Bonds, or where there is no Qualifying Debt (as defined in the Master Framework Agreement) in paragraphs (i) and (ii) of the definition thereof, the Bondholders will also be entitled to have access to the Company Information through a separate secure area of the Glas website in the same manner as set out above for the Investors' Reports.

In the event of the Glas website at any time becoming non-operational, all such information set out above which would otherwise be available to the Bondholders will be available for inspection at the specified offices of the Paying Agents, the Transfer Agents or the Registrar, as the case may be, and as further specified in the Paying Agency Agreement.

The Bond Trustee, the Issuer Security Trustee, the DCC Security Trustee and the other DCC Secured Creditors and Issuer Secured Creditors will have access to all the information referred to in this Condition 3(h) except that the Bond Trustee will not have access to the Company Information before the Bondholders become entitled to access to it in accordance with this Condition. However, prior to a Default Situation, where the relevant Financial Guarantor is not the Issuer Qualifying Debt Representative for the Class A bonds, and where there is Qualifying Debt in paragraphs (i) and (ii) of the definition thereof none of the Bond Trustee, the Issuer Security Trustee or the DCC Security Trustee will be entitled or obliged to provide the Company Information to Bondholders and (in the case of the Issuer Security Trustee) will not analyse such information but will instead rely on the certifications referred to above.

4 Security, Priority and Relationship with Issuer Secured Creditors

(a) Security

Under the Issuer Deed of Charge, the Bonds are secured by the Issuer Security (including future property) granted by the Issuer in favour of the Issuer Security Trustee (for itself and on behalf of the Issuer Secured Creditors (including the Bond Trustee for itself and on behalf of the Bondholders)). There is no intention to create further security for the benefit of the holders of Bonds issued after the first Series issued by the Issuer. Each further Series of Bonds issued by the Issuer and any additional creditor of the Issuer acceding to the Issuer STID will share in the Issuer Security.

(b) Relationship among Bondholders and with other Issuer Secured Creditors

The Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise and as further referred to in Condition 16(a)).

The Issuer STID provides that the Issuer Security Trustee (except in relation to its Reserved Matters and Entrenched Rights, each as defined in the Issuer STID) will act on instructions of the Issuer Instructing Group (as defined in the Issuer STID) and, when so doing, the Issuer Security Trustee is

not required to have regard to the interests of any Issuer Secured Creditor (including the Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) Application Prior to Enforcement

Prior to enforcement of the Issuer Security by the Issuer Security Trustee, the Cash Manager, on behalf of the Issuer, is required to apply funds available to the Issuer in accordance with the Issuer Pre-Enforcement Payments Priorities (as set out in the Issuer STID).

(d) Enforceable Security

In the event of the Issuer Security (as defined in the Master Framework Agreement) becoming enforceable as provided in Condition 11, the Issuer Security Trustee shall, if instructed by the Issuer Instructing Group, enforce its rights with respect to the Issuer Security, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Issuer Secured Creditor (including the Bond Trustee as trustee for the Bondholders), provided that the Issuer Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.

(e) Application After Enforcement

Subject to the provisions of the Issuer Deed of Charge and the Issuer STID and as specified in the relevant Pricing Supplement, after enforcement of the Issuer Security, the Issuer Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Issuer Accounts to make payments in accordance with the Issuer Post-Enforcement Payments Priorities (as set out in the Issuer STID). After such enforcement, amounts payable to any receiver, the Issuer Security Trustee and any Financial Guarantor (in respect of the relevant Class A Bonds) and certain amounts payable to other Issuer Secured Creditors will rank in priority to payments on the Bonds, as set out in the Issuer Post-Enforcement Payments Priorities.

(f) Bond Trustee and Issuer Security Trustee not liable for security

The Bond Trustee and the Issuer Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Issuer Security and held by way of security for the Bonds, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the Issuer Security whether such defect or failure was known to the Bond Trustee or the Issuer Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created in favour of the Issuer under the DCC Security or the Guarantor Security whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security. The Bond Trustee and the Issuer Security Trustee have no responsibility for the value of any such security.

5 Issuer Covenants

So long as any of the Bonds remain outstanding, the Issuer has agreed to comply with the Issuer Covenants as set out in the Master Framework Agreement.

The Bond Trustee shall be entitled to rely absolutely on a certificate of any director of the Issuer in relation to any matter relating to the Issuer Covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

6 Interest and other Calculations

(a) Interest Rate and Accrual

Each Bond bears interest on its Principal Amount Outstanding (or as otherwise specified in the relevant Pricing Supplement) from the Interest Commencement Date (as defined in Condition 6(i)) at the Interest Rate (as defined in Condition 6(i)), such interest being payable in arrear (unless otherwise specified in the relevant Pricing Supplement) on each Interest Payment Date (as defined in Condition 6(i)).

Interest will cease to accrue on each Bond on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date (as defined in Condition 6(i)).

In the case of Class C Bonds and Class D Bonds only, if, on any Interest Payment Date, prior to delivery of an enforcement notice under Condition 11, there are insufficient funds available to the Issuer to pay such accrued interest, it will be treated as not having fallen due and will be deferred until the earlier of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Issuer Pre-Enforcement Payments Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); and (ii) the Interest Payment Date of the last maturing Bond which ranks in priority to the Class C Bonds or the Class D Bonds, as the case may be. Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class C Bonds or Class D Bonds, as the case may be.

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Pricing Supplement, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(b) Business Day Convention

If any date referred to in these Conditions or the relevant Pricing Supplement is specified to be subject to adjustment in accordance with a Business Day Convention and would otherwise fall on a day which is not a Business Day, then if the Business Day Convention specified in the relevant Pricing Supplement is:

(i) the Following Business Day Convention, such date shall be postponed to the next day which is a Business Day;

(ii) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(iii) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(c) Floating Rate Bonds

This Condition 6(c) is applicable only if the relevant Pricing Supplement specifies the Bonds as Floating Rate Bonds.

If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank on the following basis:

(i) if the Page displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank will determine the Relevant Rate (as defined in Condition 6(i)) which appears on the Page (as defined in Condition 6(i)) as of the Relevant Time on the relevant Interest Determination Date (as defined in Condition 6(i));

(ii) in any other case, the Agent Bank will determine the arithmetic mean of the Relevant Rates which appear on the Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank will:

(1) request the principal Relevant Financial Centre (as defined in Condition 6(i)) office of each of the Reference Banks (as defined in Condition 6(i)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and

(2) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Agent Bank will determine the arithmetic mean of the rates (being the nearest to the Relevant Rate, as determined by the Agent Bank) quoted by major banks in the Relevant Financial Centre of the Relevant Currency (as defined in Condition 6(i)), selected by the Agent Bank, at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(i)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(i)),

and the Interest Rate for such Interest Period shall be the sum of the Margin (as defined in Condition 6(i)) and the rate or (as the case may be) the arithmetic mean so determined. However, if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate (or as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank under an interest rate swap transaction if the Agent Bank were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(i)); and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period,

(2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Pricing Supplement.

Notwithstanding any term of these Conditions, for so long as any Class R Bonds are held by, for or on behalf of the Issuer, or any affiliate of the Issuer, such Class R Bonds will not accrue any interest.

(d) Fixed Rate Bonds

This Condition 6(d) is applicable only if the relevant Pricing Supplement specifies the Bonds as Fixed Rate Bonds.

The Interest Rate applicable to the Bonds for each Interest Period will be the fixed rate specified in the relevant Pricing Supplement.

(e) Indexed Bonds

This Condition 6(e) is applicable only if the relevant Pricing Supplement specifies the Bonds as Indexed Bonds.

Payments of principal on, and the interest payable in respect of, the Bonds will be subject to adjustment for indexation and to the extent set out in Condition 7(b). The Interest Rate applicable to the Bonds for each Interest Period will be at the rate specified in the relevant Pricing Supplement.

(f) Rounding

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

(i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);

(ii) all figures will be rounded to seven significant figures (with halves being rounded up); and

(iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "**unit**" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(g) Calculations

The amount of interest payable in respect of any Bond for each Interest Period shall be calculated by multiplying the product of the Interest Rate and the Principal Amount Outstanding of such Bond during that Interest Period by the Day Count Fraction (as defined in Condition 6(i)), unless an Interest Amount is specified in respect of such period in the relevant Pricing Supplement, in which case the amount of interest payable in respect of such Bond for such Interest Period will equal such Interest Amount.

(h) Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation, the Agent Bank will determine the Interest Rate and calculate the amount of interest payable (the "**Interest Amounts**") in respect of each Authorised Denomination of Bonds for the relevant Interest Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the

relevant Interest Payment Date and, if required to be calculated, the Redemption Amount or any Instalment Amount to be notified, in the case of Bearer Bonds, to the Paying Agents or, in the case of Registered Bonds, the Transfer Agents and the Registrar, the Bond Trustee, the Issuer, the Bondholders and the Luxembourg Stock Exchange as soon as possible after its determination but in no event later than (i) (in case of notification to the Luxembourg Stock Exchange) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Bonds become due and payable under Condition 11, the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7, shall (in the absence of manifest error) be final and binding upon all parties.

(i) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) Additional Business Centre specified in the relevant Pricing Supplement; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the Relevant Currency (which in the case of a payment in U.S. Dollars shall be New York) and in each (if any) Additional Business Centre specified in the relevant Pricing Supplement;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if "**Actual/Actual (ISMA)**" is specified, the sum of, for each Determination Period (as specified in the Pricing Supplement) contained either wholly or in part in the Calculation Period, the number of days in the Determination Period falling in the Calculation Period divided by the product of (x) the number of days in the Determination Period and (y) the number of Determination Dates (as specified in the Pricing Supplement) that would occur in one calendar year;

(ii) if "**Actual/365**" or "**Actual/Actual**" is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366, and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is specified, the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is specified, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (1) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (2) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period) unless, in the case of the final Calculation Period, the last day of such period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30 day month;

"**euro**" means the lawful currency of the Participating Member States;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Pricing Supplement;

"**Interest Determination Date**" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Pricing Supplement or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the specified currency is sterling the first day of such Interest Period);

"**Interest Payment Date**" means the date(s) specified as such in the relevant Pricing Supplement;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the rate of interest payable from time to time in respect of the Bonds and which is either specified in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Pricing Supplement;

"**ISDA Definitions**" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.)).

"**Issue Date**" means the date specified in the relevant Pricing Supplement;

"**Margin**" means the rate per annum (expressed as a percentage) specified in the relevant Pricing Supplement;

"**Page**" means such page, section, caption, column or other part of a particular information service (including the Reuter Monitor Money Rates Service ("**Reuters**") and the Dow Jones Telerate Service ("**Telerate**")) as may be specified in the relevant Pricing Supplement, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

"**Participating Member State**" means a Member State of the European Community which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Community (as amended by the Treaty on European Union and the Treaty of Amsterdam), and "**Participating Member States**" means all of them;

"**Principal Amount Outstanding**" means, in relation to a Bond, Sub-Class or Class, the original face value thereof less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

"**Redemption Amount**" means the amount provided under Condition 8(b), unless otherwise specified in the relevant Pricing Supplement;

"**Reference Banks**" means the institutions specified as such or, if none, four major banks selected by the Agent Bank in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank, on behalf of the Issuer, in its sole and absolute discretion;

"**Relevant Currency**" means the currency specified as such in the relevant Pricing Supplement or, if none is specified, the currency in which the Bonds are denominated;

"**Relevant Date**" means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17;

"**Relevant Financial Centre**" means, with respect to any Bond, the financial centre specified as such in the relevant Pricing Supplement or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank;

"**Relevant Rate**" means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Pricing Supplement);

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Pricing Supplement or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market or, if appropriate, money market in the Relevant Financial Centre;

"**Representative Amount**" means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Pricing Supplement as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Specified Duration**" means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the Designated Maturity specified in the relevant Pricing Supplement or, if none is specified, a period of time equal to the relative Interest Period;

"**TARGET Settlement Day**" means any day on which the TARGET system is open; and

"**TARGET system**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer system.

(j) Agent Bank and Reference Banks

The Issuer will procure that there shall at all times be an Agent Bank and four Reference Banks selected by the Issuer acting through the Agent Bank with offices in the Relevant Financial Centre if

provision is made for them in these Conditions applicable to this Bond and for so long as it is outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank is unable or unwilling to act as such or if the Agent Bank fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(k) Determination or Calculation by Bond Trustee

If the Agent Bank does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee, shall determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Trust Deed) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank.

7 Indexation

This Condition 7 is applicable only if the relevant Pricing Supplement specifies the Bonds as Indexed Bonds including Limited Indexed Bonds (as defined below).

(a) Definitions

"**Base Index Figure**" means (subject to Condition 7(c)(i)) 171.7.

"**Index**" or "**Index Figure**" means, subject as provided in Condition 7(c)(i), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure applicable to a particular month shall, subject as provided in Condition 7(c) and (e), be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication.

"**Index Ratio**" applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure.

"**Limited Index Ratio**" means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month.

"**Limited Indexation Factor**" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Pricing Supplement, it shall be deemed to be equal to such Maximum Indexation Factor

and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Pricing Supplement, it shall be deemed to be equal to such Minimum Indexation Factor.

"**Limited Indexation Month**" means any month specified in the relevant Pricing Supplement for which a Limited Indexation Factor is to be calculated.

"**Limited Indexed Bonds**" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Pricing Supplement) applies.

"**Reference Gilt**" means the Treasury Stock specified in the relevant Pricing Supplement for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an "**Indexation Adviser**").

(b) Application of the appropriate Index Ratio

Each payment of interest and principal in respect of the Bonds shall be the amount provided in or determined in accordance with these Conditions, multiplied by the Index Ratio, or Limited Index Ratio in the case of Limited Indexed Bonds, applicable to the month in which such payment falls to be made and rounded to four decimal places (0.00005 being rounded upwards).

(c) Changes in Circumstances Affecting the Index

(i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including which such substitution takes effect (1) the definition of "**Index**" and "**Index Figure**" in Condition 7(a) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being at the Initial Issue Date 171.7) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) Delay in publication of Index: If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the "**relevant month**") before the month in which a payment is due to be made is not published on or before the fourteenth business day before the date on which such payment is due (the "**date for payment**"), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Bond Trustee, considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Advisor and approved by the Bond Trustee, or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i)) before the date for payment.

(d) Application of Changes

Where the provisions of Condition 7(c)(ii) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

(i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) Cessation of or Fundamental Changes to the Index

(i) If (1) the Bond Trustee has been notified by the Agent Bank that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

(ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**"), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Bond Trustee, the Financial Guarantors, the other Issuer Secured Creditors, the Issuer and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 of such amendments as promptly as practicable following such notification.

8 Redemption, Purchase and Cancellation

(a) Partial and Final Redemption

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Pricing Supplement as having no fixed maturity date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds, as adjusted in accordance with Condition 7(b)), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s) upon which interest is payable) specified in the relevant Pricing Supplement.

(b) Optional Redemption

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Issuer Security Trustee, the Issuer Instructing Group and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a pro rata basis only) on any Interest Payment Date at their Redemption Amount, provided that Floating Rate Bonds may not be redeemed before the date specified in the relevant Pricing Supplement, as follows:

(i) In respect of Fixed Rate Bonds, the Redemption Amount will be an amount equal to the higher of (i) their Principal Amount Outstanding and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Benchmark Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "**Gross Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published 8 June 1998 with effect from 1 November 1998, page 4; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "**Benchmark Gilt**" means the Treasury Stock specified in the relevant Pricing Supplement.

(ii) In respect of Floating Rate Bonds, the Redemption Amount will be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Pricing Supplement) plus any accrued but unpaid interest on the Principal Amount Outstanding.

(iii) In respect of Indexed Bonds, the Redemption Amount will be the higher of (i) the Principal Amount Outstanding (as adjusted in accordance with Condition 7(b)) and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market, selected by the Issuer and approved by the Bond Trustee), determine to be appropriate, plus accrued but

unpaid interest (as adjusted in accordance with Condition 7(b)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iii), "**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for calculating Gilt Prices from Yields" published 8 June 1998 with effect from 1 November 1998, page 5; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(iii).

In any such case, prior to giving any such notice, the Issuer must certify (as further specified in the Issuer Transaction Documents) to the Bond Trustee that it will have the funds, not subject to any interest of any other person, required to redeem the Bonds as aforesaid.

The Issuer may not, without the prior written consent of the Issuer Security Trustee (acting on instructions of the Issuer Instructing Group), redeem any Class C Bonds before (i) the periodic review to be undertaken by the Director General of Water Services in March 2005 or (ii) if that review is appealed, 1 October 2005.

(c) Redemption for Index Event, Taxation and Other Reasons

Redemption for Index Events: Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Issuer Security Trustee, the Issuer Instructing Group and the holders of the Indexed Bonds in accordance with Condition 17, redeem all (but not some only) of the Indexed Bonds of all Sub-Classes on any Interest Payment Date at the Principal Amount Outstanding plus accrued but unpaid interest and any amounts in respect of indexation on such Indexed Bonds. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds are also redeemed at the same time. Before giving any such notice, the Issuer shall provide to the Bond Trustee the Issuer Security Trustee, and the Issuer Instructing Group a certificate signed by an authorised signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption.

"**Index Event**" means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) and the Bond Trustee has been notified by the Agent Bank that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Advisor to the Issuer and such circumstances are continuing.

Redemption for Taxation Reasons: In addition, if the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or the Cayman Islands or any political subdivision thereof, or any other authority thereof or any change in the application or official interpretation of such laws or regulations, then the Issuer may, in order to avoid the relevant deduction or withholding, use its reasonable endeavours to arrange substitution of a company incorporated in another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds

and as lender under the Intercompany Loan Agreements upon satisfying the conditions for substitution of the Issuer as set out in the Issuer STID (and referred to in Condition 15(c)). If the Issuer is unable to arrange a substitution as described above and, as a result, the relevant deduction or withholding is continuing then the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Issuer Security Trustee, the Issuer Instructing Group and the Bondholders in accordance with Condition 17, redeem all (but not some only) of the Bonds of all Sub-Classes on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon and, in the case of Indexed Bonds, amounts in respect of indexation. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Issuer Security Trustee and the Issuer Instructing Group a certificate signed by an authorised signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts to be paid in priority to, or *pari passu* with, the Bonds under the Issuer Pre-Enforcement Payments Priorities.

Redemption on Prepayment of Intercompany Loan Agreement: If DCC gives notice to the Issuer under an Intercompany Loan Agreement that it intends to prepay all or part of any advance made under such Intercompany Loan Agreement and such advance was funded by the Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Issuer Security Trustee, the Issuer Instructing Group and the Bondholders in accordance with Condition 17, (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(d) Purchase of Bonds other than R Bonds

The Issuer may, provided that no Issuer Event of Default has occurred and is continuing, purchase Bonds other than Class R Bonds (or any of them) (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Registered Bond Certificate, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Registered Bond Certificate in respect of the Bonds which are not to be purchased and despatch such Registered Bond Certificate to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

Whilst the Bonds are represented by a Global Bond or Regulation S Global Bond Certificate (a "Global Bond Certificate"), the relevant Global Bond or Global Bond Certificate will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(e) Purchase of Class R Bonds

(i) The Issuer may purchase Class R Bonds on any day in the open market at any price which does not exceed their Principal Amount Outstanding plus accrued interest and in relation to such purchase shall, for so long as the Class R Bonds are admitted to trading on the

Luxembourg Stock Exchange, comply with all applicable regulations of the Luxembourg Stock Exchange and may, at its option, hold, resell or cancel any such Class R Bonds held by it from time to time, provided that the Issuer shall not be entitled to resell such Class R Bonds:

(a) if any Issuer Event of Default exists;

(b) (in the case of any Class R Extension Amount (as defined in Condition 8(e)(vii)) if any DCC Event of Default (as defined under the Master Framework Agreement) exists; or

(c) at any time after 31 March 2006.

(ii) The Issuer will (save to the extent that Condition 8(e)(iii) applies and save where an Issuer Event of Default exists) on any Interest Payment Date falling on or prior to 31 March 2006 repurchase all Class R Bonds outstanding on each Interest Payment Date at a price which is equal to their Principal Amount Outstanding, plus accrued but unpaid interest thereon. The Issuer may at its option cancel, hold or resell all or any of the Class R Bonds so purchased, provided that the Issuer shall not be entitled to resell any such Class R Bonds:

(a) if any Issuer Event of Default exists;

(b) (in the case of any Class R Extension Amount) if any DCC Event of Default exists; or

(c) at any time after the 31 March 2006.

(iii) Notwithstanding the provisions of Condition 8(e)(ii), the Issuer shall not, during the Underwriting Period, be obliged to repurchase any Class R Bonds in respect of which it holds insufficient funds to effect such repurchase in accordance with Condition 8(e)(ii), if such insufficiency arises as a result of any Class R Underwriter failing to agree under the Class R Underwriting Agreement to purchase Class R Bonds from the Issuer. The Class R Bonds to be repurchased on an Interest Payment Date, in respect of which there are insufficient funds to effect such repurchase in full, shall be repurchased pro rata from the holders of the Class R Bonds. Any Class R Bonds not so repurchased shall remain outstanding and the provisions of sub-paragraphs (a) and (b) of Condition 8(e)(ii) shall not apply to such Class R Bonds until such time as they are subsequently repurchased by the Issuer.

(iv) If, by virtue of the operation of either of Condition 8(e)(ii) or 8(e)(iii), the Issuer is not obliged to repurchase the Class R Bonds on any Interest Payment Date, the Issuer shall, immediately upon becoming aware that it will not be repurchasing such Class R Bonds by virtue of the operation of either of Condition 8(e)(ii) or 8(e)(iii) (and in any event, by no later than 11.00 a.m. on the Interest Payment Date upon which it would otherwise have repurchased such Class R Bonds), give notice to the Class R Bondholders, the Rating Agencies and the Principal Paying Agent (in the case of Bearer Bonds) and the Transfer Agents and the Registrar (in the case of Registered Bonds), in accordance with the provisions of Condition 17, specifying the amount of Class R Bonds which will not be repurchased on such Interest Payment Date.

(v) Notwithstanding the provisions of Conditions 8(e)(i) and 8(e)(ii), the Issuer shall not be entitled to resell any Class R Bonds which it has repurchased following the occurrence of any of the events referred to in sub-paragraphs (a), (b) or (c) of either of Conditions 8(e)(i) and 8(e)(ii). Further, while any Issuer Event of Default exists, Class R Bonds may not be repurchased and shall only be redeemed in accordance with Conditions 8(b) and (c). Any Class R Bonds so redeemed shall be cancelled upon redemption. The Class R Bonds (if any)

which are the first Class R Bonds to be resold by the Issuer following the occurrence of any of the events referred to in sub-paragraphs (b) or (c) of either of Conditions 8(e)(i) and 8(e)(ii) shall be deemed to be, and shall for all purposes be treated as, Class R Extension Amounts of the relevant Class.

(vi) Any Class R Bonds held by or on behalf of the Issuer on the close of business on 31 March 2006 shall be cancelled and any Class R Bonds purchased by the Issuer on or after such Interest Payment Date shall be cancelled immediately upon such repurchase.

(vii) In these Conditions:

"**affiliate**" means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "control" means control as defined in the Companies Act 1985;

"**Class R Extension Amount**" means the amount (if any) by which, on any Class R Further Drawing Date, the face value of the Class R Bonds being resold by the Issuer on such day exceeds the Principal Amount Outstanding of the Class R Bonds held by persons, other than the Issuer or any affiliate of the Issuer, on the day which immediately preceded such Class R Further Drawing Date;

"**Class R Further Drawing Date**" means any date upon which Class R Bonds are resold;

"**Class R Underwriters**" means each of the parties described as such in the Class R Underwriting Agreement and its successors and assigns; and

"**Underwriting Period**" means the period from the date of the Class R Underwriting Agreement up to and including 31 March 2006.

(f) Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Pricing Supplement) and Instalment Amounts (as specified in the relevant Pricing Supplement) will be partially redeemed on each Instalment Date at the Instalment Amount.

(g) Cancellation

In respect of all Bonds purchased by or on behalf of the Issuer other than as provided in Condition 8(e), the Bearer Bonds or the Registered Bond Certificates shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

9 Payments

(a) Bearer Bonds

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond),

Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)) or Coupons (in the case of interest, save as specified in Condition 9(f)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Definitive Bonds only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) Registered Bonds

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond Certificate at the specified office of the Registrar and in the manner provided in Condition 9(a).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond Certificate at the specified office of the Registrar in the manner provided in Condition 9(a) above and annotation of such payment on the Register and the relevant Registered Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named if joint holders) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

(c) Payments in the United States of America

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

Payments of principal (or Redemption Amounts) and interest (or Interest Amounts) in respect of the Bearer Bonds when represented by a Global Bond or Global Bond Certificate will be made against presentation and surrender or, as the case may be, presentation of the Global Bond or Global Bond Certificate at the specified office of the Principal Paying Agent or the Registrar, as the case may be, subject in all cases to any fiscal or other laws, regulations and directives applicable in the place of payment to the Issuer, the Principal Paying Agent, the Registrar or the holder. A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or Registrar, as the case may be, which endorsement shall be prima facie evidence that such payment has been made.

The holder of a Global Bond or Global Bond Certificate shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Global Bond Certificate (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Global Bond Certificate in respect of each amount paid.

(e) Appointment of the Agents

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "**Agents**") appointed by the Issuer (and their respective specified offices are listed in the Paying Agency Agreement) or as otherwise appointed pursuant to the Paying Agency Agreement are specified in the relevant Pricing Supplement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee, at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, provided that the Issuer will at all times maintain a Principal Paying Agent, a Paying Agent in Luxembourg (so long as any Bonds remain listed on the Luxembourg Stock Exchange) and (while any Registered Bonds remain outstanding) a Transfer Agent in Luxembourg (so long as any Bonds remain listed on the Luxembourg Stock Exchange) and a Registrar, each having a specified office in a European city which, if the Bonds are admitted to listing on a listing authority, stock exchange and/or quotation system and such listing authority, stock exchange and/or quotation system require the appointment of a Paying Agent in a particular place, shall be such place.

(f) Unmatured Coupons and Receipts and unexchanged Talons

(i) Subject to the provisions of the relevant Pricing Supplement, upon the due date for redemption of any Bond which is a Bearer Bond, unmatured Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(ii) Upon the date for redemption of any Bond, any unmatured Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(iv) Where any Bond, which is a Bearer Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Bond is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Bond is not a due date for payment of interest or an Interest Amount, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) Non-Business Days

Subject as provided in the relevant Pricing Supplement, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the other cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency.

(h) Talons

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13).

10 Taxation

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, any Paying Agent, the Registrar, the Bond Trustee, the Issuer Security Trustee or the relevant Financial Guarantor, in respect of Class A Bonds) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, any Paying Agent or the Registrar or, where applicable, the Bond Trustee, the Issuer Security Trustee or the relevant Financial Guarantor is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, such Paying Agent, the Registrar, the Bond Trustee, the Issuer Security Trustee or the relevant Financial Guarantor, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, any Paying Agent, the Registrar, the Bond Trustee, the Issuer Security Trustee or the relevant Financial Guarantor will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, any Paying Agent, the Registrar, the Bond Trustee or the relevant Financial Guarantor may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

11 Events of Default and Enforcement

(a) Issuer Events of Default

If an Issuer Event of Default (as defined below) occurs and is continuing, then, subject always to the terms of the Issuer STID, the Bond Trustee may at any time and shall (subject, in the case of any of the events referred to in paragraph (ii) below, to the Bond Trustee (in accordance with the provisions of the Trust Deed and the Issuer STID) having certified in writing that in its opinion the happening of such

event is materially prejudicial to the Bondholders), upon the Bond Trustee being (i) so requested in writing by holders of at least one quarter in Principal Amount Outstanding of the Most Senior Class of Bonds (as defined below) then outstanding or if so directed by an Extraordinary Resolution (as defined below) of the Most Senior Class of Bonds then outstanding; and (ii) indemnified and/or secured to its satisfaction, subject to the directions of the Issuer Instructing Group, give notice to the Issuer and the Issuer Security Trustee that the Bonds of all Sub-Classes of every Class and Series are, and they shall immediately become, due and repayable, at their respective Redemption Amounts.

Each of the following will constitute an "**Issuer Event of Default**" under the Bonds:

(i) if default is made in the payment of any sum due in respect of the Bonds (or any Sub-Class of them); or

(ii) if the Issuer fails to perform or observe any of its obligations (other than payment obligations referred to in (i) above) under the Bonds (including these Conditions) and, if the Bond Trustee considers that such default can be remedied, such failure continues for a period of 30 days (or such longer period as the Bond Trustee may permit) following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or

(iii) if any order is made by any competent court or any resolution passed for the winding up or dissolution of the Issuer or an order is made for the Issuer's bankruptcy (or any analogous proceedings) save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms approved by the Bond Trustee or as otherwise permitted pursuant to these Conditions; or

(iv) if (1) any other proceedings are initiated against the Issuer under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws and such proceedings are not being disputed in good faith, or (2) an administrative receiver or other receiver, administrator or other similar official is appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or (3) an encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Issuer or (4) a distress or execution or other process is levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases (other than in relation to the circumstances described in (2) where no grace period shall apply) such order, appointment, possession or process (as the case may be) is not discharged or stayed or does not cease to apply within 14 days; or

(v) if the Issuer initiates or consents to judicial proceedings relating to itself (except in accordance with paragraph (iii) above) under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or

(vi) if the Issuer becomes insolvent or is adjudicated or found bankrupt; or

(vii) any acceleration under any Intercompany Loan Agreement.

"**Most Senior Class of Bonds**" means (i) the Class A Bonds, Class B Bonds and Class R Bonds outstanding acting together in a single meeting whether by means of an Extraordinary Resolution or a request of at least one quarter of Principal Amount Outstanding of the holders thereof or (ii) if no Class A Bonds, Class B Bonds or Class R Bonds are outstanding, the outstanding Class C Bonds acting together in a single meeting whether by means of an Extraordinary Resolution or a request of Principal Amount Outstanding of at least one quarter of the holders thereof or (iii) if no Class A Bonds, Class B

Bonds, Class R Bonds or Class C Bonds are outstanding, the outstanding Class D Bonds acting together in a single meeting whether by means of an Extraordinary Resolution or a request of Principal Amount Outstanding of at least one quarter of the holders thereof.

(b) Confirmation of No Issuer Event of Default

The Issuer shall provide written confirmation to the Bond Trustee, on an annual basis, that no Issuer Event of Default or other matter which is required to be brought to the Bond Trustee's attention has occurred.

(c) Enforcement of security

If the Bond Trustee gives written notice to the Issuer and the Issuer Security Trustee that the Bonds of all Sub-Classes of each Series are immediately due and repayable, the Issuer Security Trustee, acting on the instructions of the Issuer Instructing Group, shall enforce the Issuer Security as specified in Condition 4(d).

The Bond Trustee will not have any rights to call for repayment of the Bonds following the occurrence of an Issuer Event of Default except as provided in Condition 11(a) and the Issuer STID and enforcement of the Issuer Security by the Issuer Security Trustee will be subject to the provisions of the Issuer STID.

(d) Automatic Acceleration

In the event of (i) the acceleration of any of the Issuer's other obligations under the Issuer Transaction Documents and/or (ii) the acceleration of any DCC Secured Liabilities (as defined in the DCC STID), the Bonds of all Sub-Classes of every Class and Series are, and they shall immediately become, due and repayable, at their respective Principal Amounts Outstanding plus accrued and unpaid interest thereon.

12 Recourse Against Issuer

No Bondholder is entitled to take any action against the Issuer or, in the case of Class A Bondholders, against any Financial Guarantor or against any assets of the Issuer or any Financial Guarantor to enforce its rights in respect of the Bonds or to enforce any of the Issuer Security or to enforce any Bond Policy unless the Bond Trustee or the Issuer Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Issuer Security Trustee will act on the instructions of the Issuer Instructing Group pursuant to the Issuer STID and neither the Bond Trustee nor the Issuer Security Trustee shall be bound to take any such action unless it is indemnified and/or secured to its satisfaction.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Issuer Deed of Charge and subject to the Issuer STID) or other proceeding under any similar law for so long as any Bonds are outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13 Prescription

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 6(i)) in respect thereof.

14 Replacement of Bonds, Coupons, Receipts and Talons

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and stock exchange requirements, at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Meetings of Bondholders, Modification, Waiver, Authorisation and Substitution

(a) Meetings of Bondholders, Modifications and Waiver

The Trust Deed contains provisions for convening meetings of Bondholders of a Sub-Class, Class or Classes to consider matters affecting their interests, including the modification of these Conditions, the Trust Deed and (in the case of Class A Bonds) the Bond Policies and any other Issuer Transaction Document to which the Bond Trustee is party. Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee, subject, in the case of any of the Class A Bonds, to Entrenched Rights or Reserved Matters of any Financial Guarantor and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 15(b) and the Trust Deed, be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Trust Deed by a majority of not less than three quarters of the votes cast (an "**Extraordinary Resolution**") of such Bondholders. Such a meeting may be convened by the Bond Trustee or the Issuer, or by the Bond Trustee upon the request in writing of the relevant Bondholders holding not less than one tenth of the aggregate Principal Amount Outstanding of the relevant outstanding Bonds.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the relevant outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders, whatever the Principal Amount Outstanding of the relevant outstanding Bonds held or represented, provided however, that certain proposals (the "**Basic Terms Modifications**") in respect of the holders of any particular Sub-Class of Bonds means any proposal:

(i) to change any date fixed for payment of principal or interest in respect of such Sub-Class of Bonds, to reduce the amount of principal or interest payable on any date in respect of such Sub-Class of Bonds or (other than as specified in Conditions 7 and 8) to alter the method of calculating the amount of any payment in respect of such Sub-Class of Bonds on redemption or maturity;

(ii) other than pursuant to Condition 15(c), to effect the exchange, conversion or substitution of such Sub-Class of Bonds for, or the conversion of them into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(iii) to change the currency in which amounts due in respect of such Sub-Class of Bonds are payable other than pursuant to redenomination into euro pursuant to Condition 19;

(iv) to alter the Payments Priorities (as defined in the Master Framework Agreement) insofar as such alteration would affect such Sub-Class of Bonds;

(v) to alter the priority of redemption of such Sub-Class of Bonds;

(vi) in relation to any Sub-Class of Class A Bonds, to approve the release of the relevant Bond Policy or the substitution of the relevant Financial Guarantor;

(vii) to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution; or

(viii) to amend this definition or this Condition,

may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class or Sub-Classes of Bonds at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate Principal Amount Outstanding of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

A meeting of such Bondholders will also have the power (exercisable by Extraordinary Resolution) to advise or instruct the Bond Trustee in connection with the exercise by the Bond Trustee of any of its rights, powers and discretions under the Issuer Transaction Documents including, to appoint any persons (whether Bondholders or not) as a committee to represent the interests of such Bondholders and to confer upon such committee any powers which such Bondholders could themselves exercise by Extraordinary Resolution and, where requested by the Bond Trustee, in relation to voting on Intercreditor Issues (as defined in Condition 15(d)) and in respect of the Reserved Matters and Entrenched Rights of the Bond Trustee.

(b) Relationship between Classes

In relation to each Sub-Class of Bonds:

(i) no Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one Sub-Class of Bonds shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Sub-Classes of Bonds (to the extent that there are Bonds outstanding in each such other Sub-Class); and

(ii) no Extraordinary Resolution (except in relation to an Intercreditor Issue or a vote under Condition 11(a)) to approve any matter other than a Basic Terms Modification of any Sub-Class of Bonds shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Sub-Classes of Bonds ranking equally or senior to such Sub-Class (to the extent that there are Bonds outstanding ranking equally or senior to such Sub-Class), and for the avoidance of doubt as regards ranking, Class A Bonds, Class B Bonds and Class R Bonds will be considered to rank equally with each other, Class C Bonds are subordinate to the Class A Bonds, Class B Bonds and Class R Bonds and Class D Bonds are subordinate to the Class A Bonds, Class B Bonds, Class R Bonds and Class C Bonds;

provided that, in relation to a meeting of the holders of a Sub-Class of Bonds to sanction the Extraordinary Resolutions referred to in (i) and (ii) above, (1) the quorum for any such meeting shall be two or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the relevant outstanding Bonds and (2) if the holders of any relevant Sub-Class of Bonds, having been invited to sanction a proposed Extraordinary Resolution, fail for want of quorum to pass or reject an Extraordinary Resolution sanctioning the proposed Extraordinary

Resolution, such holders will be taken to have sanctioned the proposed matter. Conditions 15(a) and (b) in respect of meetings are subject to the further provisions of the Trust Deed.

(c) Modification, waiver and substitution

As more fully set out in the Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Sub-Class, concur with the Issuer or any other relevant parties in making (i) any modification of these Conditions, the Trust Deed, any Bond Policy or any Issuer Transaction Document which is of a formal, minor or technical nature or is made to correct a manifest error and (except as mentioned in the Trust Deed) (ii) any other modification and any waiver or authorisation of any breach or proposed breach of these Conditions, the Trust Deed, such Bond Policy or any such Issuer Transaction Document or other document which is in the opinion of the Bond Trustee not materially prejudicial to the interests of the Bondholders of that Sub-Class. Any such modification, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, Class or Classes and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class, Class or Classes as soon as practicable thereafter.

The Bond Trustee shall be entitled to assume that any such modification, waiver or authorisation is not materially prejudicial to the Bondholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Bonds.

As more fully set forth in the Issuer STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Issuer, subject to the directions of the Issuer Instructing Group but without the consent of the relevant Bondholders of any Sub-Class, to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Trust Deed and the Bonds of all Series and subject to the Class A Bonds continuing to carry the unconditional guarantee of the relevant Financial Guarantor.

(d) Voting by the Bondholders on Intercreditor Issues

In certain limited circumstances (as set out in the Issuer STID) the Bond Trustee shall be entitled to vote as the representative of Bondholders on intercreditor issues ("**Intercreditor Issues**"). The Bond Trustee shall vote on Intercreditor Issues (except in relation to any Basic Terms Modification) only in accordance with a direction by those holders of outstanding Bonds which constitute Qualifying Debt acting together whether by means of an Extraordinary Resolution or a request of at least one quarter of Principal Amount Outstanding of the holders thereof and shall not be obliged to vote unless it has been indemnified and/or secured to its satisfaction.

In accordance with the terms of the Issuer STID, if the Bond Trustee receives a Confirmation of Instruction (as defined in the Issuer STID) at any time before the date of a Bondholder meeting convened pursuant to this Condition 15(d) and the Trust Deed, it shall as soon as practicable notify the Bondholders that such meeting shall be cancelled and shall not be liable to any person for so doing.

16 Trustee Protections

(a) Trustee considerations

Subject to Condition 16(b), in connection with the exercise, under these Conditions, the Trust Deed, any Bond Policy or any Issuer Transaction Document, of its rights, powers, trusts, authorities and discretions (including, any modification, waiver, authorisation, determination or substitution), the Bond Trustee shall have regard to the interests of the holders of the Most Senior Class of Bonds then outstanding provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict of

interest between the holders of one or more Sub-Classes of such Bonds, it shall consider the interests of the holders of the Sub-Class of the Most Senior Class of Bonds outstanding with the shortest dated maturity and will not have regard to the consequences of such exercise for the holders of other Classes or Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer or any Financial Guarantor, nor shall any Bondholders relating thereto be entitled to claim from the Issuer, any Financial Guarantor or the Bond Trustee, any indemnification or other payment in respect of any consequence (including, any tax consequence) for individual Bondholders relating thereto of any such exercise.

(b) Exercise of rights

Except as otherwise provided in these Conditions and the Trust Deed, when exercising any rights, powers, trusts, authorities and discretions relating to or contained in the Conditions or the Trust Deed (other than in respect of any Entrenched Right or Reserved Matter or Basic Terms Modification, or in determining the occurrence of an Entrenched Right or Reserved Matter or Basic Terms Modification) which affects or relates to any Class A Bonds, the Bond Trustee shall only act with the consent of the relevant Financial Guarantor(s) in accordance with the provisions of the Issuer STID and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting. As a consequence of being required to act only with the consent of the relevant Financial Guarantor(s) in the circumstances referred to in the previous sentence, the Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Sub-Class of Bonds. Subject as provided in these Conditions and the Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Trust Deed, the Conditions or any Bond Policy in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (i) (a) (in respect of the matters set out in Condition 11 only) been so requested in writing by the holders of at least 25 per cent. of the Outstanding Principal Amount of the relevant outstanding Bonds or (b) been so directed by an Extraordinary Resolution and (ii) been indemnified or furnished with security to its satisfaction.

17 Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the Financial Times and, if the Bonds which are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*)). In addition, all notices to holders of Bonds (whether Bearer or Registered and whether Global Bonds or Definitive Bonds) will be published in such newspaper in Luxembourg. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear Bank S.A./N.V. as operator of the Euroclear System or

Clearstream Banking, société anonyme or any other Relevant Clearing System as specified in the relevant Pricing Supplement for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders 7 days after delivery to such clearing systems.

18 Indemnification of the Bond Trustee and Issuer Security Trustee

The Trust Deed and the Issuer STID contain provisions for indemnification of the Bond Trustee and the Issuer Security Trustee, respectively, and for their relief from responsibility, including provisions relieving them from taking any action including taking proceedings against the Issuer, any Financial Guarantor, and/or any other person or enforcing the Issuer Security unless indemnified and/or secured to their satisfaction. The Bond Trustee, the Issuer Security Trustee or any of their affiliates are entitled to enter into business transactions with the Issuer, any Financial Guarantor, the other Issuer Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

The Bond Trustee and the Issuer Security Trustee, in the absence of gross negligence or wilful default are exempted from any liability in respect of any loss, diminution in value or theft of all or any part of the Issuer Security, from any obligation to insure all or any part of the Issuer Security (including, in either such case, any documents evidencing, constituting or representing the same or transferring any rights, benefits and/or obligations thereunder) or to procure the same to be insured or monitoring the adequacy of any insurance arrangements.

19 European Economic And Monetary Union

(a) Notice of redenomination

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Issuer Instructing Group, the Bond Trustee, the Principal Paying Agent and the Registrar, as the case may be, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) Redenomination

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the Luxembourg Stock Exchange and any other stock exchange (if any) on which the Bonds are then listed, (in the case of Bearer Bonds) the Principal Paying Agent and (in the case of registered Bonds) the Registrar of such deemed amendments;

(ii) if Bonds have been issued in definitive form:

(a) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;

(b) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19 (European Economic and Monetary Union) shall remain in full force and effect; and

(c) new Bonds denominated in euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;

(iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as the sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and

(iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) Interest

Following redenomination of the Bonds pursuant to this Condition 19 (European Economic and Monetary Union):

(i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01; and

(ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in euro ranking *pari passu* to the relevant Sub-Class.

20 Miscellaneous

(a) Governing Law

The Trust Deed, the Issuer Deed of Charge, the Issuer STID, the Bonds, the Coupons, the Receipts, the Talons (if any), the relevant Bond Policy (if any) and the other Issuer Transaction Documents are governed by and shall be construed in accordance with the laws of England and Wales.

(b) Third Party Rights

No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the UK Contracts (Rights of Third Parties) Act 1999.

FORMS OF THE BONDS

Form and Exchange — Bearer Bonds

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "**Temporary Global Bond**"), without Coupons or Talons attached, or a permanent global bond (the "**Permanent Global Bond**"), without interest Coupons or Talons attached, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a "**Global Bond**") will be delivered prior to the Issue Date of the relevant Sub-Class of the Bonds to a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Bonds.

Temporary Global Bond exchangeable for Permanent Global Bond

If the relevant Pricing Supplement specifies the form of Bonds as being represented by "Temporary Global Bond exchangeable for a Permanent Global Bond", then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Coupons or Talons attached, not earlier than 40 days after the Issue Date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of principal and interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the Specified Office (as defined in the Paying Agency Agreement) of the Paying Agent; and
- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within 60 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form ("**Definitive Bonds**"):

- on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- at any time, if so specified in the relevant Pricing Supplement; or

- if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11(a) (Issuer Events of Default) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 60 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Temporary Global Bond exchangeable for Definitive Bonds

If the relevant Pricing Supplement specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Pricing Supplement specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bonds" and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Principal and interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Paying Agent within 60 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Permanent Global Bond exchangeable for Definitive Bonds

If the relevant Pricing Supplement specifies the form of Bonds as being "Permanent Global Bond exchangeable for Definitive Bonds", then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bonds:

- on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- at any time, if so specified in the relevant Pricing Supplement; or
- if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or

announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11(a) (Issuer Events of Default) occurs; or

- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 60 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Conditions applicable to the Bonds

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under "*Terms and Conditions of the Bonds*" above and the provisions of the relevant Pricing Supplement which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under "*Provisions Relating to the Global Bonds*".

Legend concerning United States persons

Global Bonds and Definitive Bonds and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Bond, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Form and Exchange — Global Bond Certificates

Global Certificates

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or any other clearing system will be represented by a Global Bond Certificate which will be registered in the name of a nominee for, and deposited with, a depositary for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.

Exchange

The Global Bond Certificate will become exchangeable in whole, but not in part, for Individual Bond Certificates if (a) Euroclear or Clearstream, Luxembourg and/or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) any of the circumstances described in Condition 11(a) (Issuer Events of Default) occurs, (c) at any time at the request of the registered Holder if so specified in the Pricing Supplement or (d) the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Global Bond Certificate.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within ten business days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate to the Registrar or the Transfer Agents (as the case may be) of such information as is required to complete and deliver such Individual Bond Certificates (including the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Paying Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar or the Transfer Agents (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Rights against Issuer

Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Trust Deed and the Issuer STID) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Global Bond Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

Clearing System Accountholders

References in the Conditions of the Bonds to "**Bondholder**" are (other than in the case of payment) references to the person shown in the records of the relevant clearing system as the holder of the Global Bond or Global Bond Certificate.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Global Bond Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or, in the case of Class A Bonds, the relevant Financial Guarantor, to such Accountholder and in relation to all other rights arising under the Global Bond or Global Bond Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Global Bond Certificate will be determined by the respective rules and procedures of Euroclear, Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Global Bond Certificate, Accountholders shall have no claim directly against the Issuer or, in the case of Class A Bonds, the relevant Financial Guarantor in respect of payments due under the Bonds and such obligations of the Issuer and, in the case of Class A Bonds, the relevant Financial Guarantor will be discharged by payment to the bearer of the Global Bond or the registered holder of the Global Bond Certificate, as the case may be.

Amendment to Conditions

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Information Memorandum. The following is a summary of certain of those provisions:

- *Meetings:* The holder of a Global Bond or Global Bond Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Global Bond Certificate shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Global Bond Certificate may be exchanged.
- *Cancellation:* Cancellation of any Bond represented by a Global Bond or Global Bond Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Global Bond Certificate.
- *Notices:* So long as any Bonds are represented by a Global Bond or Global Bond Certificate and such Global Bond or Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions provided that, in any case, all such notices shall be published in a leading daily newspaper having general circulation in Luxembourg in accordance with Condition 17.

PRO FORMA PRICING SUPPLEMENT

The Pricing Supplement in respect of each Sub-Class of Bonds will be substantially in the following form, duly supplemented, varied or amended (if necessary) and completed to reflect the particular terms of the relevant Bonds and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.

Pricing Supplement dated [date]

Dwr Cymru (Financing) Limited

Issue of [Sub-Class [•] (delete as appropriate)] [Aggregate Nominal Amount of Sub-Class] [Title of Bonds]

[(if Class A Bonds issued including the following:): unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest by

[Name of Financial Guarantor]

This document constitutes the Pricing Supplement relating to the issue of [indicate relevant Sub-Class] Bonds described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated [●] 2003. This Pricing Supplement must be read in conjunction with such Information Memorandum.

[Repayment of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed.]

[*Note: include above paragraph if not Class A Bonds being described in the Pricing Supplement.*]

The Issuer (a) has complied with its obligations under the listing rules of the Luxembourg Stock Exchange in relation to the admission to and continuing listing of the Programme and of any previous issues made by it under the Programme and listed on the same exchange; (b) confirms that it will have complied with its obligations under the listing rules of the Luxembourg Stock Exchange in relation to the admission to listing of the Bonds by the time when the Bonds are so admitted and (c) has not, since the last publication of information in compliance with the listing rules of the Luxembourg Stock Exchange about the Programme, any previous issues made by it under the Programme and listed on the Luxembourg Stock Exchange, or the Bonds, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as issuer in respect of the Bonds as they fall due.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.*]

1	(i)	Issuer:	**Dwr Cymru (Financing) Limited**
	(ii)	Financial Guarantor:	[Name of Financial Guarantor] [*delete if not Class A Bonds*]
2	(i)	Series Number:	[●]
	(ii)	Sub-Class Number:	[●]
	(If fungible with an existing Sub-Class, details of that Sub-Class, including the date on which the Bonds become fungible).		
3	Relevant Currency:		[●]
4	Aggregate Nominal Amount:		
	(i)	Series:	[●]
	(ii)	Sub-Class:	[●]

5	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [*plus accrued interest from [insert date*]] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net proceeds:	[●]
6	Specified Denominations:		[●]
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date (if different from the Issue Date):	[●]
8	Maturity Date:		[*specify date or (for Floating Rate Bonds) Interest Payment Date falling in [the relevant month and year*]]
9	Interest Basis:		[Fixed Rate/Floating Rate/Indexed]
10	Redemption/Payment Basis:		Applicable – Condition 8 [Instalments]
11	Change of Interest or Redemption/Payment Basis: [*Specify details of any provision for convertibility of Bonds into another interest or redemption/payment basis*]		
12	Put/Call Options:		Call option – see below
13	(i)	Status and Ranking:	[*if Class A Bonds, Class B Bonds or Class R Bonds:]* the Class A Bonds, Class B Bonds and Class R Bonds rank *pari passu* among each other in terms of interest and principal payments and rank in priority to the Class C Bonds and Class D Bonds; [*if Class C Bonds:*] the Class C Bonds rank *pari passu* among each other and are subordinated in terms of interest and principal payments to the Class A Bonds, Class B Bonds and Class R Bonds and rank in priority to the Class D Bonds; [*if Class D Bonds:*] the Class D Bonds rank *pari passu* among each other and are subordinated in terms of principal and interest payments to the Class A Bonds, Class B Bonds, Class R Bonds and Class C Bonds.
	(ii)	Status of the Guarantee:	[*if Class A Bonds:*] [The Bond Policy will rank *pari passu* with all unsecured obligations of the Financial Guarantor.]
	(iii)	FG Event of Default (if not MBIA):	[*Specify for Financial Guarantor*]
14	Listing:		[Luxembourg] [and other exchanges as applicable]
15	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16	Fixed Rate Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Rate:	[●] per cent. per annum [payable [annually / semi-annually / quarterly / monthly] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year
	(iii)	First Interest Payment Date:	[●]
	(iv)	Fixed Coupon Amount[(s)]:	[●] per [●] in Nominal Amount
	(v)	Broken Amount(s):	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*]
	(vi)	Day Count Fraction:	[Actual/Actual ISMA] [Actual/365 or Actual/ Actual] [Actual/365 Fixed] [Actual/360] [30/ 360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[*Not Applicable/give details*]
	(viii)	Benchmark Gilt:	[●]
17	Floating Rate Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Interest Payment Date(s):	[●]
	(ii)	First Interest Payment Date:	[●]
	(iii)	Business Day Convention:	[Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(iv)	Manner in which the Interest Rate(s) is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(v)	Party responsible for calculating the Interest Rate(s) and Interest Amount(s) (if not the Agent Bank):	[Not Applicable]
	(vi)	Screen Rate Determination:	
		– Relevant Rate:	[●]
		– Interest Determination Date(s):	[●]
		– Page:	[●]
	(vii)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]

		– Reset Date:	[●]
	(viii)	Margin(s):	[+/-][●] per cent. per annum
	(ix)	Minimum Interest Rate:	[Not Applicable]
	(x)	Maximum Interest Rate:	[Not Applicable]
	(xi)	Day Count Fraction:	[Actual/Actual ISMA] [Actual/365 or Actual/ Actual] [Actual/365 Fixed] [Actual/360] [30/ 360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]
	(xii)	Additional Business Centre(s):	
	(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions:	
	(xiv)	Relevant Financial Centre:	[●]
	(xv)	Representative Amount:	[●]
18	Zero Coupon Bond Provisions:		[Not Applicable/Applicable (*give details*)]
19	Indexed Bond Provisions:		[Applicable/Not Applicable]
			(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Index/Formula:	UK Retail Price Index
	(ii)	Interest Rate:	[●]
	(iii)	Calculation Agent responsible for calculating the interest due:	Agent Bank
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	Applicable – Condition 7(c) and Condition 7(e)
	(v)	Interest Payment Dates:	[●]
	(vi)	First Interest Payment Date:	[●]
	(vii)	Business Day Convention:	[Following Business Day/Modified Following Business Day /Preceding Business Day/other (*give details*)]
	(viii)	Minimum Indexation Factor:	[Not Applicable/*specify*]
	(ix)	Maximum Indexation Factor:	[Not Applicable/*specify*]
	(x)	Limited Indexation Months(s):	[●]
	(xi)	Reference Gilt:	[●]
	(xii)	Day Count Fraction:	[Actual/Actual ISMA] [Actual/365 or Actual/ Actual] [Actual/365 Fixed] [Actual/360] [30/ 360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]

20	Dual Currency Bond Provisions:	Not Applicable

PROVISIONS RELATING TO REDEMPTION

21	Call Option:		Applicable – Condition 8 (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional redemption date(s):	Yes. [In the case of Floating Rate Bonds, not before [●] and at a premium of [●], if any.]
	(ii)	Optional redemption amount(s) and method, if any, of calculation of such amount(s):	[●]
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[Not Applicable]
		(b) Maximum Redemption Amount:	[Not Applicable]
	(iv)	Notice period (if other than as set out in the Conditions):	[Not Applicable]
22	Put Option:		Not Applicable
23	Redemption Amount:		[Par/other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

24	Form of Bonds:		[Bearer/Registered]
	(i)	If Bearer Bonds:	[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.] [Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice.] [Permanent Global Bond exchangeable for Definitive Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
	(ii)	If Registered Bonds:	[Regulation S Global Registered Bond Certificate exchangeable for Regulation S Individual Registered Bond Certificates]
25	Relevant Financial Centre(s) or other special provisions relating to Payment Dates:		[Not Applicable/give details. *Note that this item relates to the place of payment, and not interest period end dates, to which item 17(iii) and 19(vi) relate*]
26	Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons		[Yes/No. If yes, give details]

	mature):	
27	Details relating to Partly Paid Bonds:	[Not Applicable]
28	Details relating to Instalment Bonds:	[Applicable/Not Applicable/*give details*]
	(i) Instalment Date:	[●]
	(ii) Instalment Amount:	[●]
29	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions in Condition 19 apply]
30	Consolidation provisions:	[Not Applicable]
31	Other terms or special conditions:	[Not Applicable/*give details*]
32	TEFRA rules:	[TEFRA C]/[TEFRA D]

INTERCOMPANY LOAN TERMS

33	Interest rate on relevant Term Advance/ Revolving Advance:	[●]
34	Term of relevant Term Advance/Revolving Advance:	[●]
35	Repayment Schedule for relevant Term Advance:	[●]
36	Other relevant provisions:	[●]

DISTRIBUTION

37	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager (if any):	[Not Applicable/*give name*]
38	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
39	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

40	ISIN Code:	[●]
41	Common Code:	[●]
42	Any Relevant Clearing System(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
43	Delivery:	Delivery [against/free of] payment
44	Paying Agent(s), Transfer Agents, Registrar and Agent Bank:	[●]

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Bonds described herein pursuant to the Programme for the issuance of up to £3,000,000,000 Guaranteed Asset-Backed Bonds and £3,000,000,000 Asset-Backed Bonds including up to £200,000,000 Class R Asset-Backed Bonds financing Dŵr Cymru Cyfyngedig.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: .....

Duly authorised

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CHAPTER 8
TAX CONSIDERATIONS

The following is a summary of the UK withholding taxation treatment at the date of this Information Memorandum in relation to payments of principal and interest in respect of the Bonds and Cayman Islands taxation treatment of the Issuer. These comments do not deal with other UK tax aspects of acquiring, holding or disposing of Bonds. They relate only to the position of persons who are absolute beneficial owners of the Bonds. Prospective purchasers of Bonds should be aware that the particular terms of issue of any Sub-Class of Bonds as specified in the relevant Pricing Supplement may affect the tax treatment of that and other Sub-Classes or Classes of Bonds. This summary as it applies to UK taxation is based upon UK law and Inland Revenue practice as in effect on the date of this Information Memorandum and, together with Cayman Islands taxation treatment of the Issuer, is subject to any change in law or practice that may take effect after such date.

Bondholders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

Prospective purchasers who are in any doubt as to their tax position should consult their professional advisers.

United Kingdom

Payment Of Interest By The Issuer

As a result of provisions contained in the UK Finance Act 2000, the only requirement that has to be satisfied in order for interest payable on the Bonds to be paid free of UK withholding tax is that the Bonds are listed on a recognised stock exchange within the meaning of section 841 of the UK Income and Corporation Taxes Act 1988. The Luxembourg Stock Exchange is such a recognised stock exchange. If this requirement is not satisfied as at the date interest on the Bonds is paid, then such interest may be paid under deduction of UK income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty. If UK withholding tax is imposed, then the Issuer will not pay any additional amounts under the terms of the Bonds.

The Issuer will be able to pay interest on the Bonds to Bondholders whom it reasonably believes are either a certain specified body (such as a pension fund) or are within the charge to UK corporation tax free of UK withholding tax, whether or not the Bonds are listed on a recognised stock exchange.

Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bond will not be subject to any UK withholding tax.

Where Bonds are issued with a redemption premium, as opposed to being issued at discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined above (and also subject to the exemption outlined above).

Provision Of Information By UK Paying And Collecting Agents

Where interest is paid on the Bonds by or through a UK paying or collecting agent, such agent may be required to furnish to the Inland Revenue details of the amounts of interest which they have paid or collected

and the names and addresses of the persons to whom such interest has been paid or on whose behalf such interest has been collected, together with such further information as may be prescribed by regulations to be made by the Inland Revenue (which may include details of the names and addresses of the persons who are beneficially entitled to any such interest paid or collected by the paying or collecting agents). In certain circumstances, the Inland Revenue might exchange such information with the tax authorities of other jurisdictions.

Payments By Financial Guarantors Under The Bond Policies

If a Financial Guarantor makes any payments in respect of scheduled payments of principal and interest on the Class A Bonds (or other amounts due under the Class A Bonds other than the repayment of amounts subscribed for the Class A Bonds), such payments may be subject to UK withholding tax subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by the Financial Guarantors may not be eligible for the exemption from UK withholding tax described above. If UK withholding tax is imposed, then the Financial Guarantor will not pay any additional amounts under the Bond Policies.

Proposed EU Directive On The Taxation Of Savings Income

On 13 December 2001, the Council of the European Union published a revised draft Directive to ensure effective taxation of savings income in the form of interest payments within the European Community. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member of State details of payment of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments. The Directive is not yet final and may be subject to further amendment.

Cayman Islands

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, the Issuer has obtained an undertaking from the Governor in Council of the Cayman Islands substantially in the following form:

"The Tax Concessions Law
(1999 Revision)
Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision), the Governor in Council undertakes with Dwr Cymru (Financing) Limited (the "Company"):

(a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares debentures or other obligations of the Company; or

  (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) the Tax Concessions Law (1999 Revision).

The concessions shall be for a period of twenty years from 27 February, 2001.

Governor in Council"

CHAPTER 9
SUBSCRIPTION AND SALE

Subscription and Sale

Bonds (other than the Class R Bonds) may be sold from time to time by the Issuer to any one or more of The Royal Bank of Scotland plc or Citigroup Global Markets (formerly Salomon Brothers International Limited) and any other dealer appointed from time to time (collectively, the "**Dealers**") pursuant to the dealership agreement dated 10 May 2001 made between, *inter alia*, DCC, the Issuer and the Dealers (the "**Dealership Agreement**"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, particular Dealers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. The Pricing Supplements will, *inter alia*, make provision for the form and Conditions of the relevant Bonds and the price at which such Bonds will be purchased by the applicable Dealers. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Sub-Class, Class or Series of Bonds.

Class R Bonds

Citibank, N.A. (together with any other underwriters appointed from time to time by the Issuer, the "**Class R Underwriters**") pursuant to an underwriting agreement dated 10 May 2001 between, *inter alios*, the Class R Underwriters, DCC and the Issuer (the "**Class R Underwriting Agreement**") may, for a period from and including the Initial Issue Date to and including 31 March 2006, subject to certain conditions, agree to subscribe or purchase, from time to time, and pay for the Class R Bonds offered for sale or resale by the Issuer from time to time, up to an underwriting commitment of £100,000,000.

The Class R Underwriters from time to time may novate all or part of their underwriting commitments to persons who meet certain criteria. Such novations shall be effected by the relevant Class R Underwriter and the person to whom such Class R Underwriter proposes to novate its underwriting commitment completing a novation certificate and delivering the same to the Issuer and each other Class R Underwriter, who will then execute the same. Such novation shall take effect on the later of the date upon which the last person executes the novation certificate or the date specified in such novation certificate.

On the Initial Issue Date, the Class R Underwriters subscribed and paid for all of the Class R Bonds. Such Class R Bonds were immediately repurchased, but not cancelled, by the Issuer on the Initial Issue Date.

Subject as described below (unless otherwise agreed), the conditions precedent to the resale of any Class R Bonds to the Class R Underwriters include:

- no Issuer Event of Default under the Bonds has occurred and is subsisting immediately prior to the sale of the Class R Bonds;
- all conditions precedent (other than the sale of the Class R Bonds themselves) to the making of the relevant R Advances under the Intercompany Loan Agreements have been satisfied; and
- certain other conditions.

It should be noted that if Class R Bonds are subsequently being resold by the Issuer for the sole purpose of financing the Issuer's repurchase of Class R Bonds which have previously been issued or sold, the only

condition precedent to the Class R Underwriter purchasing such Class R Bonds is that no Issuer Event of Default under the Bonds exists.

The Issuer may, upon 30 days' prior written notice to all other parties to the Class R Underwriting Agreement and the payment of any accrued fees, costs and expenses, terminate any amount of the facility provided by the Class R Underwriters thereunder to purchase the Class R Bonds, to the extent that such facility has not been utilised to the extent of Class R Bonds which are outstanding.

The Class R Underwriting Agreement is subject to a number of additional conditions and may be terminated and/or the underwriting facility suspended by the Class R Underwriters in certain circumstances by the Class R Underwriters prior to the Issuer's repurchase at any time of the Class R Bonds. The Issuer (failing whom DCC) has agreed to indemnify the Class R Underwriters against certain liabilities in connection with the offer, sale or repurchase of the Class R Bonds.

United States of America

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act, and may include Bonds in bearer form, which are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to, or for the account or benefit of, U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act, as amended, or the U.S. Internal Revenue Code of 1986 and regulations thereunder as appropriate. Each of the Dealers and each Class R Underwriter has agreed that it will not offer, sell or deliver any Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of each Sub-Class, within the United States or to, or for the account or benefit of, U.S. persons except as permitted by the Dealership Agreement or the Class R Underwriting Agreement, as appropriate, and that it will have sent to each dealer to which it sells Bonds during this 40 day period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Cayman Islands

No invitation or solicitation will be made to the public in the Cayman Islands to subscribe for the Bonds.

United Kingdom

Each Dealer and Class R Underwriter has represented, warranted and agreed that:

(1) ***No offer to public***: in relation to Bonds which have a maturity of one year or more and which are to be admitted to the Luxembourg Stock Exchange, it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to the expiry of the period of six months from the date of issue of the Bonds, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the FSMA and the POS Regulations 1995;

(2) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Bonds in, from or otherwise involving the United Kingdom; and

(3) ***Investment advertisements***: it has communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 231(1) of FSMA does not apply to the Issuer.

General

Other than with respect to the listing of the Bonds on the Luxembourg Stock Exchange, no action has been or will be taken in any country or jurisdiction by the Issuer or any of the Other Parties that would permit a public offering of Bonds, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Information Memorandum or any Pricing Supplement comes are required by the Issuer and the Other Parties to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement and the Class R Underwriting Agreement respectively provide that the Dealers and the Class R Underwriters shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers or the Class R Underwriters above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Sub-Class or Class of Bonds) or (in any other case) in a supplement to this document.

CHAPTER 10
GENERAL INFORMATION

1. Application has been made to list the Bonds issued under the Programme on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange has assigned registration number 12556 to the Programme. The constitutional documents of the Issuer and the legal notice relating to the issue will be registered with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where copies of these documents may be obtained upon request.

2. The establishment of the Programme and the issue of the Bonds were authorised by resolutions of the board of directors of the Issuer passed on 3 May 2001 and 4 April 2003 respectively. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

3. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and ISIN for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Asset-Backed Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

4. Bonds and Coupons appertaining thereto will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds an Asset-Backed Bond or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Asset-Backed Bond or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

5. Neither the Issuer nor Glas is or has been involved in any litigation or arbitration proceedings which have, may have or have had within the period of twelve months preceding the date of this Information Memorandum, a significant effect on the financial position of the Issuer or, as the case may be, Glas nor is the Issuer or Glas aware of any such proceedings as being pending or threatened.

6. The first financial statements of the Issuer have been prepared as of 31 March 2002. The Issuer has not published and does not intend to publish any interim financial statements. The first published audited annual financial statements and all future audited annual financial statements of the Issuer will be available free of charge in accordance with paragraph 11 below.

7. Since 31 March 2002, there has been no significant change in the financial or trading position, nor any material adverse change in the financial position or prospects, of the Issuer.

8. The financial statements of Glas have been audited for each of the two financial years immediately preceding the date of this Information Memorandum by PricewaterhouseCoopers and were not qualified. The last published audited annual financial statements and all future financial statements of Glas will be available free of charge in accordance with paragraph 11 below.

9. Other than as disclosed in this Information Memorandum, since 31 March 2002, the date of the last published audited accounts there has been no significant change in the financial or trading position, nor any material adverse change in the financial position or prospects, of Glas.

10. For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of the following documents may be inspected during normal business hours (in the case of Bearer Bonds) at the specified offices of the Principal Paying Agent and the Luxembourg Listing Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Issuer or the Bond Trustee, and, in the case of the documents referred to in items (e) to (j) inclusive, for collection free of charge during normal business hours at the specified office of the Luxembourg Listing Agent and the office of the Issuer, namely:

(a) the Issuer's Memorandum and Articles of Association;

(b) DCC's Memorandum and Articles of Association;

(c) Glas' Memorandum and Articles of Association;

(d) English translation of MBIA's Articles of Association and By-laws;

(e) MBIA Insurance Corporation's By-laws;

(f) the auditors' reports from PricewaterhouseCoopers in respect of Glas and the Issuer included in Appendices C, the latest annual audited financial statements of Glas and the Issuer and, in the case of Glas, its latest unaudited semi-annual financial statements;

(g) the auditors' report from PricewaterhouseCoopers in respect of the Issuer, the financial statements of DCC and the Issuer and, in the case of DCC, its unaudited semi annual financial statements, all of which were appendices to the Information Memorandum dated 4 May 2001;

(h) each Pricing Supplement relating to each Sub-Class of Bonds issued under the Programme;

(i) each Bond Policy and all related Endorsements relating to each Sub-Class of Class A Bonds issued under the Programme;

(j) the Ernst & Young opinion on the DCC financial projections which constitutes Appendix H to the Information Memorandum dated 4 May 2001;

(k) each Intercompany Loan Agreement relating to each Series of Bonds issued under the Programme;

(l) the Common Terms Agreement and any amendment thereto;

(m) the DCC STID;

(n) the Deed of Amendment to DCC STID;

(o) the DCC Deed of Charge;

(p) the Holdings Deed of Charge;

(q) the Glas Securities Deed of Charge;

(r) the Glas Deed of Charge;

(s) each Finance Lease;

(t) the Gen Re Swap;

(u) the DCC Account Bank Agreement;

(v) the Trust Deed;

(w) the Deed of Amendment to Trust Deed;

(x) the Master Framework Agreement and any amendment thereto;

(y) the Issuer Deed of Charge;

(z) the Issuer STID and any amendment thereto;

(aa) each Liquidity Facility Agreement;

(bb) each Hedging Agreement;

(cc) the Issuer Account Bank Agreement;

(dd) each Subscription Agreement;

(ee) the Class R Underwriting Agreement;

(ff) the Dealership Agreement;

(gg) the Paying Agency Agreement;

(hh) the Tax Deed of Covenant;

(ii) the Issuer Corporate Services Agreement; and

(jj) the Authorised Loan Facilities.

APPENDIX A
KEY CHARACTERISTICS OF THE BONDS

The ratings attributed below are anticipated ratings only, and may be subject to adjustment by the Rating Agencies when final ratings are published on the Initial Issue Date.

Sub-Class of Bonds

	A1	A2	A3	A4	A5	B1	B2	B3	B4	C1	C2	D1	R
Nominal amount per Bond	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	$1,000 $10,000 $100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000	£1,000 £10,000 £100,000
Total nominal amount	£350,000,000	£100,000,000	$286,000,000	£265,000,000	£85,000,000	£325,000,000	£100,000,000	£100,000,000	£35,000,000	£125,000,000	£125,000,000	£100,000,000	£100,000,000
Issue Price	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Currency	£	£	$	£	£	£	£	£	£	£	£	£	£
Anticipated rating - S&P/Fitch	AAA	AAA	AAA	AAA	AAA	A-	A-	A-	A-	BBB	BBB	N/A	A-
Anticipated rating - Moody's	Aaa	Aaa	Aaa	Aaa	Aaa	A3	A3	A3	A3	Baa3	Baa3	N/A	A3
Interest rate	6.015	3m£LIBOR +37.5bps Step up to 3m£LIBOR +93.75bps after 5 years	3m$LIBOR +42bps Step up to 3m$LIBOR +105bps after 7 years	3.514	3.512	6.907	3m£LIBOR +130bps Step up to 3m£LIBOR +325bps after 7 years	4.377	4.375	8.174 Conversion at 2011 to 3m£LIBOR +575	3m£LIBOR +250bps Step up to 3m£LIBOR +625bps after 7 years	3m£LIBOR +550bps Step up to 3m£LIBOR +1375 after 7 years	N/A[1]
Frequency of payment of interest	Annually	Quarterly	Quarterly	Semi-annually	Semi-annually	Annually	Quarterly	Semi-annually	Semi-annually	Annually (Quarterly after 31 March 2011)	Quarterly	Quarterly	Quarterly
Frequency of amortisation of principal	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Bullet repayment	Revolver
Expected maturity	31 March 2028	31 March 2006	31 March 2008	31 March 2030	31 March 2031	31 March 2021	31 March 2008	31 March 2026	31 March 2027	31 March 2011	31 March 2008	31 March 2008	31 March 2006
Final maturity	31 March 2028	31 March 2011	31 March 2013	31 March 2030	31 March 2031	31 March 2021	31 January 2016	31 March 2026	31 March 2027	31 March 2036	31 March 2036	31 March 2036	31 March 2011
Early redemption premium	Higher of par and spens	No call year 1[2] year 2 at 101% year 3 at 100.50% after 2004 at 100%	No call year 1[2] year 2 at 101% year 3 at 100.50% after 2004 at 100%	Higher of par (after indexation) and spens	Higher of par (after indexation) and spens	Higher of par and spens	No call year 1[2] year 2 at 101% year 3 at 100.50% after 2004 at 100%	Higher of par (after indexation) and spens	Higher of par (after indexation) and spens	Higher of par and spens until 31 March 2011	No call year 1[2] year 2 at 101% year 3 at 100.50% after 2004 at 100%	No call years 1[2] and 2 year 3 at 101% year 4 at 100.50% after 2005 at 100%	N/A
Payment dates for interest and principal payments	31 March	31 March 30 June 30 Sept 31 Dec	31 March 30 June 30 Sept 31 Dec	31 March 30 Sept	31 March 30 Sept	31 March	31 March 30 June 30 Sept 31 Dec	31 March 30 Sept	31 March 30 Sept	31 March	31 March 30 June 30 Sept 31 Dec	31 March 30 June 30 Sept 31 Dec	31 March 30 June 30 Sept 31 Dec
Form at issue	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form	Bearer form
Common Code	012831102	012831153	012831161	012831170	012906536	012831196	012831277	012831331	012906544	012831366	012831714	012831773	012831811
ISIN	XS0128311023	XS0128311536	XS0128311619	XS0128311700	XS0129065362	XS0128311965	XS0128312773	XS0128313318	XS0129065446	XS0128313664	XS0128317145	XS0128317731	XS0128318119

Notes:

(1) Interest rate on Class R Bonds to be determined on first resale by the Issuer.

(2) Year 1 ends 31 March 2002; each subsequent year runs 12 months to 31 March of the following year.

APPENDIX B
OFWAT LETTER

The following extract is taken from the letter to the Managing Directors of all Regulated Companies from the present DGWS issued on 31 January 2001, in which he indicated the general principles he would follow in carrying out periodic reviews.

The Duties Of The Director General Of Water Services And The Regulatory Framework

1. The Director's duties

(i) The Director's primary duties, as set out in the Water Industry Act 1991 (the "Act"), are to act in a manner that he considers best calculated to secure that the functions of Appointees are properly carried out and that Appointees are able to finance the proper carrying out of those functions. The Director also has duties to protect the interests of customers, to promote economy and efficiency and to facilitate competition and has certain environmental and recreational duties.

2. The Director's approach to Periodic Reviews

(i) The Director is required to reset price limits at five-yearly reviews. In doing so, he must have regard to his primary duties. Although the detailed methodology is not set out either in the Act or in companies' licence conditions, Ofwat has sought to conduct the reviews in an open and transparent manner and will continue to do so. The principles and methodology that have been adopted have been subject to wide consultation and consequent refinement.

(ii) Prices are set so that revenues cover the cost of the efficient provision of operations and capital investment, and allow a reasonable return on capital. The ability of the Appointee to maintain an adequate level and trend of critical financial indicators is also taken into account. This is with a view to ensuring that, provided the Appointee is efficiently managed and financed, it will remain able to finance its functions (including new investment), readily and at reasonable cost. Where appropriate, account is taken of the Appointee's duty to maintain investment grade credit ratings.

(iii) Ofwat has taken 'capital' to be the 'Regulatory Capital Value' ("RCV") of the Appointed Business. The criteria for determining the RCV are set out in "Setting price limits for water and sewerage services: The framework and business planning process for the 1999 Review" (February 1998) and updated in MD145, "The framework for setting prices", published in March 1999. The approach taken at the 1999 Periodic Review built on that adopted at the 1994 review. The initial capital value, as placed on the holding companies of the Appointees by the financial markets in 1989, was adjusted for net new allowable capital expenditure and depreciation charges since then, including at the 1999 review an adjustment to reflect past capital efficiencies, to arrive at the RCV. The implications of subsequent capital transactions including mergers and takeovers have not been taken into account when considering the RCV at Periodic Reviews.

(iv) At the 1999 Review the return on capital allowed was based on an assessment of the real post-tax weighted average cost of debt and equity for an efficiently-financed stand-alone listed water and sewerage company. This assessment was based on the market's view of a forward-looking cost of capital. Amongst other things, this assessment reflected Ofwat's perception that investors, despite the significant capital investment requirements, viewed the

water industry as relatively low risk and that it represents a lower risk than the UK stock market as a whole.

(v) Ofwat included in the allowed return at the 1999 Periodic Review an adjustment to reflect the prudently incurred cost of long term fixed rate debt. This adjustment was made to take into account a change in the 1999 methodology from the glidepath of returns on existing assets set in 1994. Ofwat also placed greater emphasis on current market evidence of the cost of capital rather than on longer term historical averages. There can, however, be no guarantee that such financing costs will be passed on to customers at future reviews since similar circumstances are unlikely to occur. The Director will be guided primarily by consideration of the Appointee's relative efficiency in managing its financial affairs, just as he will be guided by this consideration with regard to other areas of costs. An Appointee that fails to maintain the flexibility to respond to changing market conditions risks being judged relatively inefficient.

(vi) In setting prices, either at a five-yearly Periodic Review or if a company applies for an Interim Determination of price limits, the Director must make judgements as to the efficient level of costs to assume. A wide range of comparative techniques has been used to inform these judgements since privatisation.

(vii) Ultimately, the Director has discretion over the ways in which price limits are set and he needs to keep under review the regulatory framework in the light of all relevant developments. Consequently, whilst there can be no assurance that future Periodic Reviews will be conducted in the same manner as past ones, nevertheless, the principles underlying the present price review methodology have been developed over the past ten years and have proved robust. For the next Periodic Review, Ofwat will, of course, take into account the conclusions of the recent Competition Commission reviews in respect of Mid Kent Water and Sutton & East Surrey Water.

3. Regulation between five-yearly reviews

(i) Companies may seek a change to their price limits between Periodic Reviews under the Interim Determination arrangements set out in their Licences. These can be triggered in defined circumstances, for example, where a new legal obligation is imposed which was not taken into account at the last Periodic Review. These instances have, so far, not been very frequent.

(ii) A modification to the assessment of materiality for Interim Determinations was published with the Final Determination of price limits for 2000-05. This has now been accepted by the majority of companies. The Director believes that this licence modification strengthens the protection available to companies because it includes the effect of revenue loss and operating expenditure over a 15 year horizon in the assessment as to whether the materiality threshold for triggering a price limit adjustment has been met.

(iii) The Director has proposed in MD167 (31 January 2001) that the provisions commonly known as the 'shipwreck' clause be extended to all companies. The clause enables companies' price limits to be reset between Periodic Reviews if there has been a substantial adverse or favourable effect that could not have been avoided or is not attributable to prudent management action. The clause was (in its original form) included in all companies' licences at privatisation but was removed or revised as part of a review of Condition B of the licence before the 1995 Periodic Review. Less than half of the companies now have the clause in its licence. One company has asked the Director to reinsert this clause in their licence. The Director believes that it is desirable in principle that water companies' licences

should not differ unnecessarily and hence has proposed making the modification to all companies' licences.

4. Consistency and new ownership structures

(i) Following the 1999 Periodic Review a number of companies have explored the possibility of establishing new structural arrangements for the carrying out of their duties as water and sewerage undertakers. Companies that choose to structure their business in ways other than the equity-owned, vertically-integrated structure established at privatisation will receive no special or preferential treatment from Ofwat. Licence holders will continue to bear all of the licence obligations of a water and sewerage undertaker. They will continue to be regulated in the same way as other Appointees, and will operate under a price cap and be subject to Periodic Reviews.

(ii) A consistent approach is particularly important when considering whether licence conditions should be modified from the model which currently applies to the other Appointees. In each case the Director would consider carefully the need for licence modifications and would consult publicly on these.

(iii) The performance of all companies (in terms of efficiency and customer services) will be judged in a consistent manner, both through the league tables and analysis that Ofwat publishes annually and at Periodic Reviews. The ability to compare companies is an important tool for the regulator of the water and sewerage companies. It is an essential part of the system of incentive regulation and has led to substantial improvements in efficiency since privatisation.

(iv) Where Appointees have put in place new structural arrangements, the approach at Periodic Reviews will follow that for an equity-owned, vertically integrated Appointee. For example, the approach to RCVs will be assessed similarly and the weighted average cost of capital will be that which applies to the industry as a whole. The Director will, at the time, take account of the market's view of the cost of capital for the water industry.

(v) The proposal by a number of companies to separate the ownership of the assets from their operations and to contract out the latter will provide additional information to assist the Director with his assessment of relative efficiency. However, the appropriate level of costs to be assumed within price limits will continue to be assessed on a comparative basis and the existence of competitively tendered prices will not be seen, a priori, as evidence of efficiency nor guarantee that such costs will be fully reflected in price limits.

(vi) By way of illustration, Ofwat's approach to comparisons of capital programmes has identified widespread differences between companies' unit costs. This is despite these being based upon competitively tendered work or actual costs for capital works. Consequently, at the last Periodic Review, adjustments to capital costs varied from nil to a reduction of 25 per cent.

(vii) As for all Appointees, Ofwat will ensure that customers' interests continue to be protected after any new structural arrangements are in place through the provisions in the Water Industry Act 1991. This includes, in the last resort, using the powers to apply for the appointment of a Special Administrator in particular circumstances (as set out in Section 5(iv) and 5(v), together with sections 6(iii) and 6(vii)). The main reasons for doing this would be a breach by the company of one of its principal duties in the Act (see sections 37 and 94 of the Act), insolvency or non-compliance with an enforcement order following breach of a licence condition.

5. Licence termination

(i) There are a number of circumstances as provided in the Act in which a particular company could cease to be the licence holder for all or part of its area. These are set out below.

(ii) An Appointee could consent to the making of a replacement Appointment or a Variation, which changes its Water Supply or Sewerage Service Area. In these circumstances the Director has the authority to appoint a new licence holder.

(iii) An Appointee's Licence could be terminated in the circumstances set out in Condition O of its Licence. These are that it is at least 25 years after the 'Transfer Date' (1 September 1989) and 10 years after notice has been served by the Secretary of State (DETR)*. Termination would occur when a successor had been appointed. The power to terminate each Appointee's licence and appoint a successor in these circumstances lies with the Secretary of State although the Director may be authorised to do those things. When required to do so, Ofwat will advise the Secretary of State on the issue of notice of licence termination for any or all undertakers.

(iv) An Appointee's Licence could be terminated under the provisions of Special Administration. The Secretary of State* may apply to the High Court for a Special Administration Order and can also authorise the Director to do so. The main reasons for doing this would be a breach by the Appointee of one of its principal duties in the Act (see sections 37 and 94 of the Act) insolvency or non-compliance with an enforcement order following breach of a licence condition.

(v) A Special Administration Order requires the appointment by the High Court of a Special Administrator. The Special Administrator would have responsibility for transferring the water and sewerage business as a going concern to a successor company or companies, under a scheme which must be approved by the Secretary of State*, and running the business in the meantime.

(vi) The Act also provides in certain circumstances for the appointment of a new Appointee for part of the existing Appointee's Water Supply or Sewerage Service Area. These appointees are more commonly known as 'Inset Appointments'. These are allowed where the appointment relates to a part of the Appointee's area where no premises are served by the licence holder or the premises are supplied with not less than 100 megalitres of water in any period of twelve months or if the licence holder consents. The Director is authorised to appoint a new licence holder when making Inset Appointments.

6. Creditor protection in the event of licence termination

(i) In the event of licence termination by agreement or under the circumstances set out in Condition O (see 5(iii) above) the outgoing Appointee should prepare a 'Transfer Scheme', covering the transfer of property, rights and liabilities to new Appointee(s). The scheme may provide for debt obligations to be transferred to the new Appointee(s). The scheme would have to be agreed by the outgoing Appointee and the new Appointee and approved by the Secretary of State* or the Director if authorised.

(ii) In making an Appointment or Variation replacing the incumbent as the Appointee, the Secretary of State* (or Director) would (so far as is consistent with his other duties, particularly those in Section 2 of the Act) have to ensure that the interests of its creditors were not unfairly prejudiced by the transfer terms. This would be addressed through the requirement for approval of the Transfer Scheme.

(iii) Under Special Administration, the Act provides for the replacement of the Appointee by a successor. In the meantime the Special Administrator must run the business in a manner which protects the interests of shareholders and creditors of the company.

(iv) The Secretary of State*, or with his consent the Director, may approve a Transfer Scheme which moves the Appointed Business into the control of a successor. The Special Administrator would oversee the preparation of the Transfer Scheme.

(v) There can be no assurance that the transfer following Special Administration could be achieved on terms that enabled creditors of the Appointee to recover amounts due to them in full. The successor Appointee would be subject to the price limits applicable to the original Appointee prior to the transfer becoming effective. Ofwat's duty to protect customers would preclude the granting of price limit relief in such circumstances, unless these were justified by reference to factors other than the Special Administration and the transfer.

(vi) In addition under Special Administration the Secretary of State* may, with Treasury consent, arrange for financial assistance to be provided for the purpose of achieving the transfer of the business and its running in the meantime.

(vii) Although the protection of creditors is explicit in the Act, no licence has, as yet, been terminated under Condition O, nor has a Special Administration Order been made or sought.

* In the case of Dŵr Cymru and Dee Valley Water, these powers would be exercised by the National Assembly for Wales.

APPENDIX C
FINANCIAL INFORMATION RELATING TO GLAS CYMRU CYFYNGEDIG

Basis of Information

The information set out on pages 179 to 211 includes financial information for the two financial years ended 31 March 2002, which is extracted, without material adjustment, from the audited financial statements for each of the two years. The financial statements have been prepared under UK generally accepted accounting standards.

The information set out on pages 179 to 211 does not constitute full statutory accounts within the meaning of section 240(5) of the Companies Act. The reports of the auditors, PricewaterhouseCoopers, on the accounts for the two years ended 31 March 2002 were unqualified and contained no statements as are referred to in section 237(2) or (3) of the Companies Act. Statutory accounts for the two financial years ended 31 March 2002 have been delivered to the Registrar of Companies in England and Wales.

AUDITED ACCOUNTS OF GLAS
TO 2 YEARS ENDED 31 MARCH 2002

Independent auditors' report to the members of Glas Cymru Cyfyngedig

We have audited the financial statements which, comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the annual and financial review and the corporate governance statement.

We also, at the request of the directors (because the company applies the Financial Services Authority Listing Rules as if it were a listed company), review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2002 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
Cardiff

12 June 2002

Accounting policies

A summary of the Group's principal accounting policies are set out below, which have been consistently applied, except as noted in respect of deferred taxation:

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, comply with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in the "Grants and customer contributions" section below and note 10(b).

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiaries. The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. Intra-group transactions and profits are eliminated on consolidation.

Turnover

Turnover represents the income receivable in the ordinary course of business for services provided and excludes value added tax.

Goodwill

Negative goodwill arising on the acquisition of subsidiary undertakings and businesses, represents the difference between the fair value of the consideration given over the fair value of all the identifiable assets and liabilities acquired. Negative goodwill is included in the balance sheet and is amortised to the profit and loss account over its expected useful economic life.

Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and

(ii) other assets (including properties, overground operational structures and equipment, and fixtures and fittings).

Infrastructure assets

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity, enhancements or replacements of the network is treated as additions which are included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan.

Other assets

Other assets are included at cost less accumulated depreciation. Freehold land is not depreciated.

Other assets are depreciated over their estimated useful economic lives, which are principally as follows:

Freehold buildings	up to 60 years
Leasehold properties	over the lease period
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant, equipment and computer hardware & software	3-16 years

Assets in the course of construction are not depreciated until commissioned.

The carrying value of tangible fixed assets is reviewed for impairment if circumstances dictate that they may not be recoverable.

Leased assets

Where assets are financed by leasing arrangements, which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. The assets are depreciated over the shorter of their estimated useful life and the lease period.

All other leases are regarded as operating leases. Rental costs arising under operating leases are charged to the profit and loss account in the year to which they relate.

Grants and customer contributions

Grants and customer contributions relating to infrastructure assets have been offset against fixed assets (see note 10(b)). Grants and customer contributions in respect of expenditure on other fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Pension costs

The majority of the Group's employees belong to pension schemes, which are funded by both employers' and employees' contributions and which are of the defined benefit type. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Contribution rates are based on the advice of a professionally qualified actuary. Any difference between the charge to the profit and loss account and contributions paid is shown as an asset or liability in the balance sheet.

Debt and debt issue costs

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. Debt issue costs are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Investments

Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect permanent diminution in value. Those held as current assets are stated at the lower of cost and net realisable value.

Financial instruments

Derivative instruments utilised by the group are currency swaps, currency forward exchange contracts and interest rate swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Currency swap agreements and currency forward exchange contracts are translated at the rates ruling in the agreements and contracts.

Interest differentials, under swap arrangements used to manage interest rate exposure on borrowings and current asset investments, are recognised by adjusting interest payable or receivable as appropriate.

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Taxation

The charge for current taxation is based on the profit for the period as adjusted for disallowable and non-taxable items. The new accounting standard FRS19 “Deferred Tax” has been adopted. This requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations where future payment or receipt is more likely than not to occur. Previously, provision was made for deferred tax on all material timing differences to the extent that it was probable that a liability or asset would crystallise. In adopting FRS19, the Group has chosen to discount deferred tax assets and liabilities.

Provision for insurance liabilities

Provision is made for all known and estimated liabilities arising from uninsured claims against the group where there is a present obligation that will result in transfer of economic benefits.

Consolidated profit and loss account for the year ended 31 March 2002

	Note	2002 £m	2001 £m
Turnover	2	**406.1**	—
Net operating costs	4	**(223.2)**	—
Operating profit		**182.9**	—
Profit on disposal of fixed assets		**0.8**	—
Profit on ordinary activities before interest		**183.7**	—
Net interest payable	7	**(110.4)**	—
Profit on ordinary activities before taxation		**73.3**	—
Taxation on profit on ordinary activities	8	**(0.8)**	—
Profit on ordinary activities after taxation being retained profit for the year	23	**72.5**	—

All operations are continuing.

The group has no recognised gains and losses other than shown above, and therefore no separate statement of total recognised gains and losses has been presented.

The comparative period relates to the activity of the holding company, as the acquisition of Dŵr Cymru Cyfyngedig was completed on 11 May 2001.

Profit before taxation for the year was £24.1 million excluding the amortisation of negative goodwill and the release of fair value provisions (see Note 3).

Consolidated Balance sheet at 31 March 2002

Group	Note	2002 £m	2001 £m
Fixed assets			
Negative goodwill	9	**(138.0)**	—
Tangible assets	10	**2,358.1**	—
Investments	11	**0.2**	—
		2,220.3	—
Current assets			
Debtors	12	**64.0**	0.5
Current asset investments	13	**383.2**	—
		447.2	0.5
Current liabilities			
Creditors: amounts falling due within one year	14	**(247.8)**	(0.5)
Net current assets		**199.4**	—
Total assets less current liabilities		**2,419.7**	—
Creditors: amounts falling due after more than one year	14	**(2,179.5)**	—
Provisions for liabilities and charges	21	**(129.1)**	—
Deferred income	22	**(38.6)**	—
Net assets		**72.5**	—
Reserves			
Profit and loss account	23	**72.5**	—
Total reserves		**72.5**	—

The financial statements on pages 179 to 211 were approved by the Board of directors on 12 June 2002 and were signed on its behalf by:

Lord Burns
Chairman

M P Brooker
Managing Director

C A Jones
Finance Director

Balance sheet at 31 March 2002

Company	Note	2002 £m	2001 £m
Fixed assets			
Investments	11	—	—
		—	—
Current assets			
Debtors - due within one year	12	**—**	0.5
Debtors - due after one year	12	**5.2**	—
		5.2	0.5
Current liabilities			
Creditors: amounts falling due within one year	14	**(5.2)**	(0.5)
Net current assets		—	—
Reserves			
Profit and loss account		—	—
Total reserves		—	—

The financial statements on pages 179 to 211 were approved by the Board of directors on 12 June 2002 and were signed on its behalf by:

Lord Burns
Chairman

M P Brooker
Managing Director

C A Jones
Finance Director

Consolidated cashflow statement for the year ended 31 March 2002

	Note	2002 £m	2001 £m
Cash inflow/(outflow) from operating activities	24	**249.4**	(0.2)
Returns on investments and servicing of finance			
Interest received		**11.2**	—
Interest paid		**(57.6)**	—
Interest element of finance lease rental payments		**(9.0)**	—
		(55.4)	—
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(187.5)**	—
Sale of tangible fixed assets		**3.1**	—
Grants and contributions received		**7.4**	—
		(177.0)	—
Acquisitions			
Purchase of subsidiary undertaking		**(4.2)**	—
Cash balances acquired with subsidiary undertaking		**49.5**	—
		45.3	—
Cash inflow/(outflow) before use of liquid resources and financing		**62.3**	(0.2)
Management of liquid resources			
Purchase of commercial paper		**(96.7)**	—
Sale of commercial paper		**98.0**	—
Net increase in deposits		**(179.2)**	—
		(177.9)	—
Cash outflow before financing		**(115.6)**	—
Financing			
Long term loans received		**115.7**	—
Loan repayments		**(15.4)**	—
		100.3	—
Decrease in cash in the year	26	**(15.3)**	(0.2)

Reconciliation of movements in reserves for the year ended 31 March 2002

	2002 £m	2001 £m
At 1 April 2001	—	—
Profit for the year transferred to reserves	72.5	—
At 31 March 2002	72.5	—

Notes to the financial statements

1 Company profit and loss account

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's retained loss for the year is £27,142 (2001 £Nil).

2 Segmental analysis by class of business

(a) Turnover	2002 £m
Regulated water and sewerage activities	**401.0**
Non-regulated activities	**5.1**
	406.1

(b) Profit on ordinary activities before taxation	2002 £m
Regulated water and sewerage activities	
Operating profit	**182.7**
Profit on disposal of fixed assets	**1.4**
Net interest payable	**(111.2)**
	72.9
Non-regulated activities	
Operating profit	**0.2**
Loss on disposal of fixed assets	**(0.6)**
Interest receivable	**0.8**
	0.4

(c) Net assets	2002 £m
Regulated water and sewerage activities	**72.1**
Non-regulated activities	**0.4**
	72.5

All turnover and profit before taxation, by origin and destination, was attributable to the UK.

3 Profit before taxation

The profit before taxation is stated after crediting:	2002 £m
Amortisation of negative goodwill	**40.8**
Amortisation of acquisition fair value provisions	**8.4**
	49.2

Excluding these items, the profit before taxation for the year was £24.1m.

4 Net operating costs

	Note	2002 Total £m	2001 Total £m
Staff costs	5(b)	**5.5**	—
Amortisation of fair value provisions		**(8.4)**	—
Research and development		**0.1**	—
Rentals under operating leases:			
- Hire of plant and equipment		**—**	—
- Other		**0.2**	—
Fees paid to auditors:	6		
- Audit services (Company £3,000, 2001:£2,000)		**0.2**	—
- Other services		**—**	—
Amortisation of grants and contributions	22	**(1.3)**	—
Own work capitalised		**(3.2)**	—
Net rents payable		**1.6**	—
Other operating charges		**189.1**	—
		183.8	—
Depreciation (including infrastructure assets):			
- Own assets		**67.2**	—
- Assets held under finance leases		**13.0**	—
Goodwill amortisation		**(40.8)**	—
		223.2	—

5 Directors and employees

(a) Directors' emoluments excluding pension benefits

The following emoluments were earned by the Directors in respect of the financial year ended 31 March 2002.

2001/2002	Lord Burns	MP Brooker	NC Annett	CA Jones	JM Bryant	A Carnwath	GT Davies	DJ Hine	AJ Hobson	Total
					(£)					
Salary	—	158,933	118,167	118,167	—	—	—	—	—	395,267
Bonus	—	54,250	38,750	38,750	—	—	—	—	—	131,750
Fees	140,000	—	—	—	35,000	35,000	35,000	35,000	35,000	315,000
Benefits in kind	—	7,517	12,265	7,105	—	—	—	—	—	26,887
Total	140,000	220,700	169,182	164,022	35,000	35,000	35,000	35,000	35,000	868,904

The following emoluments were earned by the Directors in respect of the financial year ended 31 March 2001.

2000/2001	Lord Burns	MP Brooker	NC Annett	CA Jones	JM Bryant	A Carnwath	GT Davies	DJ Hine	AJ Hobson	Total
					(£)					
Salary	—	—	34,444	34,444	—	—	—	—	—	68,888
Bonus	—	—	100,000	100,000	—	—	—	—	—	200,000
Fees	98,333	—	—	—	2,917	29,583	39,583	2,917	2,917	176,250
Benefits in kind	—	—	—	—	—	—	—	—	—	—
Total	98,333	—	134,444	134,444	2,917	29,583	39,583	2,917	2,917	445,138

Notes:

(1) The highest paid director is MP Brooker = Aggregate emoluments: £220,700.

(2) Benefits in kind relate to receipt of car and fuel benefits, private medical insurance and life insurance.

(3) MP Brooker and CA Jones received a non-pensionable salary supplement in lieu of receiving a company car for part of 2001/2002.

(4) The financial statements for the year ended 31 March 2002 include a provision of £131,750 (31 per cent. of basic salary) for bonus potentially payable to executive directors for performance in the financial year 2001/2002. The bonus is payable under the terms of the performance related bonus scheme. However, the amount to be paid to each director cannot be determined until OFWAT publishes comparative performance data for 2001/2002 for the water and sewerage companies of England and Wales.

(5) Accordingly the combined emoluments of the directors paid in the financial year ended 31 March 2002 for their services as directors of the company and its subsidiaries are:

	2002	2001
Fees	£315,000	£176,250
Salaries (including benefits in kind)	£422,154	£ 68,888
Performance related bonus	£131,750	£200,000
	£868,904	£445,138

(6) In 2001 CA Jones and NC Annett were each awarded £100,000 bonus for the financial year, ended 31 March 2001 which predated the Company's acquisition of Welsh Water. £50,000 was paid in 2001/2002 with £25,000 being deferred and payable in each of 2002/2003 and 2003/2004.

It is company policy to make provision for pensions for executive directors in respect of their basic salaries, but not in respect of annual bonuses or benefits.

The Welsh Water Pension Scheme is a final salary occupational scheme and is fully funded and subject to Inland Revenue limits. The Company will make a provision for liabilities arising from contractual commitments to executive directors over the Inland Revenue "earnings cap".

The normal retirement age for Directors under the Welsh Water Pension Scheme is 60 and benefits accrue at 1/45th of salary per year of pensionable service, subject to an overall pension at normal retirement age of two-thirds of final pensionable salary. The scheme also provides life cover of four times pensionable pay for death in service, a pension payable in the event of ill health and a spouses pension payable on death.

Executive directors have the use of an expensed company car (or receive a salary supplement in lieu of a company car), and participate in a private health and medical insurance scheme.

Directors pension benefits 2001/2002

	Accrued Pension (per annum)	Increase in accrued pension over year	Transfer value equivalent of increase	Contributions paid by director	Contributions paid by company
			(£)		
MP Brooker	87,517	15,739	204,000	10,600	21,200
NC Annett	926	926	7,120	7,500	15,000
CA Jones	926	926	5,590	7,500	15,000

Notes:

(1) The Welsh Water Pension Scheme was established on 1 December 2001.

(2) Accrued pension for MP Brooker reflects contributions made in the year under the Hyder Water Pension Scheme. NC Annett and CA Jones ceased to make contributions to this scheme in the previous financial year (2000/2001). Each Director is currently a Deferred Member of the Hyder Water Pension Scheme.

(b) Staff costs	**2002 £m**
Wages and salaries	**4.8**
Social security costs	**0.1**
Pension costs (see Note 31)	**0.6**
	5.5

Of the above, £2.0 million has been charged to capital.

(c) Average monthly number of employees during the year (including executive directors)	**2002 Number**
Regulated water and sewerage activities	136

6 Auditors' remuneration

Auditors during the year were PricewaterhouseCoopers. They were used primarily for audit related services, costing £181,000, including regulatory audit services carried out to meet Ofwat reporting requirements. Non-audit professional services during the period amounted to £4,000.

The Board has adopted a formal policy with respect to accounting services. The external auditor will not be used for internal audit services and all non-audit work above a material threshold will be subject to prior competitive tendering.

7 Net interest payable

	2002 £m	2001 £m
Interest receivable	**12.9**	—
Interest payable:		
On loans	**(114.6)**	—
On finance leases	**(8.7)**	—
Net interest payable	**(110.4)**	—

8 Taxation

(a) Analysis of (charge)/credit in year	Note	2002 £m	2001 £m
Current tax:			
Adjustments in respect of previous periods		—	—
Total current tax	8(b)	—	—
Deferred Tax:			
Origination and reversal of timing differences		**(5.7)**	—
Increase in discount		**4.9**	—
Total deferred tax		**(0.8)**	—
Tax on profit on ordinary activities		**(0.8)**	—

b) Factors affecting current tax charge for year	2002 £m
Profit on ordinary activities before tax	73.3
Profit on ordinary activities multiplied by the corporation tax rate in the UK of 30%	22.0
Effects of:	
Expenses not deductible for tax purposes	1.9
Capital allowances in excess of depreciation	(9.7)
Other timing differences	1.2
Income not chargeable for tax purposes	(14.8)
Tax losses utilised	(0.6)
Current tax charge for year	—

9 Intangible fixed assets – negative goodwill

	Note	2002 £m
Cost:		
At 1 April 2001		—
Additions	27	**(178.8)**
At 31 March 2002		**(178.8)**
Amortisation		
At 1 April 2001		—
Released in the year		**40.8**
At 31 March 2002		**40.8**
Net Book Value		
At 31 March 2002		**(138.0)**
At 31 March 2001		—

Negative goodwill is being released to the profit and loss account on a straight line basis over the period from acquisition of the relevant subsidiary to 31 March 2005.

10 Tangible fixed assets – Group

(a) Analysis by type

Group	Freehold Land & Buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles plant equipment and computer hardware and software £m	Total £m
Cost					
At 1 April 2001	—	—	—	—	—
Assets acquired on acquisition of subsidiary	44.6	1,301.8	1,584.9	185.7	3,117.0
Additions	0.7	99.2	80.0	10.0	189.9
Grants and contributions	—	(6.6)	—	—	(6.6)
Disposals	(4.4)	(1.0)	(0.1)	—	(5.5)
At 31 March 2002	**40.9**	**1,393.4**	**1,664.8**	**195.7**	**3,294.8**
Accumulated depreciation					
At 1 April 2001	—	—	—	—	—
Accumulated depreciation acquired on acquisition of subsidiary	19.2	314.4	392.7	133.4	859.7
Charge for the year	0.9	30.5	40.6	8.2	80.2
Eliminated on disposals	(2.2)	(1.0)	—	—	(3.2)
At 31 March 2002	**17.9**	**343.9**	**433.3**	**141.6**	**936.7**
Net book value					
At 31 March 2002	**23.0**	**1,049.5**	**1,231.5**	**54.1**	**2,358.1**
At 31 March 2001	—	—	—	—	—
Analysis of net book value at 31 March 2002					
Owned	23.0	1,049.5	849.1	54.1	1,975.7
Held under finance leases	—	—	382.4	—	382.4
	23.0	**1,049.5**	**1,231.5**	**54.1**	**2,358.1**

Tangible fixed assets at 31 March 2002 include £158.4 million of assets in the course of construction, which are not depreciated until commissioned.

(b) The accounting treatment for grants and customer contributions in respect of infrastructure assets is described in the principal accounting policies on page 180. This treatment is not in accordance with Schedule 4 to the Companies Act 1985, which requires fixed assets to be shown at the purchase price or production cost and hence grants and contributions would be presented under the Act as deferred income. The treatment has been adopted in accordance with section 227(6) of the Companies Act 1985 in order to show a true and fair view, as in the opinion of the directors, it is not appropriate to treat grants and contributions on infrastructure assets as deferred income. The fixed assets to which they relate do not have determinable finite lives and therefore no basis exists for releasing any deferred income to the profit and loss account. As a consequence, the net book value of fixed assets and deferred income is £169.8 million lower than it would have been had grants and contributions been treated as deferred income indefinitely.

11 Fixed asset investments

(a) Group

Cost and net book value	2002 £m
At 1 April 2001	—
On acquisition	0.2
At 31 March 2002	0.2

Equity of less than 10 per cent. is held in the following unlisted company:

	Nature of Business	Country of Incorporation	Description of Holding
Water Research Centre (1989) Plc	Water Research	Great Britain	"B" Ordinary Shares of £1

In addition, the group holds 5 per cent. Convertible Unsecured Loan Stock 2014 at a cost of £23,326 in Water Research Centre (1989) Plc.

50 per cent. interest is held in the following unlisted company:

	Nature of Business	Country of Incorporation	Description of Holding
Garwnant Visitors Centre	Recreation and Education	Great Britain	Ordinary Shares of £1

The purpose of this investment is to operate retail, recreational and educational facilities.

(b) Company

Cost and net book value	2002 £m
At 1 April 2001	—
Additions	—
At 31 March 2002	—

Principal group companies:

The Company has a £1 investment in Glas Cymru (Securities) Cyfyngedig and has direct or indirect investments in the following subsidiary undertakings:

	Principal Activity	Country of Incorporation	Holding
Glas Cymru (Securities) Cyfyngedig	Holding company	England and Wales	100%
Dŵr Cymru (Holdings) Limited*	Holding company	England and Wales	100%
Dŵr Cymru Cyfyngedig*	Water and sewerage	England and Wales	100%
Dwr Cymru (Financing) Limited *	Raising finance	Cayman Islands	100%
Welsh Water Utilities Finance Plc*	Raising finance	England and Wales	100%

Note: * *Indirect Holdings*

12 Debtors

Group	2002 £m	2001 £m
(a) Amounts falling due within one year:		
Trade debtors	**26.5**	—
Other debtors	**4.9**	0.4
Prepayments and accrued income	**32.4**	0.1
	63.8	0.5
(b) Amounts falling due after more than one year:		
Other debtors	**0.2**	—
	64.0	0.5

Company	2002 £m	2001 £m
(a) Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	—	0.1
Other debtors	—	0.4
	—	0.5
(b) Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	5.2	—
	5.2	0.5

13 Current asset investments - Group

Management of liquid resources	2002 £m	2001 £m
Investments in:		
Fixed term and call deposits - due within one year	**376.2**	—
Fixed term and call deposits - due after one year	**7.0**	—
	383.2	—

Cash generated from operating activities and from long-term borrowings in advance of future capital expenditure obligations is invested. These investments include long-term deposits, government securities and corporate bonds.

14 Creditors

Group	Note	2002 £m	2001 £m
(a) Amounts falling due within one year:			
Bank overdrafts		**15.5**	0.2
Other loans	15	**0.6**	—
Finance leases	16	**1.1**	—
Trade creditors		**104.0**	0.1
Other taxation and social security		**2.8**	—
Other creditors		**123.8**	0.2
		247.8	0.5
(b) Amounts falling due after more than one year:			
Other loans	15	**1,891.8**	—
Obligations under finance leases	16	**287.5**	—
Other creditors - between one and five years		**0.2**	—
		2,179.5	—
(c) Loan reconciliation:			
Original bond issue		**1,910.0**	—
Add: Local authority loans		**5.4**	—
Less: Loan repurchase		**(15.0)**	—
Less: Bond issue costs unamortised		**(12.5)**	—
Add: Bond indexation		**4.5**	—
Loans as above		**1,892.4**	—

Company	2002 £m	2001 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**—**	0.2
Amounts owed to subsidiary undertaking	**5.2**	0.1
Other creditors	**—**	0.2
	5.2	0.5

15 Other loans

Group	2002 £m
Loans are repayable as follows:	
Within one year	**0.6**
Between one and two years	**0.6**
Between two and five years	**1.6**
After more than five years	**1,889.6**
	1,892.4
Repayable wholly within five years	**—**
Repayable wholly after five years	**1,887.0**
Repayable by instalments of which some repayments are after five years	**5.4**
	1,892.4

Interest rates on these loans ranged between 3.54 per cent. (index-linked) and 11.45 per cent.

On 10 May 2001 Dwr Cymru (Financing) Limited, a subsidiary company, completed a £1,910 million asset-backed bond issue, the proceeds of which were lent to Dŵr Cymru Cyfyngedig under an intercompany loan agreement. The costs directly attributable to issuing the bonds have been capitalised in accordance with FRS4 and are being amortised to the profit and loss account over the life of the bonds.

16 Finance leases

Group	2002 £m	2001 £m
Amounts due under finance leases within one year	**1.1**	—
Amounts due under finance leases between two and five years inclusive	**11.2**	—
Amounts due under finance leases after more than five years	**276.3**	—
	288.6	—

A long dated interest rate swap was arranged on 1 April 1994 which has the effect of fixing the rate of interest at 7.8 per cent. on floating rate sterling finance lease obligations of £55.3 million. This obligation reduces over a term of 12 years.

17 Maturity of gross borrowings for group

The expected maturity profile of the group's gross borrowings, before unamortised bond issue costs of £12.5 million, excluding bank overdrafts, was as follows:

	Expected maturity £m
In less than one year	**1.7**
In more than one year but not more than two years	**2.3**
In more than two years but not more than five years	**96.1**
In more than five years	**2,080.9**
	2,181.0

18 Financial instruments and risk management

(a) Treasury policies

Treasury activities are managed within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board. The policy specifically prohibits any transactions of a speculative nature and does not envisage the use of complex financial instruments. We use financial instruments, including derivatives, to raise finance and manage risk from our operations.

Surplus cash is invested in short and medium term sterling financial investments. The Board annually establishes the investment criteria, which is restricted to banks and other financial institutions meeting required standards assessed by the major credit rating agencies.

Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may only be changed with the consent of Dŵr Cymru Cyfyngedig's security trustee (the "Security Trustee").

The group minimises exposure to currency risk in respect of foreign currency denominated borrowing by using appropriate derivative instruments to hedge these liabilities into sterling obligations.

The group hedges at least 85 per cent. of its total outstanding liabilities into either index-linked or fixed rate obligations. Interest rate liabilities on floating rate liabilities are hedged through a combination of derivative instruments and cash balances.

The regulatory framework, under which revenues and the regulatory asset value are indexed also exposes the group to inflation risk. Subject to market constraints and Board approval the group therefore seeks to raise new debt through index-linked instruments or by entering into appropriate hedging transactions.

Liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of currencies, instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy no more than 20 per cent. of the principal of group borrowings can fall due in any twenty-four month period.

We maintain committed banking facilities in order to provide flexibility in the management of the group's liquidity. There is also a special liquidity facility, which we are required to maintain in order to meet certain interest and other obligations that cannot be funded through operating cashflow in the

event of a standstill being declared by the Security Trustee, following an Event of Default under the Common Terms Agreement. This facility is renewable on an annual basis.

(b) Short-term debtors and creditors

These have been excluded from the financial instrument disclosures set out in the following paragraphs.

(c) Interest rate and currency swaps

The group has entered into swap agreements in order to manage the interest rate and currency exposure of its financial liabilities and not for trading or speculative purposes.

At 31 March 2002 the notional principal amounts outstanding of the group's interest rate swap arrangements were £680.3 million with termination dates ranging from March 2008 to March 2031 and interest rates ranging from 5.67 per cent. to 7.80 per cent.

At 31 March 2002 the notional principal amount outstanding of the group's currency swap agreement was £200 million (U.S.$286 million), with the termination date being March 2008.

(d) Interest rate profile of financial liabilities

After taking into account the interest rate and currency swaps outlined above, the fixed, index-linked and floating interest rate profile of the group's financial liabilities is:

	Fixed £m	Index-Linked £m	Floating £m	Total £m
Bank overdraft	—	—	**15.5**	**15.5**
Bonds	**1,410.0**	**489.5**	—	**1,899.5**
Finance leases	**55.3**	—	**233.3**	**288.6**
Other loans	—	—	**5.4**	**5.4**
	1,465.3	**489.5**	**254.2**	**2,209.0**
Unamortised bond issue costs				**(12.5)**
				2,196.5

As at 31 March 2002 all the floating rate liabilities were hedged through floating rate cash balances.

The bank overdraft represents uncleared bank balances and therefore does not attract interest.

The floating rate interest liabilities on the finance leases are based on agreed margins to LIBOR and will therefore fluctuate from year to year. Interest rates on the other loans of £5.4 million have varied from 6.4 per cent. to 7.8 per cent. during the year.

The bonds were issued by our subsidiary company, Dwr Cymru (Financing) Limited. The finance leases and other loans are obligations of Dŵr Cymru Cyfyngedig.

The weighted average interest rates and expected maturities for fixed rate obligations are:

	Weighted average interest rate	Weighted average expected maturity
Bonds	7.06%	14.90 yrs
Finance leases	7.80%	12.00 yrs

(e) Interest rate profile of financial assets

	Fixed £m	Floating £m	Total £m
Short-term deposits	**350.5**	**—**	**350.5**
Call deposit account	**—**	**32.7**	**32.7**
	350.5	**32.7**	**383.2**

The sterling money market deposits above comprise deposits placed on money markets from overnight to thirteen months. All deposits are at fixed interest rates. The weighted average interest rate on commercial paper and money market deposits held during the year was 4.74 per cent. and the weighted average length of deposit held was 43 days.

The interest rate applied to the call deposit account is variable, and is calculated in accordance with market convention.

(f) Committed borrowing facilities available

The group has various undrawn committed borrowing facilities. The facilities available at 31 March 2002 were as follows:

	Note	2002 £m
Authorised loan facilities		**150.0**
Overdraft		**20.0**
Liquidity facility	18a	**150.0**
		320.0

The authorised loan facility expires on 31 March 2006. The overdraft facilities are repayable on demand.

(g) Fair values of financial instruments

In the table below, the fair value of short-term borrowings, current investments, cash at bank and in hand and bank loans and overdraft approximates to book values due to the short maturity of these instruments.

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between informed and willing parties, other than a forced liquidation or sale.

The fair value of long-term borrowings has been determined by reference to prices available from the financial markets on which these borrowings are traded.

	Book value £m	Fair value £m
Non - derivatives:		
Assets	—	—
Current asset investments	383.2	383.2
Liabilities:		
Borrowings less than one year	(1.7)	(1.7)
Fixed rate borrowings over one year	(800.0)	(839.4)
Index - linked borrowings over one year	(485.0)	(551.6)
Floating rate borrowings over one year	(917.3)	(917.3)
Bank overdraft	(15.5)	(15.5)
Derivative financial instruments held to manage the interest rate and currency profile and matched by primary financial instruments		
Interest rate swap	—	(40.3)
Currency swaps	—	0.8

As at 31 March 2002 there were no unmatched derivative financial instruments.

Gains and Losses on hedges

Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains/(losses) on hedges at 31 March 2002	0.8	(40.3)	(39.5)
Of which:			
Gains/(losses) expected to be recognised in the year ended 31 March 2003	(3.3)	(8.2)	(11.5)
Gains/(losses) expected to be recognised after the year ended 31 March 2003	4.1	(32.1)	(28.0)

19 Capital commitments

Group	2002 £m	2001 £m
Contracted for but not provided in the financial statements	**77.8**	—

In order to meet additional quality and service standards, together with growth and new demands, the group has capital investment obligations over the next three years amounting to approximately £740 million at current prices in the regulated water and sewerage business.

The company has no expenditure contracted for but not provided in the financial statements at 31 March 2002.

20 Leasing commitments

Group	Land and buildings 2002 £m	Land and buildings 2001 £m	Other 2002 £m	Other 2001 £m
At 31 March 2002 there were revenue commitments, in the ordinary course of business in the next year for the payment of rentals on non-cancellable operating leases expiring:				
within one year	—	—	—	—
between one and two years	—	—	—	—
between two and five years	—	—	—	—
after five years	**0.4**	—	—	—
	0.4	—	—	—

The company has no lease commitments.

21 Provisions for liabilities and charges

Group	Note	2002 £m	2001 £m
Deferred taxation	(a)	**76.4**	—
Restructuring provision	(b)	**5.1**	—
Contract management provision	(c)	**0.9**	—
Provision for uninsured losses	(d)	**4.0**	—
Provision for loss on swap closure	(e)	**20.0**	—
Provision for contract for difference	(f)	**22.7**	—
		129.1	—

(a) Deferred taxation

	2002 £m	2001 £m
Tax effect of timing differences		
Excess of tax allowances over depreciation	**335.8**	—
Other timing differences	**(4.6)**	—
Undiscounted provision for deferred tax	**331.2**	—
Discount	**(254.8)**	—
Discounted provision for deferred tax	**76.4**	—
Provision at 1 April 2001	**—**	—
On acquisition of subsidiary	**75.6**	—
Deferred tax charge on profit and loss account for period	**0.8**	—
Provision at 31 March 2002	**76.4**	—

(b) Restructuring provision

This provision at 31 March 2002 is in respect of payments to be made relating to surplus property.

The provision will be utilised over the next six years.

	2002 £m Severance	2002 £m Property	2002 £m Other	2002 £m Total
At 1 April 2001	—	—	—	—
Provision at date of acquisition	**0.5**	**5.1**	**0.1**	**5.7**
Charge to the profit and loss account	**0.2**	**0.6**	**—**	**0.8**
Utilised in the year	**(0.7)**	**(0.6)**	**(0.1)**	**(1.4)**
At 31 March 2002	**—**	**5.1**	**—**	**5.1**

(c) Management contract provision

This provision is in respect of expected costs of terminating sewerage management contracts on 31 March 2001 and the TUPE arrangements of the employees within that contract. It is anticipated that the provision will be utilised over the next twelve months.

	2002 £m
At 1 April 2001	**—**
Provision arising on acquisition of subsidiary	**1.6**
Utilised in the year	**(0.7)**
At 31 March 2002	**0.9**

(d) Provision for uninsured losses

This provision is in respect of uninsured losses and its utilisation period is uncertain due to the nature of insurance claims.

	2002 £m
At 1 April 2001	**—**
Provision arising on acquisition of subsidiary	**1.5**
Charge to profit and loss account	**3.4**
Utilised in the year	**(0.9)**
At 31 March 2002	**4.0**

(e) Provision for loss on swap closure

£9.8 million of this provision is the unamortised balance of a fair value of the provision relating to an acquired subsidiary's swap. The balance of £10.2 million is in respect of a liability that arose on the cancellation on 2 May 2001 of certain swap contracts and the revision of an existing swap arrangement

on 23 May 2001, which incorporated the liability on the early redemption of these cancelled swaps. It is anticipated that the provision will be utilised over the life of the revised swap, which expires on 31 March 2031.

	2002 £m
At 1 April 2001	—
Provision as at date of acquisition	**22.2**
Utilised in the year	**(2.2)**
At 31 March 2002	**20.0**

(f) Provision for fair value on contract for difference

On 14 March 2001, a subsidiary company Dŵr Cymru Cyfyngedig, entered into a swap contract with WPD Finance Limited, the Contract for Difference (CfD). This contract fixed the price of the operations and customer outsourcing contracts before the contracts were awarded. The outsourcing of the contracts were in total below the CfD price and consequently Dŵr Cymru Cyfyngedig will have to make payments to cover the shortfall. The CfD contract is therefore onerous and a fair value provision, on acquisition of Dŵr Cymru Cyfyngedig, was required. The above provision will be amortised until the contract ends on 31 March 2005.

	2002 £m
At 1 April 2001	—
Provision arising on acquisition of subsidiary	**30.0**
Charge to profit & loss account	—
Utilised in the year	**(7.3)**
At 31 March 2002	**22.7**

22 Deferred Income - Group

Deferred income relates to grants and other customer contributions received and receivable in respect of operational fixed assets and will be credited to the profit and loss account over the lifetime of those assets.

	2002 £m
At 1 April 2001	—
Deferred income arising on acquisition of subsidiary	**39.3**
Received and receivable during the year	**0.6**
Released to profit and loss account	**(1.3)**
At 31 March 2002	**38.6**

23 Reserves

	Group Profit and Loss Account £m	Company Profit and Loss Account £m
At 1 April 2001	**—**	—
Profit retained for the year	**72.5**	—
At 31 March 2002	**72.5**	—

24 Cash flow from operating activities

	2002 £m	2001 £m
Operating profit	**182.9**	—
Depreciation of tangible fixed assets	**80.2**	—
Amortisation of goodwill	**(40.8)**	—
Decrease/(increase) in debtors	**43.7**	(0.5)
(Decrease)/increase in creditors	**(10.5)**	0.3
(Decrease)/increase in restructuring provisions	**(6.1)**	—
Cash flow from operating activities	**249.4**	(0.2)

25 Reconciliation of net cash flow to movement in net debt

	2002 £m	2001 £m
Decrease in cash in the year	**(15.3)**	—
Debt acquired with purchase of subsidiary	**(2,075.1)**	—
Bank deposits and commercial paper acquired with purchase of subsidiary.	**205.3**	—
Movements in bank deposits and commercial paper during the year	**177.9**	—
Increase in loans during the year	**(113.9)**	—
Bond issue costs	**13.6**	—
Write-off of unamortised bond issue costs	**(1.1)**	—
Indexation of index-linked debt	**(4.5)**	—
	(1,813.1)	—
Net debt at 1 April 2001	**(0.2)**	—
	(1,813.3)	—

26 Analysis of net debt

	At 1 April 2001 £m	On acquisition £m	Cash Flow £m	Non-Cash Items £m	At 31 March 2002 £m
Net cash:					
Bank overdraft	(0.2)	—	**(15.3)**	—	**(15.5)**
	(0.2)	—	**(15.3)**	—	**(15.5)**
Liquid resources:					
Current asset investments	—	**205.3**	**177.9**	—	**383.2**
Finance leases	—	**(172.9)**	**(115.7)**	—	**(288.6)**
Debts falling due within one year	—	**(0.6)**	—	—	**(0.6)**
Debts falling due after one year	—	**(1,901.6)**	**1.8**	—	**(1,899.8)**
	—	**(2,075.1)**	**(113.9)**	—	**(2,189.0)**
Bond issue costs capitalised	—	—	**13.6**	**(1.1)**	**12.5**
Bond indexation	—	—	—	**(4.5)**	**(4.5)**
	—	**(2,075.1)**	**(100.3)**	**(5.6)**	**(2,181.0)**
Net debt	(0.2)	**(1,869.8)**	**62.3**	**(5.6)**	**(1,813.3)**

27 Acquisition of subsidiary undertakings

On 11 May 2001 Glas Cymru (Securities) Cyfyngedig, a 100 per cent. owned subsidiary of Glas Cymru Cyfyngedig, acquired the entire issued share capital of Dŵr Cymru (Holdings) Limited, the parent company of Dŵr Cymru Cyfyngedig, Dwr Cymru (Financing) Limited and Welsh Water Utilities Finance Plc. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book Value £m	Fair Value Adjustments £m	Fair Value £m
Fixed assets			
Tangible	**2,257.3**		**2,257.3**
Investments	**0.2**		**0.2**
Current assets			
Debtors	**107.5**		**107.5**
Cash	**49.5**		**49.5**
Current assets investments	**205.3**		**205.3**
Total assets	**2,619.8**		**2,619.8**
Creditors			
Bonds	**1,896.4**		**1,896.4**
Finance leases	**172.9**		**172.9**
Other loans	**5.8**		**5.8**
Trade creditors	**149.4**		**149.4**
Other creditors	**49.9**	**(4.0)**	**45.9**
Accruals	**1.0**		**1.0**
Provisions			
Deferred income	**38.8**		**38.8**
Reorganisation provision	**7.1**		**7.1**
Deferred taxation	**75.6**		**75.6**
Other	**1.5**	**42.4**	**43.9**
Total liabilities	**2,398.4**	**38.4**	**2,436.8**
Net Assets	**221.4**	**(38.4)**	**183.0**
Negative goodwill			**(178.8)**
Purchase consideration			**4.2**

Details of the fair value adjustments are as follows:

	Note	£m
Provision for Onerous Contracts		
Provision for swap fair value	21(e)	**11.3**
Provision for Contract for Difference	21(f)	**30.0**
Provision for contract with United Utilities Green Environment		**1.1**
		42.4
Other creditors not required		**(4.0)**
		38.4

The above fair value adjustments are provisional.

On 11 May 2001, the group acquired Dŵr Cymru (Holdings) Limited, an investment holding company, which does not trade. The principal trading subsidiary in the group which was acquired was Dŵr Cymru Cyfyngedig.

A summarised profit and loss account of Dŵr Cymru Cyfyngedig for the period from 1 April 2001 up to 10 May 2001 and from 11 May 2001 to 31 March 2002 is set out below:

	1 April 2001 to 10 May 2001 £m	11 May 2001 to 31 March 2002 £m
Turnover	52.6	**406.1**
Operating profit	21.2	**133.9**
Exceptional items	2.6	**—**
(Loss)/profit before taxation	(2.1)	**43.8**
Taxation credit/(charge)	0.2	**(0.5)**
(Loss)/profit after taxation	(1.9)	**43.3**

The profit after taxation in respect of Dŵr Cymru Cyfyngedig for the year ended 31 March 2001 was £46.9m.

28 Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or were outstanding at the end of the year.

29 Elan aqueduct

In 1984 Welsh Water Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7 million, representing the consideration for the conditional sale, has been invested in a trust fund. The principal function of the fund was to provide an income to Welsh Water Authority, whilst preserving the capital value of the fund in real terms. Welsh Water Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989. The assets of the fund are not included in these financial statements.

Interest receivable includes £1.2 million in respect of Elan Valley Trust Fund.

30 Related party transactions

In accordance with the exemption afforded by Financial Reporting Standard 8 there is no disclosure in these financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig group.

31 Pensions

Current arrangements

Following the acquisition of Dŵr Cymru Cyfyngedig by Glas Cymru Cyfyngedig, a new pension scheme for current employees was introduced with effect from 1 December 2001. All existing staff joined the new scheme on 1 December 2001. As a consequence, these staff have now become deferred members in the predecessor Hyder Limited schemes referred to later in this note. Under the new arrangements, employees will have the right to transfer their past service and benefits to the new scheme in the course of the next twelve months, pending finalisation of the transfer values under the predecessor schemes.

As at 31 March 2002 and up to the date of approval of these accounts, these transfer values had not been determined nor had any employee formally elected to transfer.

The first formal valuation of the new scheme is due at 31 March 2003. The current company contribution is 12 per cent. per annum. The contribution rate will be revisited at the valuation date. The pension cost in the period from 1 December 2001 to 31 March 2002 was £300,000.

Additional disclosures regarding the defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for the full implementation of FRS 17 in the year ending 31 March 2004.

An informal actuarial valuation of the new scheme at 31 March 2002 has been performed by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	%
Rate of increase in salaries	**4.46**
Rate of increase in pensions payment	**2.96**
Discount rate	**5.92**
Inflation assumption	**2.96**

The fair value of the assets, and the present value of the liabilities in the scheme, at the balance sheet date were:

	2002 Long term rate of return expected	2002 £'000
Equities	7%	—
Bonds	5%	—
Cash	4%	258.4
Total market value of the assets		258.4
Present value of scheme liabilities		243.1
Surplus in the scheme		15.3
Related deferred tax asset		(5.0)
Net pension asset		10.3

Balance Sheet	2002 £m
Net assets excluding pension asset	72.5
Pension asset*	—
Net assets including pension asset	72.5

Reserves	2002 £m
Profit and loss reserve excluding pension asset	72.5
Pension asset*	—
Profit and loss reserve including pension asset	72.5

Note:

* The net assets and profit and loss reserve of the company would increase by £10,300.

As the scheme has only been operative for four months the assets have been placed on deposit but will be invested in bonds and equities in line with the direction of the Trustees during the year ended 31 March 2003.

Previous arrangements

Until 30 November 2001, the company participated in a number of pension schemes in the UK. The assets of each pension scheme are held separately from the assets of the group and are administered by trustees. The principal schemes are defined benefit schemes in the UK - the Hyder Water Pension Scheme (HWPS), and the Water Mirror Image Pension Scheme (WMIS).

Under the terms of the Purchase and Sale Agreement by which Glas Cymru Cyfyngedig acquired Dŵr Cymru Cyfyngedig, the company will have no ongoing pension liabilities or the ability to use the surplus arising in respect of those employees who have transferred to the new service providers or in respect of the remaining employees who are now deferred members of the schemes.

The total pension cost for the period up to 30 November 2001 was £0.3 million (2001: £8.8 million). Payments are in accordance with actuarial guidance.

32 Status of the company

The company is limited by guarantee and does not have any share capital. In the event of the company being wound up, the liability of the members is limited to £1 each.

APPENDIX D
UNAUDITED INTERIM ACCOUNTS OF GLAS
FOR 6 MONTHS ENDED 30 SEPTEMBER 2002

Interim report and accounts for the six months ended 30 September 2002

Consolidated profit and loss account

		Six months ended 30 September 2002 Unaudited £m	Six months ended 30 September 2001 Unaudited £m	Year ended 31 March 2002 Audited £m
Group turnover	2	231.6	176.7	406.1
Net operating costs		(122.6)	(102.9)	(223.2)
Operating costs before depreciation & amortisation		(99.1)	(81.7)	(183.8)
Depreciation		(46.9)	(34.4)	(80.2)
Amortisation of negative goodwill	6	23.4	13.2	40.8
Net operating costs		(122.6)	(102.9)	(223.2)
Group operating profit		109.0	73.8	182.9
Profit on disposal of fixed assets		2.9	1.1	0.8
Profit on ordinary activities before interest		111.9	74.9	183.7
Net interest payable:	3	(61.2)	(44.2)	(110.4)
Profit on ordinary activities before taxation		50.7	30.7	73.3
Taxation on profit on ordinary activities	4	(6.7)	(1.6)	(0.8)
Retained profit for the period	5	44.0	29.1	72.5

All operations are continuing.

The group has no recognised gains and losses other than shown above, and therefore no separate statement of total recognised gains and losses has been presented.

The comparative results for the six months to 30 September 2001 and the year to 31 March 2002 include the results for Dŵr Cymru Cyf from the acquisition of the Company on 11 May 2001.

Retained profit for the period was £16.4 million excluding the amortisation of negative goodwill and release of fair value provision (30 September 2001: £11.8m)(31 March 2002: £23.3m)

Consolidated balance sheet at 30 September 2002

		At 30 September 2002 Unaudited £m	At 30 September 2001 Unaudited £m	At 31 March 2002 Audited £m
Fixed assets				
Negative goodwill	6	(117.5)	(139.0)	(138.0)
Tangible fixed assets	7	2,422.9	2,280.9	2,358.1
Investments		—	0.2	0.2
		2,305.4	2,142.1	2,220.3
Current assets				
Debtors	8	87.4	104.4	64.0
Current asset investments	9	288.9	235.0	383.2
Cash at bank and in hand		—	20.5	—
		376.3	359.9	447.2
Current liabilities				
Creditors: amounts falling due within one year		(219.9)	(205.6)	(247.8)
Net current assets		156.4	154.3	199.4
Total assets less current liabilities		2,461.8	2,296.4	2,419.7
Creditors: amounts falling due after more than one year		(2,175.2)	(2,067.3)	(2,179.5)
Deferred income		(38.6)	(38.7)	(38.6)
Provisions for liabilities and charges		(131.5)	(161.3)	(129.1)
Net assets		116.5	29.1	72.5
Reserves				
Reserves brought forward		72.5	—	—
Profit and loss account for the period		44.0	29.1	72.5
Reserves carried forward		116.5	29.1	72.5

The notes on pages 216 to 221 form an integral part of the interim report and accounts.

The interim report and accounts were approved by the directors on 13 November 2002.

Consolidated cash flow statement

	Six months ended 30 September 2002 Unaudited £m	Six months ended 30 September 2001 Unaudited £m	Year ended 31 March 2002 Audited £m
Operating profit	109.0	73.8	182.9
Depreciation charges	46.9	34.4	80.2
Amortisation of goodwill	(23.4)	(13.2)	(40.8)
(Decrease)/Increase in debtors	(21.4)	2.0	43.7
Decrease in creditors	(17.0)	(3.1)	(10.5)
Decrease in provisions	(3.5)	(3.9)	(6.1)
Net cash inflow from operating activities	90.6	90.0	249.4
Interest received	4.2	3.7	11.2
Interest paid	(85.4)	(25.5)	(66.6)
Net cash outflow from returns on investments and servicing of finance	(81.2)	(21.8)	(55.4)
Purchase of tangible fixed assets	(121.2)	(68.7)	(187.5)
Sale of tangible fixed assets	—	1.6	3.1
Grants and contributions received	3.7	4.5	7.4
Net cash outflow from capital expenditure and financial investment	(117.5)	(62.6)	(177.0)
Purchase of subsidiary undertakings	—	(4.2)	(4.2)
Adjustment to purchase consideration for subsidiary undertaking	2.9	—	—
Net cash acquired with subsidiaries	—	49.5	49.5
Net cash inflow from acquisitions and disposals	2.9	45.3	45.3
Net cash (outflow)/inflow before management of liquid resources and financing	(105.2)	50.9	62.3
Management of liquid resources			
Net decrease/(increase) in deposits	94.3	(0.8)	(179.2)
Purchase of commercial paper	(10.0)	(81.9)	(96.7)
Sale of commercial paper	10.0	52.6	98.0
Net cash inflow/(outflow) from management of liquid resources	94.3	(30.1)	(177.9)
Cash (outflow)/inflow before financing	(10.9)	20.8	(115.6)
Financing			
Long term loans received	30.8	—	115.7
Loan repayments	(35.0)	—	(15.4)
	(4.2)	—	100.3
(Decrease)/Increase in cash during the period	(15.1)	20.8	(15.3)

Notes to the accounts

1 Basis of preparation

The interim report and accounts are unaudited but have been formally reviewed by the auditors and their report is set out on page 222. The information shown for the period ended 31 March 2002 does not constitute full financial statements within the meaning of Section 240 of the Companies Act 1985. The results shown for the year ended 31 March 2002 are extracted from the full financial statements, which have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under section 237(2) or section 237(3) of the Companies Act 1985.

Accounting Policies

The accounting policies used in these statements are consistent with those used in the 2002 Financial Statements.

2 Segmental information

All reported turnover and operating profits arise from the operation of a water and sewerage business in the UK.

3 Net interest payable

	Six months ended 30 September 2002 Unaudited £m	Six months ended 30 September 2001 Unaudited £m	Year ended 31 March 2002 Audited £m
Interest payable on loans	61.1	46.2	114.6
Interest on finance leases	8.2	3.7	8.7
	69.3	49.9	123.3
Interest receivable	(8.1)	(5.7)	(12.9)
Net interest payable	61.2	44.2	110.4

4 Taxation on profit on ordinary activities

The consolidated tax charge of £6.7 million is based on an estimated effective tax rate on profit for the year to 31 March 2003 of 13 per cent. The tax charge consists entirely of deferred tax which has been discounted. There is no current tax charge for the period due primarily to the tax allowances arising from the capital investment programme. The effective rate of tax is low because of the discounting of the deferred tax and consolidation of accounting adjustments which are not taxable.

5 Profit for the period

The retained profit for the period is stated after crediting:

	Six months ended 30 September 2002 Unaudited £m	Six months ended 30 September 2001 Unaudited £m	Year ended 31 March 2002 Audited £m
Amortisation of negative goodwill	23.4	13.2	40.8
Release of acquisition fair value provisions	4.2	4.1	8.4

Excluding these items, the retained profit for the period was £16.4 million (30 September 2001: £11.8 million) (31 March 2002 £23.3 million).

6 Negative Goodwill arising on acquisition

On 11 May 2001 Glas Cymru (Securities) Cyfyngedig, a 100 per cent. owned subsidiary of Glas Cymru Cyfyngedig, acquired the entire issued share capital of Dŵr Cymru (Holdings) Limited, the parent company of Dŵr Cymru Cyfyngedig, Dwr Cymru (Financing) Limited and Welsh Water Utilities Finance plc.

	At 30 September 2002 Unaudited £m
At 1 April	(138.0)
Adjustment to purchase consideration of subsidiary undertaking	(2.9)
Amortisation of goodwill during the period	23.4
At 30 September	(117.5)

Negative goodwill is being written back to the profit and loss account on a straight-line basis over the period from the acquisition of Dŵr Cymru Cyfyngedig on 11 May 2001 to 31 March 2005

7 Tangible fixed assets

	Freehold land & buildings £m	Infrastructure Assets £m	Operational structures £m	Vehicles, plant equipment & computer hardware & software £m	Total £m
Cost					
At 1 April	40.9	1,393.4	1,664.8	195.7	3,294.8
Additions	—	68.4	43.7	4.2	116.3
Grants & contributions	—	(3.7)	—	—	(3.7)
Disposals	(0.8)	—	(0.6)	—	(1.4)
At 30 September	40.1	1,458.1	1,707.9	199.9	3,406.0
Accumulated depreciation					
At 1 April	17.9	343.9	433.3	141.6	936.7
Charge for the period	0.2	17.9	23.6	5.3	47.0
Eliminated on disposals	(0.6)	—	—	—	(0.6)
At 30 September	17.5	361.8	456.9	146.9	983.1
Net book value					
At 30 September	22.6	1,096.3	1,251.0	53.0	2,422.9
At 31 March	23.0	1,049.5	1,231.5	54.1	2,358.1

8 Debtors

	At 30 September 2002 Unaudited £m	At 30 September 2001 Unaudited £m	At 31 March 2002 Audited £m
(a) Amounts falling due within one year:			
Trade debtors	33.1	34.5	26.5
Other debtors	16.7	36.3	4.9
Prepayments and accrued income	37.4	33.6	32.4
	87.2	104.4	63.8
(b) Amounts falling due after more than one year:			
Other debtors	0.2	—	0.2
	87.4	104.4	64.0

9 Current asset investments

	At 30 September 2002 Unaudited £m	At 30 September 2001 Unaudited £m	At 31 March 2002 Audited £m
Investments in:			
Fixed term and call deposits – due within one year	288.9	235.0	376.2
Fixed term and call deposits – due after one year	—	—	7.0
	288.9	235.0	383.2

Cash generated from operating activities and from long-term borrowings in advance of future capital expenditure obligations is invested. These investments include long-term deposits, government securities and corporate bonds.

10 Analysis and reconciliation of net debt

	At 30 September 2002 Unaudited £m	At 30 September 2001 Unaudited £m	At 31 March 2002 Audited £m
Bank overdraft	(30.6)	—	(15.5)
Cash and bank deposits repayable on demand	—	20.5	—
Commercial paper & other bank deposits	288.9	235.0	383.2
	258.3	255.5	367.7
Debt due after one year	(1,871.4)	(1,908.3)	(1,904.3)
Debt due within one year	(0.6)	(5.8)	(0.6)
Finance leases	(317.3)	(172.9)	(288.6)
Unamortised bond issue costs	12.0	13.1	12.5
	(2,177.3)	(2,073.9)	(2,181.0)
Net debt	(1,919.0)	(1,818.4)	(1,813.3)
(Decrease)/Increase in cash during the period	(15.1)	20.8	(15.3)
Debt acquired with purchase of subsidiary	—	(2,088.7)	(2,088.7)
Bank deposits and commercial paper acquired with purchase of subsidiary	—	205.3	205.3
Movements in bank deposits and commercial paper during the period	(94.3)	29.7	177.9
Decrease in loans during period	35.0	—	15.4
New finance lease	(30.8)	—	(115.7)
Amortisation of debt issue costs	(0.5)	(0.5)	(1.1)
Indexation of index-linked debt	—	1.6	(4.5)
Bond issue costs acquired with subsidiary	—	13.6	13.6
Movement in net debt during the period	(105.7)	(1,818.2)	(1,813.1)
Net debt at start of period	(1,813.3)	(0.2)	(0.2)
Net debt at end of period	(1,919.0)	(1,818.4)	(1,813.3)

11 Elan Valley Trust Fund

In 1984 Welsh Water Authority entered into a conditional sale and purchase agreement with Severn Trent Water Authority for the sale of the aqueduct and associated works by which the bulk supply to Severn Trent reservoirs is conveyed.

The sum of £31.7 million, representing the consideration for the conditional sale, has been invested in a trust fund. The principal function of the fund was to provide an income to Welsh Water Authority, whilst preserving the capital value of the fund in real terms. Welsh Water Authority's interest in this fund was vested in Dŵr Cymru Cyfyngedig under the provisions of the Water Act 1989. Dŵr Cymru's interest in the capital of the Fund is conditional on certain future events which are beyond its control. The assets of the fund are therefore not included in these financial statements.

Independent review report to Glas Cymru Cyfyngedig

Introduction

We have been instructed by the company to review the financial information, which comprises the profit and loss account, balance sheet, cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2002.

PricewaterhouseCoopers
Chartered Accountants
Cardiff

13 November 2002

APPENDIX E
FINANCIAL INFORMATION RELATING TO ISSUER

Basis of Information

The information set out on pages 225 to 234 includes financial information for the period from incorporation on 15 February 2001 to 31 March 2002 which is extracted, without material adjustment, from the audited financial statements. The financial statements have been prepared under UK generally accepted accounting standards.

The information set out on pages 225 to 234 does not constitute full statutory accounts within the meaning of section 240(5) of the Companies Act. The report of the auditors, PricewaterhouseCoopers, on the accounts for the period from incorporation on 15 February 2001 to 31 March 2002 was unqualified and contained no statements as are referred to in section 237(2) or (3) of the Companies Act. Statutory accounts for the period from incorporation on 15 February 2001 to 31 March 2002 have been delivered to the Registrar of Companies in England and Wales.

AUDITED ACCOUNTS OF THE ISSUER
FOR THE PERIOD FROM INCORPORATION
ON 15 FEBRUARY 2001 TO 31 MARCH 2002

Independent auditors' report to the members of Dwr Cymru (Financing) Limited

We have audited the financial statements which comprise the profit and loss account, balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cardiff

12 June 2002

Principal accounting policies

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom. A summary of the principal accounting policies is as follows:

Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention.

Interest receivable

Interest receivable represents the recharge to Dŵr Cymru Cyfyngedig of costs and interest incurred in respect of the raising of finance on the company's behalf.

Deferred taxation

FRS 19, Deferred Taxation, has been adopted in the preparation of these accounts and requires deferred tax to be provided in full on all material timing differences between the recognition of gains and losses in the accounts and their recognition for tax purposes where future payment or receipt is more likely than not to occur.

Profit and loss account for period from incorporation on 15 February 2001 to 31 March 2002

	Note	2002
		£'000
Net operating costs	1	—
Interest receivable	3	106,016
Interest payable	3	(105,844)
Profit on ordinary activities before taxation		172
Taxation	4	—
Retained profit for the year	11	172

All operations are continuing.

The company has no recognised gains and losses other than the loss shown above and therefore no statement of total recognised gains and losses has been presented.

Balance sheet as at 31 March 2002

	Note	2002
		£'000
Current assets		
Debtors due within one year	5(a)	52,902
Debtors due after one year	5(b)	1,910,000
Cash at bank and in hand		70
		1,962,972
Current liabilities		
Creditors: amounts falling due within one year	6(a)	(48,251)
Net current assets		1,914,721
Total assets less current liabilities		1,914,721
Creditors: amounts falling due after more than one year	6(b)	(1,914,519)
Net assets		202
Capital and reserves		
Called up share capital	9	30
Reserves	11	172
Equity shareholder's funds	10	202

The financial statements on pages 225 to 234 were approved by the Board of directors on 12 June 2002 and were signed on its behalf by:

Lord Burns
Chairman

M P Brooker
Managing Director

C A Jones
Finance Director

Notes to the financial statements

1 Net operating costs

Audit fees of £3,000 have been borne by a fellow group company.

2 Directors and employees

(a) Directors' emoluments

There were no directors' emoluments in the period.

(b) Staff costs

The company had no employees during the period.

3 Net interest receivable

	2002
	£'000
Interest receivable – group	106,014
Interest receivable – other	2
	106,016
Interest payable on loans	(105,844)
Net Interest receivable	172

4 Taxation

	Note	2000
		£'000
(a) Analysis of change in period		
Current tax		—
Total current tax	4(b)	—
(b) Factors affecting charge for period		
Profit on ordinary activities before tax		172
Profit on ordinary activities multiplied by the corporation tax rate in the UK of 30%		52
Group relief (receivable) for no consideration		(52)
Tax charge for current period	4(a)	—

5 Debtors

	2002
	£'000
(a) Amounts falling due within one year:	
Amounts owed by group undertakings	52,902
(b) Amounts falling due after more than one year:	
Amounts owed by group undertakings	1,910,000
	1,962,902

6 Creditors

	2002
	£'000
(a) Amounts falling due within one year:	
Sundry creditors	48,251
(b) Amounts falling due after more than one year:	
Sterling bonds	1,714,519
US Bonds	200,000
	1,914,519

7 Maturity of financial liabilities

The expected maturity profile of the company's gross borrowings was as follows:

	Expected Maturity
	£'000
In less than one year	—
In more than one year but not more than two years	—
In more than two years but not more than five years	100,000
In more than five years	1,814,519
	1,914,519

8 Financial instruments and risk management

(a) Treasury policies

Treasury activities are managed within a formal set of treasury policies and objectives, which are reviewed regularly and approved by the Board of the company's holding company, Glas Cymru Cyfyngedig. The policy specifically prohibits any transactions of a speculative nature and does not envisage the use of complex financial instruments. We use financial instruments, including derivatives, to raise finance and manage risk from our operations.

Surplus cash is invested in short and medium term sterling financial investments. The Board annually establishes the investment criteria, which is restricted to banks and other financial institutions meeting required standards assessed by the major credit rating agencies.

Certain detailed policies for managing interest rate, currency and inflation risk and that for managing liquidity risk are approved by the Board and may only be changed with the consent of Dŵr Cymru Cyfyngedig's security trustee (the "Security Trustee").

The company does not take exposure to currency risk in respect of foreign currency denominated borrowing and uses appropriate derivative instruments to hedge these liabilities into sterling obligations.

The group hedges at least 85 per cent. of its total outstanding liabilities into either index-linked or fixed rate obligations. Interest rate liabilities on floating rate liabilities are hedged through a combination of derivative instruments and cash balances.

The regulatory framework, under which revenues and the regulatory asset value are indexed, also expose the group to inflation risk. Subject to market constraints and Board approval the group therefore seeks to raise new debt through index-linked instruments or by entering into appropriate hedging transactions.

Liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of borrowings across a range of currencies, instruments, type and maturities. Our policy is to ensure that the maturity profile does not impose an excessive strain on our ability to repay loans. Under this policy no more than 20 per cent. of the principal of group borrowings can fall due in any twenty-four month period.

We maintain committed banking facilities in order to provide flexibility in the management of the group's liquidity. The company also has a special liquidity facility, which we are required to maintain in order to meet certain group interest and other obligations that cannot be funded through operating cashflow of the group in the event of a standstill being declared by the Security Trustee. The facility is renewable on an annual basis.

(b) Short-term debtors and creditors have been excluded from the financial instrument disclosures set out in the following paragraph.

(c) Interest rate and currency swaps

The company has entered into swap agreements in order to manage the interest rate and currency exposure of its financial liabilities and not for trading or speculative purposes.

At 31 March 2002 the notional principal amounts outstanding of the company's interest rate swap arrangements were £625.0 million with termination dates ranging from March 2008 to March 2031 and interest rates ranging from 5.67 per cent. to 5.95 per cent.

At 31 March 2002 the notional principal amount outstanding of the company's currency swap agreement was GBP 200 million (USD 286 million), with the termination date being March 2008.

(d) Interest rate profile of financial liabilities

After taking into account the interest rate and currency swaps outlined above, the fixed, index-linked and floating interest rate profile of the company's financial liabilities is:

	Fixed £m	Index-Linked £m	Floating £m	Total £m
Bonds	1,425.0	489.5	—	1,914.5

The bonds were issued by the company on 10 May 2001.

The weighted average interest rates and expected maturities for the fixed rate obligations are:

	Weighted average interest rate	Weighted average expected maturity
Bonds	7.06%	14.90 yrs

(e) Committed borrowing facilities available

The company has various undrawn committed borrowing facilities. The facilities available at 31 March 2002 were as follows:

	£m
Authorised loan facilities	120.0
Liquidity facility	150.0
	270.0

The authorised loan facility expires on 31 March 2006.

(f) Fair values of financial instruments

In the table below, the fair value of short-term borrowings, current investments, cash at bank and in hand and bank loans and overdraft approximates to book values due to the short maturity of these instruments.

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between informed and willing parties, other than a forced liquidation or sale.

The fair value of long-term borrowings has been determined by reference to prices available from the financial markets on which these borrowings are traded.

	Book value £m	Fair value £m
Non-derivatives:		
Assets		
Bank and current asset investments	0.1	0.1
Liabilities		
Fixed rate borrowings over 1 year	(800.0)	(839.4)
Indexed-linked borrowings over 1 year	(485.0)	(551.6)
Floating rate borrowings over 1 year	(625.0)	(625.0)
Derivative financial instruments held to manage the interest rate and currency profile and matched by primary financial instruments		
Interest rate swaps	—	(32.1)
Currency swaps	—	0.8

As at 31 March 2002 there were no unmatched derivative financial instruments.

Gains and losses on hedges

Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 31 March 2002	0.8	(32.1)	(31.3)
Of which:			
Gains/(losses) expected to be recognised in the year ended 31 March 2003	(3.3)	(6.0)	(9.3)
Gains/(losses) expected to be recognised after year ended 31 March 2003	4.1	(26.1)	(22.0)

9 Share capital

	2002
	£'000
Authorised:	
50,000 group ordinary shares of £1 each	50
Allotted, called up and fully paid:	
30,000 ordinary shares of £1 each	30

During the period the company issued 30,000 ordinary shares of £1 each for a cash consideration of £30,000.

10 Reconciliation of movement in shareholder's funds

	2002
	£'000
At 15 February 2001	—
Shares issued in the period	30
Retained profit for the period	172
At 31 March 2002	202

11 Reserves

Profit and loss account

	2002
	£'000
At 15 February 2001	—
Profit retained for the period	172
At 31 March 2002	172

12 Directors' and officers' loans and transactions

No loans or credit transactions with any directors, officers or connected persons subsisted during the year or were outstanding at the end of the year.

13 Cash flow note required

In accordance with FRS1 (revised) a cashflow statement is not presented since Glas Cymru Cyfyngedig, the ultimate holding company, has prepared a consolidated cashflow statement for the period ended 31 March 2002.

14 Related party transactions

In accordance with the exemption afforded by Financial Reporting Standard 8 there is no disclosure in these financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig group.

15 Immediate and Ultimate Holding Company

Immediate holding company is Dŵr Cymru (Holdings) Limited and the ultimate holding company and controlling party is Glas Cymru Cyfyngedig, both of which are registered in England and Wales. The largest and smallest group within which the results of the company are consolidated is that headed by Glas Cymru Cyfyngedig whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, CF46 6LY.

INDEX OF DEFINED TERMS

The following terms are used throughout this Information Memorandum. The page number opposite a term indicates the pages on which such term is defined.

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