**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 and up to £3,000,000,000 Guaranteed Asset-Backed Bonds

**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**"). Any Bonds (as defined below) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein. This Prospectus does not affect any Bonds issued before the date of this Prospectus.

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 Final Terms (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche 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).

Application has been made to the Commission de Surveillance du Secteur Financier (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, for the approval of this Prospectus as a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**"). No approval has been made by the CSSF for Class A Bonds, Class C, Class D or Class R Bonds (each as defined below) pursuant to this prospectus. Application has also been made for the Bonds issued under the Programme for the period of 12 months from the date of this Prospectus to be listed on the Official List and admitted to trading on the "Bourse de Luxembourg" of the Luxembourg Stock Exchange (the "**Luxembourg Stock Exchange Regulated Market**"). References in this Prospectus to the Bonds being "listed" (and all related references) shall mean that such Bonds have been listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange Regulated Market. The Luxembourg Stock Exchange Regulated Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on Markets in financial instruments.

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 the final terms or, as the case may be, a drawdown prospectus (containing such final terms) supplementary to this prospectus (the final terms or the drawdown prospectus, the "**Final Terms**"), 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 Final Terms.

Details of the Bonds issued on 10 May 2001 (the "**Initial Issue Date**"), 16 April 2003 (the "**Second Issue Date**"), 28 November 2006 (the "**Third Issue Date**"), 7 December 2006 (the "**Fourth Issue Date**") and 31 March 2010 (the "**Fifth Issue Date**") and which have not been redeemed and so remain in issue, are set out in the table on page 187 herein.

Each Sub-Class of the Class B Bonds to be issued is expected on issue to have the three credit ratings listed below from the respective credit rating agencies below.

| Class | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| Class B Bonds | A (Stable) | A3 (Stable) | A (Stable) |

The Class A Bonds issued on 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.. (A decision of the Comité des Entreprises d'Assurance (the French insurance regulator) on 27 December 2007 approved the transfer of the business of MBIA Assurance S.A. to MBIA UK Insurance Limited with effect from 28 December 2007 pursuant to article L.324-1 of the French Insurance Code (the "**Transfer**"); MBIA UK Insurance Limited has, therefore, assumed all rights and obligations of MBIA Assurance S.A. under the Transaction Documents as if it were the Financial Guarantor (as defined below) of the Class A Bonds issued on the Initial Issue Date.) Further Class A Bonds that were issued on the Fourth 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) pursuant to financial guarantee insurance policies (and the endorsements thereto) issued by MBIA UK Insurance Limited. References to the "**Initial Financial Guarantor**" shall mean MBIA Assurance S.A. prior to the Transfer and MBIA UK Insurance Limited after the Transfer. As of the date of this Prospectus, any Class A Bonds currently in issue have a rating of, and any further Class A Bonds to be issued pursuant to this Programme are expected to have a rating of, A (Stable) by Standard & Poor's, a division of the McGraw-Hill Companies, Inc ("**Standard & Poor's**"), A3 (Stable) by Moody's Investors Service Limited ("**Moody's**") and A (Stable) by Fitch Ratings Limited ("**Fitch**" and together with Standard & Poor's and Moody's, the "**Rating Agencies**"). Any credit rating in respect of Class A Bonds is based solely upon the financial strength of the Initial Financial Guarantor or any other applicable Financial Guarantor (as defined below), as the case may be (except to the extent that such rating is lower than that assigned to the Class B Bonds by the same Rating Agency, in which case, the rating assigned to the Class A Bonds shall be the same as that assigned to the Class B Bonds by the same Rating Agency). As the ratings of the Initial Financial Guarantor have been lowered to ratings below those ratings assigned to the Class B Bonds, the ratings assigned to the Class A Bonds, at the date of this Prospectus, are the same as those ratings assigned to the Class B Bonds by the respective Rating Agencies. None of the Class B Bonds, Class R Bonds, Class C Bonds or Class D Bonds will benefit from a guarantee of any Financial Guarantor (as defined below) or any other financial institution. Any ratings ascribed to the Bonds reflect only the views of the Rating Agencies.

For the avoidance of doubt, the Issuer is not intending as of the date of this Prospectus to issue any further Class A or Class R Bonds pursuant to this Prospectus and no approval has been made by the CSSF for such Class A Bonds or Class R Bonds. Although the credit ratings of any Class A Bonds which may be issued under the Programme in the future are expected to have the credit ratings described above, their actual credit ratings are not known as at the date of this Prospectus. If in the future any Financial Guarantor shall provide a Financial Guarantee in respect of any Class A Bonds to be issued in the future, this Prospectus shall be updated, or a supplement to this prospectus published, to include information on such Financial Guarantor and the relevant Financial Guarantee. For the avoidance of doubt, the Issuer is not intending, as of the date of this Prospectus, to issue any further Class C or Class D Bonds pursuant to this prospectus. If any Class C Bonds are issued under the Programme in the future, such Class C Bonds are expected to have a credit rating assigned by the Rating Agencies, however, such credit rating will be known at the date of issue only. If any Class D Bonds are issued under the Programme in the future, such Class D Bonds will not be assigned a credit rating.

**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.**

The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by Standard & Poor's, Fitch and Moody's upon registration pursuant to the CRA Regulation. The entities of each of Standard & Poor's, Fitch and Moody's established in the European Union have applied to be registered under the CRA Regulation, although the result of such applications have not yet been determined.

Whether or not a rating in relation to any Tranche of Bonds will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms.

The European Securities and Market Association (ESMA) is obliged to maintain on its website a list of credit rating agencies registered in accordance with the Regulation. This list must be updated within 5 working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the Regulation.

***Please see Chapter 1: "Risk Factors" to read about certain factors you should consider before buying any Bonds.***

**ARRANGERS FOR THE PROGRAMME**

**The Royal Bank of Scotland** **HSBC**

**DEALERS**

**The Royal Bank of Scotland** **HSBC**

Prospectus dated 21 June 2011

## IMPORTANT NOTICE

*This prospectus (the "**Prospectus**") comprises a base prospectus for the purposes of the* Prospectus Directive *and for the purpose of giving information with regard to the Issuer and DCC which, according to the particular nature of the Issuer and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.*

*The Issuer accepts responsibility for the information contained in this Prospectus (other than with respect to the DCC Information and the Glas Information (both as defined below)). 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 (other than with respect to the DCC Information and the Glas Information) is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*DCC accepts responsibility for the information contained in Chapter 4 "DCC and the Glas Group" on pages 42 to 52 insofar as it relates to DCC, Chapter 5 "Water Regulation", Chapter 1 "Risk Factors – Factors that may affect the Issuer's ability to fulfil its obligations under Bonds issued under the Programme – Legal, Regulatory and Competition Considerations – Water Supply Licensing" on page 8 insofar as it relates to DCC and, insofar as they relate to DCC, paragraphs 6, 8 and 12 in Chapter 10 "General Information" (together the "**DCC Information**"). To the best of the knowledge and belief of DCC (which has taken all reasonable care to ensure that such is the case), the DCC Information contained herein is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*Glas accepts responsibility for the information contained in the documents incorporated by reference insofar as they relate to Glas and the information contained therein (as more specifically detailed on pages 24 to 25 "Documents Incorporated by Reference"), Chapter 4 "DCC and the Glas Group" on pages 52 to 55 and, insofar as they relate to Glas, paragraphs 6, 7, 8, 9 and 12 in Chapter 10 "General Information" (together the "**Glas Information**"). To the best of the knowledge and belief of Glas (which has taken all reasonable care to ensure that such is the case), the Glas 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 (other than with respect to the DCC Information), the Guarantors (other than Glas with respect to the Glas Information), the Initial Financial Guarantor , 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 Current DCC Hedge Counterparties, the Cash Manager, the Dealers, the Class R Underwriters (if any) or the Arrangers (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 Prospectus or any other information supplied in relation to the Bonds or their distribution. None of the Other Parties (other than DCC with respect to the DCC Information only and Glas with respect to the Glas Information only) has made any independent investigation or verification of the accuracy or completeness of any information contained in this Prospectus and none of them (other than DCC with respect to the DCC Information only and Glas with respect to the Glas Information only) is responsible for any of the information contained in this Prospectus.*

*None of DCC, the Guarantors, the Initial Financial Guarantor, the Issuer Security Trustee, the Bond Trustee, the DCC Security Trustee or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a "securitisation" for the purposes of the CRD (as defined below) and the application of Article 122a to any such transaction) in any jurisdiction or by any regulatory authority. If the regulatory treatment of an investment in the Bonds is relevant to an investor's decision whether or not to invest, the investor should make its own determination as*

*to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the "Risk Factors – Changing financial regulatory environment and whether Bonds are a "securitisation position" for the purposes of the Capital Requirements Directive and other regulations" section of this Prospectus for further information on Article 122a.*

*This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below).*

*Each of (i) the Issuer, in respect of all content other than the DCC Information and Glas Information, (ii) DCC, in respect of the DCC Information only, and (iii) Glas, with respect to the Glas Information only, have confirmed to the Dealers that this Prospectus (including, for this purpose, each relevant Final Terms) contains all information which is material in the context of the relevant Bonds (including all information required by applicable laws and the information that, according to the particular nature of the Issuer, DCC, the Guarantors and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attaching to the Bonds) is true, accurate and complete in all material respects and is not 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 Prospectus 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 Prospectus (together with, as the case may be, the relevant Final Terms) contains or, as the case may be, will contain all such information as may be required by all applicable laws, rules and regulations.*

*Prospective investors should have regard to the factors described in Chapter 1 "Risk Factors" in this Prospectus. This Prospectus does not describe all of the risks of an investment in the Bonds. Neither this Prospectus nor any Final Terms or any other financial statements constitutes an offer or an invitation to subscribe for or purchase any Bonds and are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or any of the Other Parties that any recipient of this Prospectus, any Final Terms or any other financial statements should subscribe for or purchase the Bonds. Purchasers of Bonds should conduct such independent investigation and analysis regarding the Issuer, DCC, Glas or any relevant Financial Guarantor (if applicable), the security arrangements and the Bonds as they deem appropriate to evaluate the merits and risks of an investment in the Bonds. Purchasers of Bonds should have sufficient knowledge and experience in financial and business matters, and access to, and knowledge of, appropriate analytical resources, to evaluate the information contained in this Prospectus and the relevant Final Terms (if any) and the merits and risks of investing in the Bonds in the context of their financial position and circumstances 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. None of the Other Parties expressly undertakes to review the financial condition or affairs of the Issuer or DCC during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Bonds of any information coming to the attention of any of the Other Parties. The risk factors identified in this Prospectus are provided as general information only and the Issuer and Other Parties disclaim any responsibility to advise purchasers of Bonds of the risks and investment considerations associated therewith as they may exist at the date hereof or as they may from time to time alter.*

*No person has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer, DCC or Glas 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 Prospectus or any Final Terms nor the offering, sale or delivery of any Bond shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer, DCC or Glas since the date hereof or, if later, the date upon which this Prospectus 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 Prospectus and any Final Terms and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms 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, this Prospectus and any Final Terms are being distributed only to, and directed only at, persons who (i) are outside the United Kingdom or (ii) are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "**relevant persons**") and in each case who do not constitute the public in the Cayman Islands. This Prospectus and any Final Terms, or any of their respective content, must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus and any Final Terms relates are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. For a description of certain restrictions on offers, sales and deliveries of Bonds and on the distribution of this Prospectus or any Final Terms and other offering material relating to Bonds, see Chapter 9 "Subscription and Sale".*

*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 which would permit a public offering of any Bonds or distribution of this Prospectus or any Final Terms in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus, any Final Terms 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 have (and any R Class Underwriters will be expected to) represented that all offers and sales will be made by them on the same terms. Persons into whose possession this Prospectus or any Final Terms 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 Prospectus or any Final Terms, see Chapter 9 "Subscription and Sale".*

*In the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds) until*

*and excluding the date of the implementation of Directive 2010/73/EU (the "**2010 PD Amending Directive**") into Luxembourg law or the laws of any other relevant Member State, and following (and including) the date of implementation of the 2010 PD Amending Directive into Luxembourg law or the laws of any other relevant Member State, shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds).*

*All references in this Prospectus 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, 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 Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot such Bonds or effect transactions with a view to supporting the market price of such Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any persons acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Sub-Class is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Sub-Class and 60 days after the date of the allotment of the relevant Sub-Class. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules***.

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# CHAPTER 1
# RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Bonds issued under the Programme are also described below. The occurrence of certain events below could lead to, amongst other things:*

*(i) a DCC Event of Default under an Intercompany Loan Agreement (as defined below);*

*(ii) an Issuer Event of Default under the Bonds or acceleration of the Bonds (as defined below);*

*(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, the relevant Financial Guarantor were to default on its obligations under any Financial Guarantee; and*

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

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Bonds issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bonds may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Bonds are 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.*

*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.*

## Factors that may affect the Issuer's ability to fulfil its obligations under Bonds issued under the Programme

### Legal, 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 Water Services Regulation Authority (the "**WSRA**") could have a material adverse effect on the operations and financial condition of DCC.

The WSRA is the successor to the Director General of Water Services ("**DGWS**") and is also commonly referred to as "**Ofwat**" (see Chapter 5 "*Water Regulation*" under "*Regulatory Framework*" and "*The WSRA and the Secretary of State*"). The WSRA has a duty to exercise its powers in accordance with the provisions of the UK Water Industry Act 1991 (the "**WIA**"). This includes a duty to ensure that an efficient company is able to finance the proper carrying out of its functions. Also, certain changes in circumstances can trigger adjustments to price limits between periodic reviews under the provisions relating to the Interim Determination of K (as defined below) in the Instrument of Appointment. As with any Undertaker (as defined

below), 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:

**DCC's Instrument of Appointment**

Under the WIA, the conditions of DCC's appointment (the "**Appointment**") as an Undertaker (as defined below) may be modified by the WSRA with the consent of DCC. If the WSRA and DCC cannot agree to the modifications, the conditions may be modified by the WSRA without the consent of DCC following a reference on the proposed modifications to the Competition Commission ("**CC**"). In addition, the Welsh Assembly Government (the "**Assembly**") has a power to veto certain proposed modifications agreed by the WSRA and DCC and other proposed modifications which have been agreed by the WSRA and DCC may be referred by it for consideration by the CC.

The area of appointment of DCC can also be varied in accordance with a so-called "inset" appointment (see Chapter 5 "*Water Regulation*" under "*Variation and Termination of an Appointment*").

**Termination of the Appointment**

Under Condition O of the Appointment, DCC's Appointment may be terminated following the giving of notice by the Assembly of at least 25 years.

DCC's Appointment may also be transferred from DCC at any time following the making of a special administration order. See Chapter 5 "*Water Regulation*" under "*Special Administration Orders*" for further details on the circumstances under which the WSRA may make a special administration order.

**Competition Act 1998 and Enterprise Act 2002**

The UK Competition Act 1998 (the "**Competition Act**") contains prohibitions relating to anti-competitive agreements and conduct and powers of investigation and enforcement (see Chapter 5 "*Water Regulation*" under "*Competition in the Water Industry*"). These powers include powers for the WSRA to enforce directions bringing an infringement to an end and to impose fines of 10 per cent. of the relevant Undertaker's most recent financial year's turnover.

The Enterprise Act 2002 (the "**Enterprise Act**") adds further remedies for breach of competition law. The Enterprise Act contains criminal sanctions, including the possibility of imprisonment of individuals who have been involved in certain cartels and disqualification for directors involved in breach of competition laws may be disqualified. Consumer groups are now able to bring actions on behalf of customers (including for damages).

**Water Supply Licensing**

On 1 December 2005 provisions came into effect intended to create a new framework for competition in water supply, under which new water supply licences can be obtained by entrants wishing to use Undertakers' common carriage to transport water to customers (see Chapter 5 "*Water Regulation*" under "*The Water Supply Licensing Regime*" for further details on 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. Although DCC has, to date, not lost any customers to new market entrants, there is no assurance that DCC will not lose customers in the future and such loss could adversely affect DCC's revenue.

However, the new market is limited to customers using in excess of 50 megalitres of water per annum. DCC estimates that it has approximately 115 of these customers, which account for approximately 3 per cent. of its total turnover.

In addition, the framework includes a requirement on Undertakers to charge entrants for common carriage and wholesale services in a specific way, as set out in statutory guidance by the WSRA. Following an independent review by Professor Martin Cave (the "**Cave Review**"), proposals put forward in a joint consultation paper published in September 2009 by the UK government and the Assembly, would, however, modify this framework by giving Ofwat the power to develop and implement a new access pricing methodology. See Chapter 5 "*Water Regulation*" under "*The Water Supply Licensing Regime*" for further details.

**Financial Penalties**

The WIA provides the WSRA, the Secretary of State for the Environment, Food and Rural Affairs (the "**Secretary of State**") and the Assembly with the power to impose financial penalties on an Undertaker for contraventions of its Conditions of Appointment (as defined below) and statutory or other requirements, including performance standards. Penalties may be as high as 10 per cent. of an Undertaker's turnover, but they must be reasonable in all circumstances. Each of the above enforcement authorities is required to publish a statement of policy on the imposition of penalties, and to have regard to that statement when implementing the new provisions.

## DCC Revenue and Cost 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 WSRA. 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 the 1999, 2004 and 2009 reviews, there are no requirements on the WSRA to apply the same or a similar methodology in future reviews (see Chapter 5 "*Water Regulation*" under "*Periodic Reviews of K*").

To arrive at their conclusions, the WSRA makes estimates of the scope for operating and capital cost efficiencies using a wide range of comparative techniques. Judgments 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 an Undertaker disputes the WSRA's price limits or infrastructure charge limits, it can require the WSRA to refer the determination to the Competition Commission.

As described in Chapter 5 "*Water Regulation*" under "*Interim Determinations of K*", Interim Determinations (as defined below) of price limits may be made between five yearly reviews in specified circumstances set out in its Conditions of Appointment (as defined below). In contrast to periodic reviews, the methodology to be applied for Interim Determinations is set out in detail in DCC's Conditions of Appointment 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 WSRA's projections - Revenue**

Under condition B of the Appointment, 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 "**K price limitation formula**" (see Chapter 5 "*Water Regulation*" under "*Prices not subject to the Price Limitation Formula*") 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 WSRA factors into its 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, whether due to economic recession or other reasons. 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. In addition, in the 2009 periodic review the WSRA introduced a new "revenue correction mechanism" under which compensation for certain types of revenue shortfalls in one five-year period would be provided by means of adjustments to price limits in the subsequent five-year period, and similarly the benefits of certain types of revenue over-recovery would be passed back to customers in the form of lower price limits. Although in principle this further reduces the revenue risk to which Undertakers are exposed between periodic reviews, the WSRA has yet to publish full details of the proposed mechanism.

**Adoption of Private Sewers**

A change in the law with effect from October 2011 will mean that DCC and other sewerage companies will be taking over responsibility for sewer pipes and drains that are at present in the ownership of individual properties ("**Private Sewers**"). These changes will almost double the DCC sewer network, which will affect the way DCC operates, DCC's regulatory targets and the service DCC provide to customers. The operating and capital costs relating to the adoption of Private Sewers has not been taken into account in Ofwat's Final Determination for the five years ended 31 March 2015.

However, in principle, these costs will be available for an Interim Determination of K as the change in law is a Relevant Change of Circumstances (see Chapter 5 "*Water Regulation*" under "*Interim Determination of K*"). However, there is no guarantee that Ofwat will agree to full recovery of any costs under such Interim Determination.

**Operating and Capital Costs**

The price formula used by the WSRA assesses both operating and capital costs for an efficiently managed company, as part of its RPI + K price cap limit.

The WSRA uses a number of comparative performance techniques in assessing these operating and capital costs. However, this is ultimately a judgement that has to be made by the WSRA and there is therefore no guarantee that DCC will be able to operate or complete its capital programme within the costs allowed by the WSRA. Specific examples of cost pressures, which may be exacerbated by economic recession, include general increases in power costs (including changes to the Carbon Reduction Commitment taxing regime from 2012/2013), bad debts, pension liabilities, chemical, other commodity prices, indirect taxes, the cost of compliance with the obligations of the New Roads and Street Works Act 1991, general increases in capital costs arising from cost pressures on the construction industry as a whole and general reductions in construction prices that do not benefit DCC but which form the index used by Ofwat for calculating the value of capital expenditure to be included in K.

Under the AMP5 Final Determination, DCC will need to achieve a reduction of approximately £39 million (at 2007/08 prices) by 2014-2015 to meet DCC's cost efficiency assumptions made by Ofwat in the AMP5 Final Determination. DCC intends to achieve this reduction through a combination of streamlining processes to exploit recent investment in new operational technology, eliminating duplication in management, investing in "green energy" to reduce power costs and a phased reduction by March 2015 of around 300 in the number of

staff members required to deliver water and waste water services, which is to be achieved through a combination of retirement, natural staff turnover and voluntary severance. In the year ended 31 March 2011, 84 staff members left the business and as at 31 March 2011, DCC had forward purchased or hedged approximately 60 per cent. of its future energy needs for the remainder of AMP5.

The Ofwat cost efficiency targets are set on a "sliding scale" for the five years to 31 March 2015. DCC's costs for the appointed regulatory business for the year ended 31 March 2011 were approximately £260 million, as compared to the AMP Final Determination cost target for the year of approximately £282 million (both at 2010/11 prices).

There is no guarantee that DCC's cost reduction plans will be sufficient to meet the cost efficiency assumptions made by Ofwat. In addition, DCC is increasingly reliant on modern IT systems to deliver customer service and as a consequence is reliant on third party national communication networks which are subject to the risk of service interruptions.

**Deflation Risk**

In accordance with Ofwat's approach to setting price limits, DCC's RAV (as defined below in Chapter 6 "*Financing Structure*" under "*Summary of Finance Documents*") and most of its revenues are indexed in line with RPI, but most of its debt is not index-linked. A prolonged period of RPI deflation could therefore reduce the cash flows available to DCC to meet its obligations under the Bonds, and lead to an increase in gearing.

**Corporation Taxation**

There is a risk that change in tax law or practice may give rise to an increase in corporation tax liabilities in AMP5 which is not funded through the price cap determined by WSRA pursuant to the Conditions of Appointment. However, DCC has significant trading losses carried forward and does not currently foresee paying corporation tax on trading profits in AMP5, subject to a change in tax law or practice.

**Ofwat assessment of asset serviceability**

Ofwat published its latest assessment of DCC's asset serviceability as part of its Final Determination for AMP5: DCC was ranked as "stable" for water infrastructure, sewerage infrastructure and sewerage non-infrastructure, but "marginal" for water non-infrastructure. This led to a "shortfall" adjustment to DCC's regulatory capital value of £11.7m at the 2009 periodic review. Failure to restore "stable" serviceability for water non-infrastructure assets could result in further financial penalties at the next periodic review, and failure to maintain "stable" serviceability in the future across all four above-mentioned asset categories could in general lead to an adverse adjustment to regulatory capital value at future price determinations, which could adversely affect DCC's profitability. As at 31 March 2011 DCC has assessed that all service areas are stable, including water non-infrastructure. Ofwat are expected to publish their own view on serviceability at that date for all companies later in 2011.

**Weather**

Although DCC's region is one of the least water resource-constrained parts of the country, 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 the Conditions of Appointment.

There is also a risk that extreme weather conditions could cause flooding or other operational difficulties which could adversely affect DCC's service performance and give rise to potential penalties or other regulatory action. See Chapter 5 "*Water Regulation" – Enforcement Orders*". In this regard, DCC maintains

insurance cover consistent with the generally accepted practices of prudent water and sewage companies and this includes business interruption insurance. See Chapter 4 "*DCC and the Glas Group*" under "*Insurance*".

During the last 18 months, DCC's region has suffered from such weather conditions. This included a period of severe drought (in the first six months of 2010, Wales had its lowest rainfall since 1927), followed by the coldest December weather on record in the region and the sudden rise in temperatures during the Christmas period in 2010/2011 (the "**freeze-thaw**"). Whilst DCC was able to manage resources to avoid the need for water restrictions during the drought (such as hosepipe bans), the sudden freeze-thaw in December 2010 caused operational difficulties both in respect of maintaining water supplies and increased pressure on DCC's operational control and customer contact centre.

In addition, due to the diversion of leakage resources to maintain supplies in the severe drought in the first six calendar months of 2010, and the subsequent increase in water in distribution as a result of the freeze-thaw, DCC was not able to reduce the amount of water lost through leakage to meet the leakage target set by Ofwat for 31 March 2011, which was the first time that DCC has not met such a target since leakage targets were set by Ofwat in 1999. Although DCC believes it has sufficient resources to meet its AMP5 leakage target, there is a risk of regulatory sanction (see, for example, "*Ofwat assessment of asset serviceability*" above) if it is unable to do so.

## Operational and 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 Drinking Water Inspectorate ("**DWI**") and the Environmental Agency ("**EA**") as described in Chapter 5 "*Water Regulation*". DCC is also subject to the requirements of health and safety legislation with responsibility for both DCC employees and others.

Whilst DCC believes that it is in material compliance with all such laws and regulations as currently interpreted, 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, subject to a materiality threshold, 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, drinking water problems or health and safety issues may occur, the possible consequences of which may be criminal prosecution leading to the imposition of penalties 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 penalties, 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.

DCC has been subject to prosecutions from time to time including (a) a prosecution from the DWI for supplying unfit water due to the presence of cryptosporidium in 2007 from its reservoir in Cwellyn, North Wales, and was subject to a fine of £60,000 and (b) a prosecution from the EA in 2011 in relation to unconsented sewage discharges from its Gowerton waste water treatment works, which led to a fine of £20,000. There is no guarantee that DCC will not be subject to similar or other prosecutions in the future.

DCC is subject to the Utilities Contracts Regulations 2006 (as amended) which require utilities to follow certain procedures when contracts over specified financial thresholds are proposed (currently £313,000 for services and £3.9m for works), to guarantee that the contract award procedure is carried out in a transparent and non-discriminatory manner by means of an advertising process in the Official Journal of the European Union and the conduct of a competitive tendering procedure. Non-compliance with such regulations could result in contracts being declared ineffective and DCC becoming liable to damages claims from unsuccessful tenderers, as well as potential disruption and further costs to the operation of DCC's business. DCC mitigates such risk through effective planning, and the use of comprehensive processes and procedures which regulate the conduct of procurement exercises.

**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.

## 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 Conditions of Appointment, 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-Undertaker or to block the appointment of an administrator under UK insolvency legislation.

There are also certain legal restrictions which arise under the WIA and the Conditions of Appointment 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 WSRA or the Secretary of State (see Chapter 5 "*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 the Conditions of Appointment.

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 to the extent that such enforcement would amount to a relevant merger situation for the purpose of the Enterprise Act 2002 would require consultation with the WSRA and would be reviewable by the Director General of the Office of Fair Trading ("**OFT**").

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 WSRA 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 legal obligations as an Undertaker.) 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. (See also Chapter 5 "*Water Regulation*" under "*Special Administration Order*" for other circumstances in which a special administrator may be appointed.)

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-Undertaker under UK insolvency legislation.

The purposes of a special administration order consist of: (i) transferring to one or more different Undertakers as much of the business of the Undertaker in special administration as is necessary in order to ensure that the functions which have been vested in such an Undertaker by virtue of its Appointment are properly carried out; and (ii) pending the transfer, the carrying out of those functions. Where a special administration order is made on the grounds that the Undertaker is, or is likely to be unable to pay its debt, the purpose of the special administration regime also consists of the rescue of the Undertaker as a going concern. 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 an Undertaker. The transfer is effected by a transfer scheme which the special administrator puts in place on behalf of the existing Undertaker. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Undertaker(s) to the new Undertaker and may also provide for the transfer of the existing Undertaker's Appointment (with modifications as set out in the transfer scheme) to the new Undertaker(s). (See Chapter 5 "*Water Regulation*" under "*Special Administration Orders*".)

The FWM Act, which received Royal Assent on 8 April 2010, amends the special administration regime in the WIA to bring it in line with modern insolvency practice in unregulated industries. The FWM Act also streamlines the procedures for transferring a failing company to new owners. The previous regime only enabled the special administrator to transfer the appointment and assets of a failing water company onto one or more new owners. The changes enable the special administrator to pursue the goal of rescuing the regulated company as a going concern if this is reasonably practicable.

**Insolvency Considerations: Enterprise Act 2002**

The Enterprise Act 2002 introduced a prohibition on the appointment of an administrative receiver in relation to companies such as Holdings, Glas Securities and Glas.

In any event, the ability to appoint an administrative receiver to prevent an administration is unlikely to be of significance in the case of entities such as the Issuer, Holdings, Glas Securities and Glas, which are subject to substantial restrictions on their activities. In addition, such ability will not be applicable in the case of DCC which is subject to the special administration regime.

**Payment Priorities**

The validity and enforceability of certain provisions in contractual priorities of payments which purport to alter the priority in which a particular secured creditor is paid as a result of the occurrence of one or more specified trigger events, including the insolvency of such creditor ("**flip clauses**"), have been challenged in the English and U.S. courts on the basis that the operation of a flip clause as a result of such creditor's insolvency breaches principles of English and U.S. insolvency law, which have been referred to as "anti-deprivation" principles.

In the English courts, the Court of Appeal in Perpetual Trustee Co Ltd v BNY Corporate Trustee Services Ltd [2009] EWCA Civ 1160 (the "**Perpetual Case**") dismissed this argument and upheld the validity of a flip clause contained in an English-law governed security document. However, the Court of Appeal stopped short of deciding that all secured payment priorities were enforceable stating that "it is probably inevitable that the courts must develop the law in this area, at least for the moment, on a relatively cautious, case-by-case basis".

In parallel proceedings in the U.S. courts, the U.S. Bankruptcy Court for the Southern District of New York in Lehman Brothers Special Financing Inc. v. BNY Corporate Trustee Services Limited. (In re Lehman Brothers Holdings Inc.), Adv. Pro. No. 09-1242-JMP (Bankr. S.D.N.Y. May 20, 2009) examined the same flip clause and held that such a provision, which seeks to modify one creditor’s position in a priority of payments when that creditor files for bankruptcy, is unenforceable under the US Bankruptcy Code. The UK Supreme Court granted leave to appeal the Court of Appeal's decision. In New York, however, whilst leave to appeal was granted, the case was settled before an appeal was heard. Notwithstanding the New York settlement, the appeal by one of the appellants, Lehman Brothers Special Finance Inc., against two of the respondents, Belmont Park Investments Pty and BNY Corporate Trustee Services Ltd, in the English courts was heard in early March 2011 and the judgement is awaited. Therefore concerns still remain that the English and U.S. courts will diverge in their approach. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus, particularly in respect of multi-jurisdictional insolvencies.

The flip clause examined in the Perpetual case is similar in substance to the provisions in the Issuer Post-Enforcement Payments Priorities (the "**Relevant Provisions**"). However, the Issuer Post-Enforcement Payments Priorities differ on the basis that, among other things, in addition to ranking behind the Bondholders, the Hedge Counterparties also rank behind other Issuer Secured Creditors in the case of its insolvency. This difference in respect of the facts and the detail of the Court of Appeal judgment, mean that there is some uncertainty surrounding the binding nature of the Issuer Post-Enforcement Payments Priorities. However, whilst there may well be further developments in this area of the law that could impact this

analysis, the Issuer has been advised that the Issuer Post-Enforcement Payments Priorities would not be set aside under the anti-deprivation principles discussed in the Perpetual case.

Additionally, as a result of the conflicting statements of the English and New York courts there is uncertainty as to whether the English courts will give any effect to any New York court judgement. Similarly, if the Issuer Post-Enforcement Payments Priorities are the subject of litigation in any jurisdiction outside England and Wales and such litigation results in a conflicting judgment in respect of the binding nature of the Issuer Post-Enforcement Payments Priorities it is possible that termination payments due to that Hedge Counterparty would not be subordinated as envisaged by the Issuer Post-Enforcement Payments Priorities and as a result, the Obligors' ability to repay the Bondholders in full may be adversely affected. There is a particular risk of conflicting judgments where a Hedge Counterparty is the subject of bankruptcy or insolvency proceedings outside of England and Wales.

However, in the context of the Perpetual case, as the Issuer Post-Enforcement Payment Payments Priority relate to English assets to be distributed pursuant to an English law security trust by an English incorporated security trustee, it is unlikely that the English courts would make any order pursuant to the Cross Border Insolvency Regulations 2006 ("**CBIR**") or otherwise which has the effect of restraining parties from making or receiving payments in accordance with such Issuer Post-Enforcement Payments Priorities.

In any event, as of the date of this Prospectus, in relation to the existing Hedging Agreements, there are no Hedge Counterparties which are incorporated in the U.S.

**Changing financial regulatory environment and whether Bonds are a "securitisation position" for the purposes of the Capital Requirements Directive and other regulations**

In Europe, the US and elsewhere there has been and continues to be considerable political and regulatory scrutiny of the financial markets in light of the recent global economic/financial crises. This has resulted in numerous new laws and regulations being introduced which are currently at various stages of implementation. A number of the new laws/regulations apply or will in due course apply to bonds issued as part of a securitisation transaction and will apply to investors in such bonds and various other parties to such transactions. Such laws/regulations may therefore have an adverse impact on an investor's holding of investments such as the Bonds.

If the Bonds were treated as a securitisation position, this would lead to certain investors being subject to additional regulatory obligations. These regulatory obligations would vary depending on the type of investor and the jurisdiction in which they are regulated. Such obligations are likely to increase for certain classes of investors and there is continuing uncertainty as to the full extent and nature of regulations which apply to securitisation transactions in the future.

The Issuer is of the opinion that the Bonds do not constitute an exposure to a "securitisation position" for the purposes of Article 122a of Directives 2006/48/EC and 2006/49/EEU, as amended by Directive 2009/111/EC (the "**CRD**"). The Issuer is therefore of the opinion that the requirements of Article 122a of the CRD will not apply to an investment in the Bonds. However, it is not possible to be certain whether the transaction is or is not a "securitisation" as the definition is widely drafted, no definitive guidance has been provided and therefore interpretations by different regulatory bodies and across different jurisdictions within the European Union may vary. If the transaction were to be regarded as constituting a "securitisation" in any particular jurisdiction, this could have a number of consequences for investors in that jurisdiction who are subject to the CRD. These consequences would include, for example, the need to comply with the additional due diligence obligations imposed by Article 122a of the CRD in respect of the Bonds (insofar as such obligations are not satisfied by reviewing the relevant disclosures provided in this Prospectus). In addition, Article 122a of the CRD and the applicable provisions of Directive 2010/76/EU, when the latter come into effect, might result in higher risk weights being imposed on the investors' holdings of the Bonds. Similar requirements as those as in

Article 122a of the CRD are expected to be implemented for other EU regulated investors, such as insurance companies and alternative investment funds, which would be subject to similar regulatory obligations in the future in relation to the Bonds if the transaction pursuant to which the Bonds are issued is deemed to be a "securitisation" for the purposes of regulations applicable to such entities. Investors should be aware that such regulatory obligations may affect their own holding of the Bonds (if they fall within one of the relevant categories of regulated investors) and may affect the price for which they can sell the Bonds or their ability to sell the Bonds at all.

The regulatory treatment of an investment in the Bonds may be relevant to an investor's decision as to whether or not to invest. The investor should make its own determination as to such treatment, conduct appropriate due diligence and/or seek professional advice and, where relevant, consult its regulator.

## 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. The lack of financial incentives on the members to ensure efficient management of DCC may mean that, in the absence of shareholders, there may be a risk of insufficient pressure on the management of Glas and DCC to perform to the standard expected of shareholder-owned companies to some extent. There is no evidence of such concern being realised to date and this risk is further mitigated by measures such as: (i) the terms of the Instrument of Appointment 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 Undertakings; (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.

## 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 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 WSRA has stated that it will assess the cost of debt at future price reviews on the basis of a hypothetical efficiently-financed company. According to the WSRA, 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 WSRA took the view that such debt had not been prudently incurred. However, the WSRA has also stated that it 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 to a greater or lesser extent by the fact that DCC's allowable return would include the assumed cost of equity applied to a portion of its regulatory asset value.

## 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 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 "*DCC Revenue and Cost Considerations*" above).

## Factors that are material for the purpose of assessing the market risks associated with Bonds issued under the Programme

**Source of Payments to Bondholders**

Although the Class A Bonds have or will have the benefit of the relevant Financial Guarantees, 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) 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) 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.

As at the date of this Prospectus, there are no Class C Bonds nor any Class D Bonds outstanding, although the Issuer may still issue subordinated bonds in the future should it choose to do so.

**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 at 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 Bonds**

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).

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. As at the date of this Prospectus, there are no Class R Bonds outstanding and the Issuer is not intending to issue Class R Bonds.

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

Notwithstanding the fact that an application has been made for Bonds issued pursuant to the Programme on or after the date of this Prospectus to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange Regulated Market and that the Bonds issued on the Initial Issue Date, the Second Issue Date, the Third Issue Date, the Fourth Issue Date and the Fifth Issue Date have been trading since issue, 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. The global credit market conditions may also reduce the liquidity of the Bonds in the secondary market. 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 also affected by, amongst other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, other 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 any Class A Bonds are based solely on the debt rating of the relevant Financial Guarantor (except to the extent that such rating is lower than that assigned to the Class B Bonds by the same Rating Agency, in which case, the rating assigned to the Class A Bonds shall be the same as that assigned to the Class B Bonds by the same Rating Agency) and reflect only the views of the Ratings Agencies. The ratings assigned to any 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. Any issue of Class D Bonds will not be 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' judgment, 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 may, in such event, (i) use its reasonable endeavours to arrange for the substitution of another company in an alternative jurisdiction (subject to certain conditions); and, failing this (ii) redeem all the outstanding Bonds in full (subject to certain conditions). (See Chapter 2 "*General Description of 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 Financial Guarantee or Financial Guarantees 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.

**EU Directive on the Taxation of Savings**

The EU has adopted a Directive regarding the taxation of savings income. (See "*Tax Considerations – EU Savings Directive*".) The Directive requires Member States to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person to (or for the benefit of) an individual or to certain other persons in another Member State, except that Luxembourg and Austria may instead impose a withholding system for a transitional period (subject to a procedure whereby, on

meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

A number of third countries and territories including Switzerland have adopted similar measures to the EU Directive.

**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.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with: (i) (a) the Terms and Conditions of the Bonds as contained at pages 119 to 165 (inclusive) of the prospectus dated 4 December 2006 and (b) the Terms and Conditions of the Bonds as contained at pages 120 to 152 (inclusive) of the prospectus dated 19 March 2010 and (ii) (a) the audited annual financial statements of the Issuer for the financial years ended 31 March 2010 and 31 March 2011 and (b) the audited annual financial statements of DCC for the financial years ended 31 March 2010 and 31 March 2011, in each case, together with the audit report thereon, all of which have been previously published or are published simultaneously with this Prospectus and which have been filed with the CSSF. As Glas Cymru Cyfyngedig ("**Glas**") is the holding company of the Issuer (See Chapter 4 "*DCC and the Glas Group*" – "*The Glas Group Corporate Structure*") and the relevant financial covenants referred to in Chapter 6 "*Financing Structure*" – *DCC Covenants – Financial*" are calculated on the basis of the information contained in the consolidated financial statements of Glas, (i) the audited consolidated financial statements of Glas for the financial year ended 31 March 2010 and the audited consolidated preliminary results of Glas for the financial year ended 31 March 2011* have also been previously published or are published simultaneously with this Prospectus and have been filed with the CSSF, and (ii) the audited financial statements of Glas for the year ended 31 March 2011 will be published on the website of Glas on or around the date of publication. Such documents (other than the audited financial statements of Glas for the year ended 31 March 2011) shall be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Luxembourg Stock Exchange (www.bourse.lu).

The tables below set out the relevant page references for each of the documents incorporated by reference in this Prospectus. Any information not listed in the tables below but included in the documents incorporated by reference is given for information purposes only.

**Audited annual financial statements of the Issuer for the financial year ended 31 March 2010**

**Dwr Cymru (Financing) Limited**
**Directors' Report and Financial Statements for the year to 31 March 2010**



* As the full audited consolidated financial statements of Glas for the year ended 31 March 2011 (which also include the Remuneration Report, the Directors' Report and the Corporate Governance Statement, each for the year ended 31 March 2011) would only be available after the date of this Prospectus, only the audited consolidated preliminary results are incorporated by reference in this Prospectus.

**Audited annual financial statements of the Issuer for the financial year ended 31 March 2011**

**Dwr Cymru (Financing) Limited**
**Directors' Report and Financial Statements for the year to 31 March 2011**



**Audited consolidated annual financial statements of Glas for the financial year ended 31 March 2010**

**Glas Cymru Cyfyngedig Report and Accounts 31 March 2010**



**Audited consolidated preliminary results of Glas for the financial year ended 31 March 2011**

**Glas Cymru Cyfyngedig Preliminary Results 31 March 2011**

**Audited annual financial statements of DCC for the financial year ended 31 March 2010**

**Dŵr Cymru Cyfyngedig**
**Directors' Report and Financial Statements for the year ended 31 March 2010**



**Audited annual financial statements of DCC for the financial year ended 31 March 2011**

**Dŵr Cymru Cyfyngedig**
**Directors' Report and Financial Statements for the year ended 31 March 2011**

## PROSPECTUS SUPPLEMENT

If at any time the Issuer shall be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, the Issuer will prepare and make available an appropriate supplement to this Prospectus or a further Prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange Regulated Market, shall constitute a prospectus supplement as required by Article 13 of the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities.

Each of the Issuer and DCC has given an undertaking that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Bonds and whose inclusion in or removal from this Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and DCC, and the rights attaching to the Bonds, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Bonds and shall supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto as such Dealer and the Bond Trustee may reasonably request.

## FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "necessary information" means, in relation to any Tranche of Bonds, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Bonds. In relation to the different types of Bonds which may be issued under the Programme, the Issuer has endeavoured to include in this Prospectus, including the documents incorporated by reference, all of the necessary information except for information relating to the Bonds which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Tranche of Bonds.

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Bonds will be contained either in the relevant Final Terms or in a Drawdown Prospectus. For a Tranche of Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement this Prospectus and must be read in conjunction with this Prospectus. The Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms are the terms and conditions applicable to any particular Tranche of Bonds which is the subject of Final Terms.

The Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus are the terms and conditions applicable to any particular Tranche of Bonds which is the subject of a Drawdown Prospectus. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the Issuer and the relevant Bonds.

# CHAPTER 2
# GENERAL DESCRIPTION OF THE PROGRAMME

*The following is a general description of the Programme. It is a brief overview only, is qualified in its entirety by, and should be read in conjunction with, the remainder of this Prospectus and, in relation to any Bonds, in conjunction with the relevant Final Terms and, to the extent applicable, the Conditions of the Bonds set out herein or therein.*

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| **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*<br>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.<br>*Class R Bonds*<br>The maximum aggregate principal amount of Class R Bonds which may be outstanding under the Programme shall be £200,000,000.<br>*Guaranteed Asset-Backed Bonds*<br>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.<br>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**"), 16 April 2003 (the "**Second Issue Date**"), 28 November 2006 (the "**Third Issue Date**"), 7 December 2006 (the "**Fourth Issue Date**"), 31 March 2010 (the "**Fifth Issue Date**") and thereafter such dates (each an "**Issue Date**") as agreed between the Issuer and the relevant Dealer(s). For the avoidance of doubt, the Initial Issue Date, Second Issue Date, Third Issue Date, Fourth Issue Date and Fifth Issue Date are for informational purposes only. |

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| | The Bonds currently in issue and their details are set out in the table on page 187. |
| **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**".<br><br>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 Final Terms. |
| **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.<br><br>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 dated 19 July 2001 as amended on or about 7 December 2006 and as intended to be further amended and restated on or about 29 June 2011, as further amended from time to time (the "**Trust Deed**") entered into by the Issuer, the Bond Trustee and MBIA Assurance S.A. and to which MBIA UK Insurance Limited acceded as a party on 4 December 2006, 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 Financial Guarantee.<br><br>The Class A Bonds and Class B 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 Financial Guarantee. All claims in respect of the Class A Bonds and Class B 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). As at the date of this Prospectus, (i) there are no Class R Bonds outstanding and the Issuer is not intending to issue Class R Bonds, and (ii) there are no Class C Bonds nor any Class D Bonds outstanding, although the Issuer may still issue subordinated bonds in the future should it choose to do so.

The Class A Bonds and Class B 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 repayment of principal. However, only Class A Bonds have the benefit of the relevant Financial Guarantee. All claims in respect of the Class A Bonds and Class B 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 in issue (of whatever Sub-Class) rank, and any further Class C Bonds (of whatever Sub-Class) issued under the Programme will 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 Final Terms. 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. ("**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 Final Terms, 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 Final Terms as applicable,

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| | 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 Final Terms.<br><br>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 Final Terms. |
| **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 |

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| | 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 Financial Guarantees** | Each financial guarantee insurance policy (each a "**Financial Guarantee**") 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 unconditionally and irrevocably guarantees 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, pursuant to the terms of an insurance and indemnity agreement with MBIA Assurance S.A. and pursuant to a guarantee and reimbursement agreement with MBIA UK Insurance Limited, obliged, *inter alia*, to reimburse the relevant Financial Guarantor in respect of payments made by it under the relevant Financial Guarantee or Financial Guarantees. 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 Financial Guarantees. |
| **Issue Price** | Bonds may be issued at any price, as specified in the relevant Final Terms. |
| **Maturities** | Bonds may be issued for any maturity (the "**Expected Maturity Date**"), as specified in the relevant Final Terms. |
| **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 Final Terms. Financial Guarantees have not guaranteed and 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 Final Terms, at the Redemption |

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| | Amount (as defined in Condition 6(i)) plus accrued but unpaid interest. In respect of Fixed Rate Bonds (as defined below), the Redemption Amount will be an amount equal to the higher of (i) their Principal Amount Outstanding (as defined below) and (ii) an amount calculated in accordance with the formula, as set out in Condition 8(b)(i). In respect of Floating Rate Bonds (as defined below), the Redemption Amount will be the Principal Amount Outstanding, plus any premium for early redemption in certain years (as specified in the relevant Final Terms), 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)).<br><br>Under the terms of the Financial Guarantees, 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 or Guaranteed Amounts (as applicable and as defined in the relevant Financial Guarantee) 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 Financial Guarantees. 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.<br><br>In addition, in the event of the Issuer becoming obliged to make |

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| | 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 only) 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.<br><br>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.<br><br>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 or Guaranteed Amounts (as applicable and as defined in the relevant Financial Guarantee) 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 Financial Guarantees. |
| **Redemption by Instalments** | The relevant Final Terms 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 Final Terms, 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 Final Terms, 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 |

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| | (as specified in the relevant Final Terms). |
| **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 Final Terms 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 Final Terms). |
| **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 Final Terms). |
| **Interest Payment Dates** | Interest in respect of Fixed Rate Bonds is or will be payable annually or semi-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 Final Terms). |
| **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** | Definitive Bonds issued after the date of this Prospectus will be in such denominations as may be specified in the relevant Final Terms, save that in the case of any Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds) until and excluding the date of the implementation of Directive 2010/73/EU (the "**2010 PD Amending Directive**") into Luxembourg law or the laws of any other relevant Member State, and following (and including) the date of implementation of the 2010 PD Amending Directive into Luxembourg law or the laws of any other relevant Member State, shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds). |
| **Authorised Loan Facilities** | Subject to certain conditions being met, the Issuer and/or DCC are permitted to incur indebtedness under authorised loan |

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| | 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 European Investment Bank, KfW IPEX-Bank GmbH, the Commonwealth Bank of Australia, HSBC Bank plc, JPMorgan Chase Bank N.A., London Branch, Sumitomo Mitsui Banking Corporation Europe Limited, The Royal Bank of Scotland plc and BNP Paribas, London Branch have each made available Authorised Loan Facilities (each a "**Current Authorised Lender**") to DCC or the Issuer. (See Chapter 6 "*Financing Structure*" under "*Authorised Loan Facilities*".) Each Current Authorised Lender has acceded as a party to the Issuer STID. 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 Facility 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 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 Authorised Loan Facilities; 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*"). The Initial Liquidity Facility Agreement terminated on 13 April 2011 and the Issuer entered into a liquidity facility agreement dated 13 April 2011 with the Further Liquidity Facility Providers (as defined below) on substantially the same terms as the Initial Liquidity Facility Agreement (the "**Second Liquidity Facility Agreement**"). |
| **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 Further Liquidity Facility Providers, and together with the Further Liquidity Facility Providers, each a "**Liquidity Facility Provider**") other than the Initial Liquidity Facility Agreement or the Second Liquidity Facility Agreement. |
| **Taxation** | Payments in respect of Bonds or under the relevant Financial |

Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatever nature, unless and save to the extent that the withholding or deduction of such taxes, duties or charges is required by applicable 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 Financial Guarantee, 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 Financial Guarantee, 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**"). 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 (both defined below), 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; (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

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| | 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 and admission to trading** | The Bonds issued on the Initial Issue Date, the Second Issue Date, the Third Issue Date, the Fourth Issue Date and the Fifth Issue Date under the Programme have been listed on the Official List of the Luxembourg Stock Exchange and have been admitted to trading on the Luxembourg Stock Exchange Regulated Market and an application will be made to list any future Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and to admit them to trading on the Luxembourg Stock Exchange Regulated Market. For the avoidance of doubt, any reference to Bonds being "listed" shall mean that such Bonds have been listed on the Official List of the Luxembourg Stock Exchange and have been admitted to trading on the Luxembourg Stock Exchange Regulated Market. For the avoidance of doubt, the Initial Issue Date, Second Issue Date, Third Issue Date, Fourth Issue Date and Fifth Issue Date and the Bonds listed on such Issue Dates are for informational purposes only. |
| **Terms and Conditions** | A Final Terms will be prepared in respect of each Sub Class of Bonds including further fungible issues of an existing Sub-Class. A copy of the Final Terms 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 Final Terms. |
| **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 Final Terms). |
| **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 3
## THE PARTIES

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| **Issuer** | Dwr 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 WIA. |
| **Holdings** | Dwr 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 (the "**Glas Group**"). |
| **Arrangers** | HSBC Bank plc and The Royal Bank of Scotland plc. |
| **Dealers** | HSBC Bank plc and The Royal Bank of Scotland plc 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)** | Each of (i) the Initial Financial Guarantor under the terms of various financial guarantees which it has issued in favour of the Bond Trustee and in respect of Class A Bonds issued on the Initial Issue Date and in respect of Class A6 Bonds issued on the Fourth Issue Date; and (ii) such other financial guarantee companies (each, together with the Initial Financial Guarantor, a "**Financial Guarantor**") as the Issuer may arrange to issue Financial Guarantees in respect of further Series of Class A Bonds.<br>The Initial Financial Guarantor is under no obligation to issue |

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| | Financial Guarantees.<br>For the avoidance of doubt, the Issuer is not intending as of the date of this Prospectus to issue any further Class A Bonds pursuant to this Prospectus. |
| **Class R Underwriters** | Any underwriters appointed from time to time by the Issuer in respect of the Class R Bonds (the "**Class R Underwriters**"). |
| **Bond Trustee** | Deutsche 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), and 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). |
| **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 |

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| | 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 (as defined below). |
| **Luxembourg Listing Agent** | Deutsche Bank Luxembourg S.A. is the listing agent in respect of the Bonds in Luxembourg. |
| **Finance Lessors** | Each of Lloyds Plant Leasing Limited, W. & G. Lease Finance Limited, A&L CF June (1) Limited (formerly known as Sovereign Commercial Limited), Lloyds TSB Corporate Asset Finance (No.4) Limited, Assetfinance December (H) Limited, Norddeutsche Landesbank Girozentrale, BNP Paribas S.A., RBSSAF (2) Limited and HSBC Equipment Finance (UK) Limited (together the "**Finance Lessors**"), who lease plant, machinery and equipment to DCC under the terms of various finance leases (together, the "**Finance Leases**"). |
| **Current DCC Hedge Counterparties** | The Royal Bank of Scotland plc, Lloyds TSB Bank plc, HSBC Bank plc and Barclays Bank PLC, all of whom have entered into hedging arrangements with DCC in respect of the Finance Leases (the "**Current DCC Hedge Counterparties**"). |
| **Liquidity Facility Providers** | The Royal Bank of Scotland plc and Lloyds TSB Bank plc (together, the "**Initial Liquidity Facility Providers**") and HSBC Bank plc and National Australia Bank Limited (together with the Initial Liquidity Facility Providers, the "**Further 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** | Any party who enters into interest rate and currency exchange swap agreements with the Issuer (the "**Hedge Counterparties**"). |
| **Authorised Lenders** | The European Investment Bank, KfW IPEX-Bank GmbH, Commonwealth Bank of Australia, HSBC Bank plc, JPMorgan Chase Bank, N.A., London Branch, Sumitomo Mitsui Banking Corporation Europe Limited, The Royal Bank of Scotland plc and BNP Paribas, London Branch (each a "**Current Authorised Lender**") in respect of various revolving working capital and capital expenditure credit facilities provided to DCC or the Issuer on or before the date of this Prospectus 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 any of the Authorised |

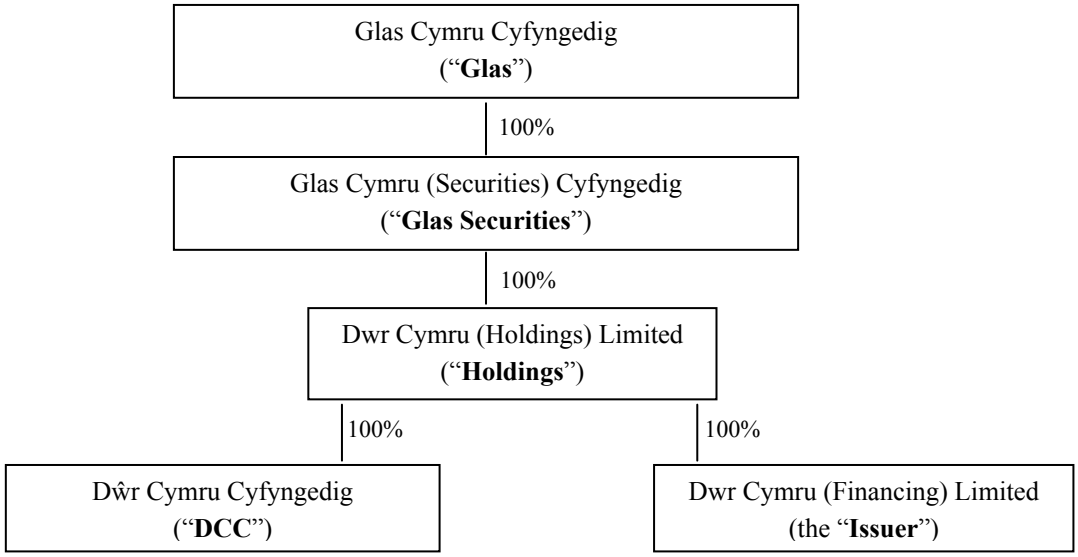
Loan Facilities provided by the Current Authorised Lenders or any further Authorised Loan Facility. (See Chapter 6 "*Financing Structure"* under "*Additional Resources Available*".)

**Contractors**

DCC, pursuant to its outsourcing plan, has outsourced the major components of operating and maintaining its water and sewerage undertaking and servicing its customers to qualified third parties ("**Contractors**"). (See Chapter 4 "*DCC and The Glas Group*" for a list of DCC's principal operating and capital partners and under "*Restructuring*" for further details of the restructuring of its outsourced operating contracts.)

# CHAPTER 4
# 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 seventh largest water service and sewerage company in England and Wales (based on turnover). It operates under an instrument of appointment (its "**Instrument of Appointment**") which has a 25 year notice period (see Chapter 5 "*Water Regulation*" under "*Variation and Termination of an Appointment*").

### Area of Appointment

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 are two inset appointments:

- Albion Water Limited - to cover the supply of water to Shotton Paper, a large user of non-potable water on Deeside; and

- Scottish and Southern Energy plc - to cover the supply of water and waste water for a prospective housing estate at Llanilid, near Bridgend.

## Map of DCC Instrument of Appointment Area


**Registered Office, Share Capital, Employees and Auditors**

The registered office of DCC is at Pentwyn Road, Nelson, Treharris, Mid Glamorgan, Wales, UK, CF46 6LY. The telephone number of DCC is +44 (0) 1443 452300.

DCC's authorised share capital is £501,050,000 ordinary shares of £1 each. The entire issued share capital of £309,876,374 ordinary shares is owned by Holdings.

The number of DCC employees as at 31 March 2011, including executive directors, was approximately 1,770. The number of employees has increased from 214 as at 31 March 2010 primarily as a result of the insourcing of operating contracts during the year, including the insourcing of the main water and waste water operations contracts from United Utilities and Kelda on 1 April 2011 and 1 May 2011 respectively, as a result of which 1,570 employees transferred to DCC under employment protection rules.

The auditors of DCC are PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, of 1 Kingsway, Cardiff, Wales, UK, CF10 3PW (the "**DCC Auditors**"). DCC's accounting reference date is 31 March, and the latest audited accounts for DCC are for the year to 31 March 2011. DCC's accounts ("**DCC Accounts**") are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The DCC Accounts are consolidated into the audited accounts for Glas each year (see "*Glas Cymru Cyfyngedig*" on page 53 of this Prospectus). The audited accounts of DCC for the year ended 31 March 2010 and for the year ended 31 March 2011 are incorporated by reference into this Prospectus.

**Regulation**

DCC is principally regulated under the provisions of the WIA and its Instrument of Appointment as a water and sewerage undertaker (an "**Undertaker**"). The Assembly, the Secretary of State and the WSRA (also commonly referred to as "Ofwat") are the principal regulators of DCC. (See Chapter 5 "*Water Regulation*" under "*Regulatory Framework*" and "*The WSRA and the Secretary of State*" for further details.) Any

statements attributed to the WSRA herein includes any statement made by the DGWS before he ceded his duties to the WSRA. (See Chapter 5 "*Water Regulation*" for details on the regulation of Undertakers, including DCC).

The main provisions of DCC's Instrument of Appointment ("**Conditions of Appointment**") are as follows:

- the restriction of the annual increase in a basket of standard charges to the price limitation formula, RPI+K;
- periodic reviews of K every five years by a determination made by the WSRA;
- Interim Determinations of K (as defined in Chapter 5 "*Water Regulation*") by the WSRA between periodic reviews. At present, the specified circumstances which may trigger an Interim Determination (as defined below) 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, certain increases in environmental charges, charges for lane rental/traffic management and increased costs associated with the balancing of water supply and demand arising as a consequence of the utilisation of the data sources and analytical tools available in the "UK Climate Projections" report commissioned by the Department of Environment, Food and Rural Affairs and published in 2009 (See Chapter 5 "*Regulation*" under "*shipwreck clause*");
- provisions which enable DCC to require the WSRA 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 legal 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 as an Undertaker;
- 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 under the WIA 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 carry out its responsibilities as a water and sewerage undertaker;
- 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;
- requirements to provide regulatory information to the WSRA; and

- requirements to prepare and to comply with an Access Code which is to set out the basis upon which a Water Supply Licensee ("**Licensee**") can obtain either wholesale or common carriage services from the Undertaker in order to compete for eligible customers (See Chapter 5 "*Regulation*" under "*Competition in the Water Industry*" and "*The Water Supply Licensing Regime*").

Other Conditions of Appointment 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 WSRA, 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. While resources are generally adequate to meet forecast demand, DCC actively pursues a strategy of minimising leakage and promoting water efficiency to reduce overall consumption. 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, 1995 and 2010. Approximately one-quarter of the total water abstracted by DCC is supplied untreated to Severn Trent Water Limited under a bulk supply agreement.

**Pollution Control**

Regulatory control of discharges to the environment is undertaken by the EA which regularly samples discharges from treatment works. As part of improvements in efficiency and effectiveness DCC's largest assets are remotely monitored to ensure that quality standards are met.

## Water Supply – Base Statistics 2010-11

| Description | Value |
|---|---|
| Population served | 2.9m |
| Properties served | 1.4m |
| Length of mains | 27,171km |
| Number of water treatment works (in operation) | 68 |
| Number of main reservoirs | |
| Number of dams and impounding reservoirs (in operation) | 67 |
| Number of service reservoirs (in operation) | 645 |
| Average daily supply | 816Mld |
| -from groundwater | 4% |
| -from surface water | 96% |

## Waste Water – Base Statistics 2010-11

| | |
|---|---|
| Population equivalent served* | 3.8m |
| Properties served | 1.3m |
| No. of wastewater treatment works | 833 |

Volume of wastewater treated daily ..... 567Mld

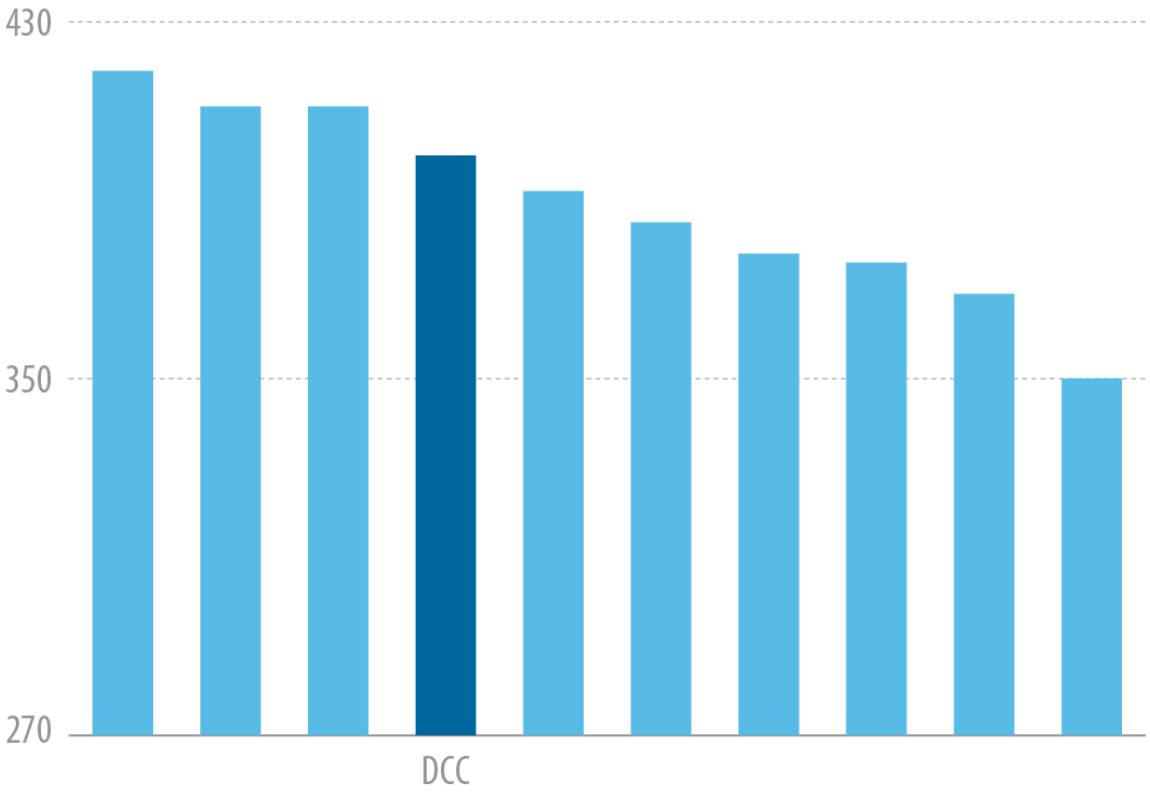
** The capacity of a sewage treatment works is measured in terms of the amount of organic material that can be treated. It is assumed that one person is equivalent to a load of 60g of biochemical oxygen demand. Effluent may also include industrial wastewater treated at works. Hence, the population equivalent served by a works can greatly exceed the population served in the catchment, especially if a large volume of industrial effluent is also treated.*

**Overall Performance Assessment**

Ofwat annually published an Overall Performance Assessment ("**OPA**") for years up to and including the year ended 31 March 2010. Ofwat has stated that it used the OPA for two purposes; firstly, to enable the WSRA to make comparisons about the quality of the overall service (in relation to water supply, sewerage service, customer service and environmental impact) that companies provided to customers, and for this to be taken into account at each price review, and secondly, to inform customers (and other interested parties) about the overall performance of their local water company.

DCC's average annual OPA position for the five year regulatory period ended 31 March 2010 ("**AMP4**") is reproduced below.

**AMP4 – OPA results**



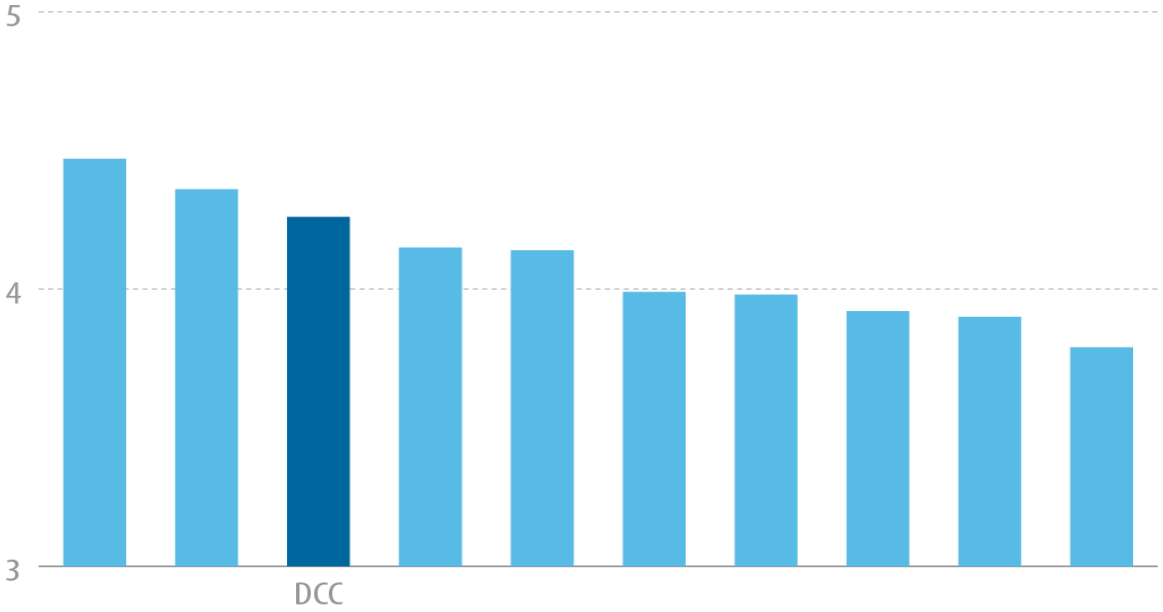

DCC's average OPA score for AMP4 was 400 points, ranking it fourth overall. DCC's OPA score for 2009/2010 was 403 points, ranking it seventh for that year.

**Service Incentive Mechanism**

In April 2010, The Water Regulation Services Authority (see Chapter 5 "*Water Regulation*" under "*Regulatory Framework*" and "*The WSRA and the Secretary of State*") introduced a new Service Incentive

Mechanism ("**SIM**") which replaced OPA. SIM comprises two components – a quantitative score that measures the number of complaints and telephone contacts that the company receives, and a qualitative score that measures, using Ofwat's independent research, how satisfied customers are with the quality of service they receive. Quantitative and qualitative scores are weighted to produce the combined SIM consumer experience measure. The combined score is used to compare company performance from 2011/2012 onwards and will be used by Ofwat to calculate incentive and penalties at the next price review.

**SIM - qualitative performance 2010-2011**




On the qualitative element of SIM, DCC was ranked third of the ten water and sewerage companies for the year ended 31 March 2011, with a SIM score of 4.26 for the year.

**Key Performance Measures for 2010/2011**

DCC also monitors its annual performance against key performance measures. The performance for 2010/2011, as compared to the previous years is set out in the table on the following page.

*[The rest of this page is intentionally left blank.]*

**Key Performance Measures for 2010/2011**

| | Previous performance 2009-10 | Actual performance 2010-11 | At or better than previous year |
|---|---|---|---|
| **Water Quality** | | | |
| Overall water quality compliance "at the tap" [1 c] | 99.9% | 99.9% | √ |
| Bacteriological compliance "at the tap" [c] | 99.8% | 99.8% | √ |
| Iron compliance "at the tap" [c] | 99.3% | 99.5% | √ |
| Distribution Index [2 c] | 99.7% | 99.8% | √ |
| **Environmental** | | | |
| Leakage m3/km/day | 7.1 | 7.3 | X* |
| Number of "category 1 and 2" pollution incidents [c] | 8 | 8 | √ |
| Number of "category 3" pollution incidents [c] | 318 | 252 | √ |
| Population served by wastewater treatment works assessed as complying with "look up" table [c] | 99.9% | 99.9% | √ |
| Sewage sludge recycled satisfactorily [c] | 100% | 100% | √ |
| "Mandatory" coastal bathing water compliance at EU designated bathing beaches [c3] | 100% | 100% | √ |
| Blue Flag beaches and marinas | 50 | 46 | X |
| **Customer Service** | | | |
| Properties "at risk" of receiving low pressure | 194 | 189 | √ |
| Properties affected by unplanned water supply interruptions lasting more than 6 hours | 477 | 3,759 | X* |
| Properties flooded due to hydraulic overload | 92 | 61 | √ |
| Properties flooded due to other causes | 198 | 136 | √ |
| Billing enquiries answered within 5 days | 100% | 100% | √ |
| Written complaints answered within 10 days | 99.6% | 99.7% | √ |
| Number of written complaints received | 13,313 | 11,033 | √ |
| Customer meters read within year | 99.9% | 99.9% | √ |
| Telephone calls abandoned | 2.1% | 5.5% | X* |
| Telephone calls receiving engaged tone | 0.9% | 0.3% | √ |
| Customer satisfaction (score out of 5) (SIM Qualitative score) | n/a | 4.26 | n/a |

[1] This measure is based on "Mean Zonal Compliance"

[2] Incorporates performance against turbidity, iron and manganese

[3] Bathing season – 15 May to 30 Sept

[c] Calendar year, all other figures are for the year ended 31 March

* Affected by the freeze-thaw event

**Turnover**

For the year to 31 March 2011, total revenue was £676.7 million, yielding operating profits before financing costs of £227.5 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 £398 for the year to 31 March 2011.

DCC estimates that approximately 32.5 per cent. of household water and sewerage customers paid according to their domestic metered consumption during the year ended 31 March 2011. The WIA grants domestic customers the right to have a free meter installed if they wish to have one, where this is practicable. New properties are also generally metered.

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-household customers are billed periodically depending on the size of their consumption and household customers are normally billed half-yearly. Approximately 26 per cent. of DCC's appointed revenue comes from non-household customers.

DCC offers customers a variety of payment options for settling charges for water supply and sewerage services, including assistance tariffs for 37,000 household customers on low incomes and particular needs at an annual cost of approximately £3 million. The WIA prohibits the disconnection of household 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.

Billing and collection services are performed predominantly by Veolia under a service contract due to expire on 31 March 2013. These services include meter reading, account maintenance, billing collections, debt management and all associated calls and correspondence. DCC also has supplementary billing and collection agreements with some Local Authorities and Housing Associations.

DCC's total bad debt charge for the year to 31 March 2011 was £22.3 million, approximately 3.3 per cent of turnover.

Under the final determination published by Ofwat for the five year regulatory period from 1 April 2010 to 31 March 2015 ("**AMP5**", and such final determination, the "**AMP5 Final Determination**") DCC's average household bill, at 2009/10 price levels, was expected to reduce from £404 (after the Customer Dividend (as defined below)) in 2009/10 to £374 in 2014/15, reflecting in part an average annual reduction in prices of 0.8 per cent. over the five years.

**Operating Costs and Restructuring**

DCC's operating expenditure (excluding depreciation, amortisation and infrastructure renewals expenditure) was £264.6 million in the year to 31 March 2011.

During the year to 31 March 2010, DCC outsourced work equivalent to approximately 67 per cent of its total operating costs (excluding depreciation, amortisation and infrastructure renewals expenditure). The principal operating partners during the year were United Utilities (for water services in North Wales and South Wales and waste water services in North Wales), Kelda (for waste water services in South Wales) and Veolia (for billing and collection services). Hyder Consulting PLC provided network development consultancy services.

Following the five-yearly price and performance reviews, DCC announced on 9 February 2010 a restructuring of the outsourced operating contracts with United Utilities and Kelda. As a result of these reviews, it was not possible to reach agreement with either company for a continuation of the contracts for the AMP5 period.

DCC therefore reached agreement with United Utilities and Kelda to terminate the contracts on 1 April 2011 and 1 May 2011 respectively, as a result of which 1,095 and 475 employees transferred to DCC from United Utilities and Kelda respectively. A further 36 employees were transferred to DCC on 1 January 2011 when the network development consultancy services contract with Hyder Consulting PLC ended. Veolia's contract for billing and collections services has been extended by a year to 31 March 2013.

Under the AMP5 Final Determination, DCC will need to achieve a reduction of approximately £39 million (at 2007/08 prices) by 2014-2015 to meet DCC's cost assumptions made by Ofwat in the AMP5 Final Determination. DCC intends to achieve this reduction through a combination of streamlining processes to exploit recent investment in new operational technology, eliminating duplication in management, investing in "green energy" to reduce power costs and a phased reduction by March 2015 of around 300 in the number of staff members required to deliver water and waste water services, which is to be achieved through a combination of retirement, natural staff turnover and voluntary severance.

The Ofwat assumed cost efficiency reductions grow each year for the five years to 31 March 2015. DCC's costs for the appointed regulatory business for the year ended 31 March 2011 were approximately £260 million, as compared to the AMP Final Determination cost target for the year of approximately £282 million (both at 2010/2011 prices).

In the year to 31 March 2010, DCC accounted for an exceptional restructuring provision of £29.5 million. £10.8 million of this provision was incurred in respect of contract termination costs with Untitled Utilities and Kelda during the year ended 31 March 2011, with the balance incurred in respect of the costs of voluntary severance, including pensions. As at 31 March 2011 the exceptional restructuring provision was £14.7 million. In the year ending 31 March 2011 84 staff members left DCC.

**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 the risk of loss and damage, including terrorism cover. DCC also has third party liability insurance, which includes public and products liability insurance.

**Financing Costs and Strategy**

For the year ended 31 March 2011, DCC's net interest payable (before fair value adjustments) was £169.5 million, representing an average interest cost of approximately of 6.4 per cent. The net interest payable for the year includes indexation charges of £48 million in respect of Indexed Bonds (as defined in the Chapter 7 "*Terms and Conditions of the Bonds*") in issue reflecting the RPI indexation of the principal in respect of such Bonds during the year.

As at 31 March 2011, after taking into account derivative financial instruments, approximately 63 per cent of the company's gross debt was indexed-linked to the retail price index with the balance comprising fixed interest (37 per cent.).

Upon Glas' acquisition of DCC in May 2001, regulatory gearing was approximately 93 per cent. This figure has been gradually reduced to 67 per cent on 31 March 2011.

The board of directors of DCC considers that it is in the best long term interests of DCC's customers to reduce the level of the company's regulatory gearing (net debt divided by the regulatory capital value of DCC) to 70 per cent and to keep it at around that level going forward.

During the year ended 31 March 2011 the Glas Group redeemed the Sub-Class C1 Bonds, through a tender offer on 7 June 2010 (£113 million) with the balance of £12 million repaid on their expected maturity date of 31 March 2011. The Glas Group has now redeemed all £350 million of Class C and Class D Bonds that were

issued on the Initial Issue Date. The Glas Group has no current plans to issue further Class C Bonds or Class D Bonds, as it believes it is in the best long term interests of its customers to keep financing costs as low as possible. However, the Issuer continues to retain the ability to issue these bonds in the future.

**Customer Dividends**

Prior to its acquisition of DCC, the board of directors of Glas stated its intention to make customer rebates to customers (a "**Customer Dividend**") 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*"). Since 2001, the aggregate amount of customer dividends rebated to customers is approximately £151 million.

Under the AMP5 Final Determination, the average bill for water and sewerage customers was expected to reduce by £30 (at 2009/10 price levels). Recognising the reduction in bills, and given the scale of challenges in AMP5, such as the Ofwat cost efficiency target referred to above and capital investment needs in AMP5, the board of directors of Glas have no plans for a Customer Dividend in AMP5, although this will continue to be assessed on an annual basis.

**AMP5 Capital Investment Programme**

In the AMP5 period DCC expects to invest approximately £1.25 billion (at 2010/2011 price levels) in capital projects. The capital programme for the AMP5 period includes a targeted increase in the level of maintenance expenditure to reflect the need to maintain DCC's asset base and levels of service, in particular for water quality and environmental protection, and to reduce whole life asset operating costs.

DCC's capital expenditure plans for the AMP5 period have been developed through a long-term asset planning process, which has achieved certification under PAS55:2008 standard, the most up-to-date asset management specification. The plans, which were set out in the final business plan submitted by DCC to Ofwat dated 7 April 2009, included the following:

- installation of new treatment equipment at approximately 22 sites and enhancement of treatment processes at approximately 18 further sites to address risks to the quality of drinking water;
- investment at approximately 14 sites to further enhance the standards of bathing and shellfish waters;
- installation of advanced sludge digestion systems at 3 sites to reduce energy costs and DCC's carbon footprint;
- replacement of approximately 573 km of water mains that are causing repeated interruptions of supply to customers;
- establishment of an initial programme to start to remove surface water from DCC's sewers;
- ongoing investment to reduce the incidents of sewer flooding;
- incurring further expenditure on DCC's "IT enabled change" programme to improve efficiency and customer service; and
- investment to supply new housing and enable economic development.

DCC has agreements in place with the following principal capital partners to deliver the capital programme in the AMP5 period: Costain Limited, Morgan Sindall Limited, Black & Veatch Limited and Imtech Process Limited. Logica CMG, Capgemini UK plc and Tata Consultancy Services provide ITC services to DCC.

During the year ended 31 March 2011, DCC incurred £242 million of capital expenditure, before grants and contributions, split between water (£127 million) and waste water (£115 million). Capital schemes completed

in the year ended 31 March 2011 include schemes to improve or provide strategic maintenance of water treatment works at Bryn Cowlyd, Capel Dewi, Eithin Fynydd and Myndydd Llandygai. DCC has also completed advanced sludge digestion schemes to produce renewable energy at Cardiff, Hereford and Port Talbot. A new operational control and customer contact centre has also opened near Cardiff.

## 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 registered office of the Issuer is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. 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 telephone number of the principal place of business of the Issuer is +44 (0) 1443 452300.

The Issuer is a special purpose vehicle for the purpose of issuing asset-backed securities 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 and is 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 auditors are PricewaterhouseCoopers LLP, a registered auditor and member of the Institute of Chartered Accountants in England and Wales, of 1 Kingsway, Cardiff, Wales, UK CF10 3PW (the "**Issuer Auditors**"). Its audited accounts for the year ended 31 March 2010 and for the year ended 31 March 2011, which are prepared under IFRS, are incorporated by reference into this Prospectus.

In addition to the Bonds issued on the Initial Issue Date, the Second Issue Date, the Third Issue Date, the Fourth Issue Date and the Fifth Issue Date, the Issuer has entered into (a) the Second Liquidity Facility Agreement to enable it to borrow monies in order to fund Liquidity Shortfalls (as defined below); (b) Hedging Agreements (as defined below) in accordance with the hedging policy; and (c) Authorised Loan Facilities (as defined below). The Issuer has also on lent the existing bond issues proceeds under intercompany loans 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.

**Introduction**

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, Wales, UK CF46 6LY.

The auditors of Glas are PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, of 1 Kingsway, Cardiff, Wales, UK CF10 3PW (the "**Glas Auditors**" and together with the DCC Auditors and Issuer Auditors, the "**Glas Group Auditors**"). The accounting reference date of Glas is 31 March and the latest audited accounts, prepared under IFRS, are for the year ended 31 March 2011 which, together with those for the period ended 31 March 2010 are incorporated by reference into this Prospectus.

During the financial year ended 31 March 2011, Bob Ayling was appointed Chairman of the Board. Additionally, three directors (Chairman Lord Burns, Dame Deirdre Hine and Mr Geraint Talfan Davies) stood down from the Board having served as Non-Executive Directors since 2001 and two Non-Executive Directors (Mrs Menna Richards and Mrs Anna Walker) were appointed. These changes comprise the latest phase of a board succession plan initiated in 2007 under which all of the non-executive directors who were members of the board of Glas in 2001 (when Glas acquired DCC) would stand down from the board of Glas by the end of 2012.

**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 Appointment 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 Ofwat's consent.

The board of directors of Glas is accountable to the members of Glas. Glas currently has 82 members in addition to the directors, who are also 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 generally 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, 1989 and 2006. In addition, Glas operates as if it were a publicly listed company in all material respects as regards corporate governance and reporting. The Senior Independent Director is John Bryant.

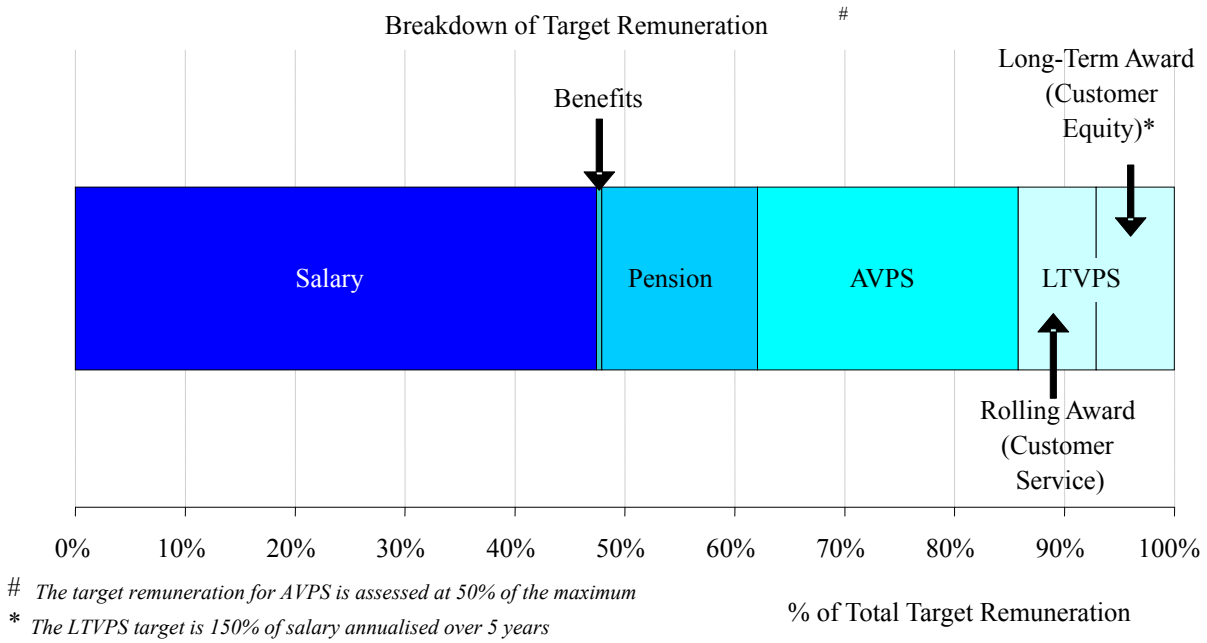
DCC and Glas have further undertaken to maintain a majority of non-executive directors on their respective boards of directors.

**Remuneration Policy**

The aim of the Glas Group's remuneration policy is to align as closely as possible the rewards payable to Executive Directors and the long term success of DCC. Accordingly, the remuneration policy aims to pay remuneration at levels which are sufficiently competitive to recruit and retain high quality staff and to ensure that the remuneration packages are structured so as to discourage inappropriate risk taking. Therefore, the remuneration policy (i) sets levels of base salary and total remuneration that (when assessed against periodic market benchmarking) are intended to be fair and competitive having regard to an individual's experience and responsibility, (ii) delivers a significant proportion of total remuneration via variable pay, so as to encourage improved performance, although the majority of the package is 'fixed', so as to ensure that executives are not encouraged to take inappropriate risk, and (iii) focuses incentives on the relative performance of DCC, as assessed and reported by Ofwat, the Drinking Water Inspectorate, the Environment Agency and the Consumer Council for Water, so as to promote the objective of producing sector-leading performance in a transparent and accountable way. When setting the remuneration policy, the remuneration committee of the board of

directors of Glas considers remuneration structures across the business as a whole and considers the impact of the policy in light of broader social, environmental and governance issues.

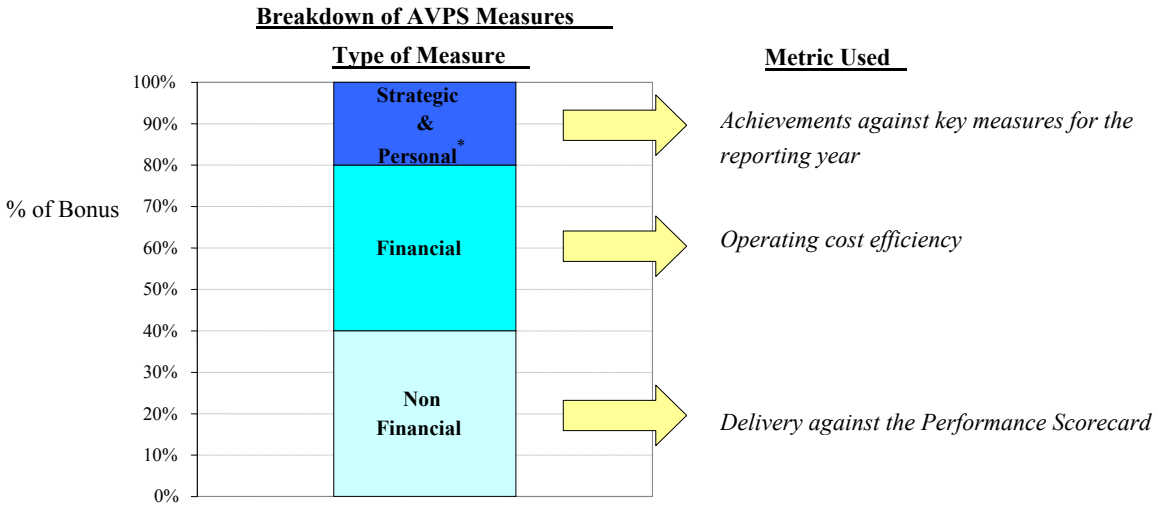
The remuneration package for Executive Directors comprises five elements: base salary and benefits, two elements of variable pay (an annual bonus scheme (the "**Annual Variable Pay Scheme**" or "**AVPS**") and a longer term performance related bonus scheme (the "**Long Term Variable Pay Scheme**" or "**LTVPS**")) and a pension. The diagram below shows a breakdown of the value of the various elements of the remuneration package, assuming that the target level of performance is achieved. The diagram shows that around 60 per cent. of the total remuneration package is fixed, with 40 per cent. comprising variable pay:




*# The target remuneration for AVPS is assessed at 50% of the maximum*

** The LTVPS target is 150% of salary annualised over 5 years*

The maximum AVPS that can be earned is an amount equivalent to 100 per cent. of base salary, assessed across three components, as illustrated below. Equal weighting is given to the financial and non-financial components of AVPS and such assessment is the "**Performance Scorecard**".




*1. i.e. standing with regulators and customers, introduction of new management structure and delivery of business change agenda, delivery of capital investment programme and personal objectives.*

The Strategic and Personal objectives and the KPI targets used in the Performance Scorecard are agreed by the Committee so as to underpin the annual business plan approved by Board. The same Performance Scorecard is applied more widely in variable pay arrangements across the organisation in order to promote a team culture and reinforce organisational alignment, as well as demonstrating the assessment of performance in a clear and concise manner.

The objective of the LTVPS is to align the longer term aspects of total remuneration with the performance of DCC over the course of the five year regulatory period ending on 31 March 2015. Under the LTVPS two types of award can be made (in each case, a cash payment):

- A "Customer Equity" award, which is measured by the creation of customer equity over the regulatory period; and
- A "Customer Service Award", which is measured by the Company's average ranking in the Ofwat league table for OPA and SIM over the last three years (i.e. for 2010-2011, this means the OPA ranking 2008/2009 and 2009/2010 and the SIM ranking for 2010/2011)

The Customer Service Award is therefore informed by and rewards the Company's relative performance compared with other companies in the sector. The LTVPS performance targets reflect the Board's ambition that DCC should rank alongside the leading companies on the key industry league tables for customer service.

## 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 and does not 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 issued share capital is £30,001 (1 ordinary share and 30,000 redeemable preferred ordinary (non-voting) shares owned by Glas Securities).

As at 31 March 2011 Holdings owed DCC £370.5 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 Prospectus, Glas Securities owes £1.4 million to Glas under an inter-company balance, representing its net acquisition cost of Holdings.

## Management of Glas, DCC and the Issuer

*The non-executive directors of Glas and DCC are:*

**Mr. Bob Ayling**

Chairman of Glas and DCC and also Chairman of the International Dispute Resolution Centre, Dyson Limited and HM Courts and Tribunals Service. Former Chairman and Managing Director of British Airways, former Chairman of Holidaybreak plc and former non-executive director of Royal & Sun Alliance Group plc.

**Mr. John Bryant**

Senior Non-Executive Director. Former Joint Chief Executive of Corus plc and currently a non-executive director of the Costain Group plc. Former non-executive director of the Bank of Wales plc.

**Mr. Anthony Hobson**

Chairman of The Sage Group Plc and the UK charitable organisation, Changing Faces, and a Non-Executive Director of esure. Former Chairman of Northern Foods Plc and Group Finance Director of Legal & General Group Plc.

**Mr. James Strachan**

A non-executive director of Financial Services Authority, Legal & General Group plc, JP Morgan Asian Investment Trust, Sarasin and Partners LLP and Social Finance Ltd. Former Chairman of the Audit Commission and the UK charitable organisation, RNID. Former Managing Director of Merrill Lynch and

non-executive Board member of the Bank of England and Office of Gas and Electricity Market (Ofgem, the UK energy regulator) and Non-Executive Director of Care UK plc.

**Professor Stephen Palmer**

Head of Profession Epidemiology at the Health Protection Agency and Professor of Epidemiology and Public Health at Cardiff University. Former Head of the Public Health Services Laboratory Communicable Disease Surveillance Centre in Wales and a Fellow of the Faculty of Public Health and The Royal College of Physicians.

**Mrs Menna Richards**

Until recently Director of BBC Cymru Wales. Former Managing Director of HTV Wales and Director of Broadcasting HTV Group plc. Currently a Director of Welsh National Opera and Vice President of Cardiff University.

**Mrs Anna Walker**

Chairman of the Office of Rail Regulation, Non-Executive Director of Consumer Focus and author of the Walker Report (an independent report commissioned by the UK government into household water charging). Former Chief Executive of the Healthcare Commissioner, Deputy Director at OFTEL, Director General of Land Use and Rural Affairs (DEFRA) and Director General of Energy Group (DTI).

*Executive Directors of Glas and DCC:*

The executive directors of both Glas and DCC are Mr. Nigel Annett, Mr. Christopher Jones and Mr. Peter Perry. The company secretary for both is Mr. Richard Curtis. The business address of each of the non-executive, executive directors and company secretary is the registered office of Glas.

Mr. Christopher Jones is a non-executive director of the Principality Building Society. No director or the company secretary of either of Glas or DCC has any actual or potential conflict of interest between his or her duties to Glas or DCC and his or her private interests or other duties.

*Directors of the Issuer:*

The directors of the Issuer are Mr. Christopher Jones and Mr. Nigel Annett. The Issuer's company secretary is Mr. Richard Curtis.

The business address of each of the directors and company secretary of the Issuer is the registered office of Glas.

No director or the company secretary of the Issuer has any actual or potential conflict of interest between his duties to the Issuer and his private interests or other duties.

# CHAPTER 5
# WATER REGULATION

## Water Regulation Generally

**Regulatory Framework**

The activities of an Undertaker are principally regulated by the provisions of the WIA, regulations made under the WIA and the Conditions of Appointment. Under the WIA, the Secretary of State has a duty to ensure that at all times there is an appointed Undertaker 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 the Secretary of State, the WSRA.

In relation to DCC's, Dee Valley Water plc's, and Albion Water Limited's 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 WSRA which is aided in its duties by Ofwat, a non-ministerial government department. Ofwat is responsible for, *inter alia*, setting limits on charges and monitoring and enforcing Conditions of Appointment. Undertakers are required by their Conditions of Appointment 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 ("**DEFRA**"), and the England and Wales Environment Agency (the "**EA**").

***The WSRA and the Secretary of State***

The chairman and other members of WSRA are appointed for fixed terms by the Secretary of State (in consultation with the Assembly). They are independent of government ministers and may only be removed for incapacity or misbehaviour.

Each of the Secretary of State and the WSRA has a primary duty under the WIA to exercise and perform their powers and duties under the WIA in the manner they consider best calculated to secure that, *inter alia*:

(a) the "consumer objective", defined as the protection of consumers' interests (where appropriate, by promoting competition), with particular emphasis upon certain categories of customers, is furthered;

(b) the functions of Undertakers are properly carried out throughout England and Wales; and

(c) Undertakers are able to finance the proper carrying out of those functions.

Subject to this primary duty, each of the Secretary of State and the WSRA has a number of secondary duties. These include requirements to exercise and perform their powers and duties in the manner they consider best calculated to:

(a) protect the interests of customers and potential customers in respect of the showing of undue discrimination or preference in the setting of charges, the benefits that could be secured from the proceeds of disposal of certain land, and in respect of the carrying out of activities which are not attributable to the exercise of an Undertaker's statutory functions; and

(b) promote economy and efficiency on the part of Undertakers and contribute to the achievement of sustainable development.

In August 2010, DEFRA launched a review of Ofwat focussing in particular on Ofwat's role, governance and relationship with the government and other stakeholders. A report is expected in June 2011.

***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 Undertakers 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 WSRA to appoint) an Undertaker;
- the right to petition for special administration orders;
- enforcement of the various duties of the Undertakers;
- the making of regulations on standards of performance;
- the power to impose financial penalties on Undertakers for contraventions of certain obligations;
- the power to institute proceedings for the offence of supplying water unfit for human consumption; and
- 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.

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 Undertakers in England.

***Variation and Termination of an Appointment***

There are certain circumstances provided for where an Undertaker could cease to hold the Appointment for all or part of its area:

- an Undertaker could consent to the making of a replacement appointment or variation, which changes its appointed area, and the WSRA has the authority to appoint a new Undertaker;
- under Condition O of the Instrument of Appointment, provided at least 25 years' notice has been given by the Assembly;
- under the provisions of the special administration regime (the Instrument of Appointment 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 an Undertaker's existing appointed area to another Undertaker (see below).

Before making an appointment or variation, the WSRA or the Secretary of State must consider any representations or objections made. In making an appointment or variation and where the Secretary of State or WSRA is to determine what provision should be made for fixing charges, it is the duty of the Secretary of State or the WSRA 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 Undertaker are not unfairly prejudiced as regards the terms on which the new Undertaker could accept transfers of property, rights and liabilities from the existing Undertaker.

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 Undertaker's area, or where the incumbent Undertaker consents to the variation. The volume threshold for large user insets has been reduced to 50 megalitres per annum in England but remains at 250 megalitres per annum in Wales.

**Enforcement Orders**

The general duties of Undertakers are enforceable by the Secretary of State or the WSRA 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. Conditions of Appointment (and other duties) are enforceable by the WSRA alone whilst other duties, including those relating to water quality, are enforceable by the Secretary of State.

Where the Secretary of State or the WSRA is satisfied that an Undertaker is contravening, or is likely to contravene, a Condition of its Appointment, or a relevant statutory or other requirement, either the Secretary of State or the WSRA 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 WSRA more appropriate to make a provisional enforcement order, they may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or WSRA 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 WSRA will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance.

There are exemptions from the Secretary of State's and the WSRA'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.

In addition, the WIA provides the WSRA, the Secretary of State and the Assembly with the power to impose financial penalties on an Undertaker for contraventions of its Conditions of Appointment and statutory or other requirements including performance standards. Penalties may be as high as 10 per cent. of an Undertaker's turnover, but they must be reasonable in all circumstances. Each of the above enforcement authorities is required to publish a statement of policy on the imposition of penalties, and to have regard to that statement when implementing the new provisions.

**Special Administration Orders**

The WIA contains provisions enabling the Secretary of State and the WSRA 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 WSRA, make a special administration order in relation to an Undertaker and appoint a special administrator. These circumstances include:

- where there has been, or is likely to be, a breach by an Undertaker of either 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 Undertaker to continue to hold its Instrument of Appointment;
- where the Undertaker 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 Undertaker under Section 440 of the Companies Act 1985 it would be just and equitable, as mentioned in that section, for the Undertaker to be wound up if it did not hold an Appointment; and
- where the Undertaker is unable or unwilling adequately to participate in arrangements certified by the Secretary of State or the WSRA to be necessary by reason of, or in connection with, the appointment of a new Undertaker upon termination of the existing Undertaker's Appointment.

In addition, on an application being made to Court, whether by the Undertaker itself or by its directors, creditors or contributories, for the compulsory winding up of the Undertaker, 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 Undertaker were not a company holding an Instrument of Appointment, 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 Undertaker 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 Undertaker 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 Undertakers, but with certain important differences. A special administrator would be charged with managing the affairs, business and property of the Undertaker: (i) for the achievement of the purposes of the special administration order; and (ii) in such a manner as to protect the respective interests of the members and creditors of the Undertaker. The purposes of the special administration order consist of: (a) transferring to one or more different Undertakers, as a going concern, as much of the business of the Undertaker as is necessary in order to ensure that the functions which have been vested in the Undertaker by virtue of its Instrument of Appointment are properly carried out; and (b) pending the transfer, the carrying out of those functions. Where a special administration order is made on the grounds that the Undertaker is, or is likely to be unable to pay its debts, the purpose of the special administration regime also consists of the rescue of the Undertaker as a going concern. 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 an Undertaker.

The powers of a special administrator include, as part of a transfer scheme, the ability to make modifications to the Conditions of Appointment of the existing Undertaker, subject to the approval of the Secretary of State

or the WSRA. The special administrator agrees the terms of the transfer of the existing Undertaker's business to the new Undertaker(s), on behalf of the existing Undertaker. The transfer is effected by a transfer scheme which the special administrator puts in place on behalf of the existing Undertaker. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Undertaker to the new Undertaker(s) and may also provide for the transfer of the existing Undertaker's Instrument of Appointment (with modifications as set out in the transfer scheme) to the new Undertaker(s). The powers of a special administrator include the right to seek a review by the WSRA of the Undertaker'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 WSRA. In addition, the Secretary of State and the WSRA may modify a transfer scheme before approving it or at any time afterwards with the consent of the special administrator and each new Undertaker.

The FWM Act, which received Royal Assent on 8 April 2010, amends the special administration regime to bring it in line with modern insolvency practice in unregulated industries and to streamline the procedures for transferring a failing company to new owners. The previous regime only enabled the special administrator to transfer the appointment and assets of a failing water company onto one or more new owners. The changes enable the special administrator to pursue the goal of rescuing the regulated company as a going concern if this is reasonably practicable.

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 Undertaker subject to a special administration order.

**Security**

***Restrictions on the granting of security***

An Undertaker's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and the Conditions of Appointment. For example, the WIA and all Instruments of Appointment (including DCC's) restrict an Undertaker's ability to dispose of protected land, which is any land that is necessary for the purposes of the carrying out of the Undertaker's regulated activities. Accordingly, the Conditions of Appointment restrict an Undertaker's ability to create a charge or mortgage over protected land or assets required for the operation of its business as an Undertaker. In the case of DCC, it estimates that the vast majority of its assets by value is tangible property which is protected land and/or assets required in the operation of DCC's business as an Undertaker 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-Undertaker to block the appointment of a conventional administrator.

In addition, provisions in the Conditions of Appointment require the Undertaker 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 an 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 an Undertaker 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 WSRA. 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 Undertaker 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 Undertaker). 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-Undertaker 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 WSRA 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-Undertaker 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 Undertaker'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 an Undertaker 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 WSRA's general duties under the WIA to exercise and perform its powers and duties, *inter alia*, to ensure that the functions of an Undertaker 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 WSRA. 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 Undertakers 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 is the price cap determined by the WSRA pursuant to the Conditions of Appointment. This limits increases in a basket of standard charges made by Undertakers 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 Undertaker 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.

***Prices not subject to the Price Limitation Formula***

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. Charges for bulk supplies to other Undertakers and infrastructure charges also fall outside the price limitation formula.

***Periodic reviews of K***

K must be reviewed every five years (the "**periodic review**"). Following the most recent periodic review, new price limits take effect from 1 April 2010 and are set for the five-year period from 2010 to 2015. Ofwat has published a series of discussion papers regarding possible changes in the way that periodic reviews are carried out in the future, including the possibility of separate price limits for different parts of an Undertaker's business. Ofwat has stated that it will consult formally on the principles to be applied at the next periodic review during the Autumn of 2011, and that it will consult on the methodology to be used during the Autumn of 2012.

***Interim Determinations of K***

The Conditions of Appointment provide for the WSRA to determine in certain circumstances whether, and if so how, K should be changed between periodic reviews (an "**Interim Determination**"). The procedure for Interim Determinations of K can be initiated either by the Undertaker or by the WSRA. 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 WSRA to the Undertaker as not having been allowed for in K. Notified Items put forward by the WSRA in the determination of price limits for the period 2010 to 2015 are: (i) increased costs associated with the balancing of water supply and demand arising as a consequence of the utilisation of the data sources and analytical tools available in the "UK Climate Projections" report commissioned by the Department of Environment, Food and Rural Affairs and published in 2009; (ii) any net increase in bad debt and debt collection costs; (iii) certain increases in the environmental charges for abstractions and discharges; and (iv) charges for lane rental/traffic management.

"**Relevant Changes of Circumstance**" are defined in the Conditions of Appointment. (See Chapter 4 "*DCC and the Glas Group*" under "*Regulation*" for further details of the Conditions of Appointment.) Such changes

include: (i) the application to the Undertaker 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 Undertaker 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 Undertaker 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 Appointment also specify a materiality threshold which must be reached before any adjustment to K can be made. In relation to condition B of certain Undertakers' appointments (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 Undertaker's water and sewerage business. An adjustment to K (which may be up or down) is then calculated on the basis of a formula, set out in condition B, which is broadly designed to enable the Undertaker 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.

***Substantial Adverse or Favourable Effects – "Shipwreck" Clause***

DCC, along with certain other Undertakers may, under condition B.14 of its Instrument of Appointment (the "**shipwreck clause**"), request an adjustment to price limits if the regulated business suffers a substantial adverse effect which could not have been avoided by prudent management action. The WSRA may also propose to reset price limits if DCC enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action. For the purpose of this clause the materiality threshold is equal to at least 20 per cent. of the latest reported turnover attributable to the Undertaker's water and sewerage business.

***References to the Competition Commission***

If the WSRA fails within specified periods to make a determination at a periodic review or in respect of an Interim Determination or if the Undertaker disputes its determination, the Undertaker may require the WSRA to refer the matter to the Competition Commission. The Competition Commission 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 WSRA. The decisions of the Competition Commission are binding on the WSRA.

**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 DEFRA and acts as a technical assessor on behalf of the Secretary of State and the Assembly in respect of the quality of drinking water supplies. As such, 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) or for the offence of supplying water that is inadequately treated or disinfected.

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 Undertakers includes the Water Resources Act 1991 (the "**WRA**"), the Environmental Protection Act 1990 (the "**EPA**") and the WIA. 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 Undertakers 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 watercourses in order to be able to discharge water into such watercourses. 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 an Undertaker 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 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 WSRA has concurrent powers with the 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 the most recent financial year's turnover of the Undertaker involved 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.

***The Water Supply Licensing Regime***

The WIA, as amended by the 2003 Water Act, contains provisions which create a framework for competition in water supply, under which entrants wishing to use Undertakers' networks to transport water to customers (also known as "**common carriage**") or wishing to purchase wholesale water from Undertakers to "retail" to customers are required to obtain a water supply licence ("**Licensees**"). However, the new market is limited to customers using in excess of 50 megalitres of water per annum.

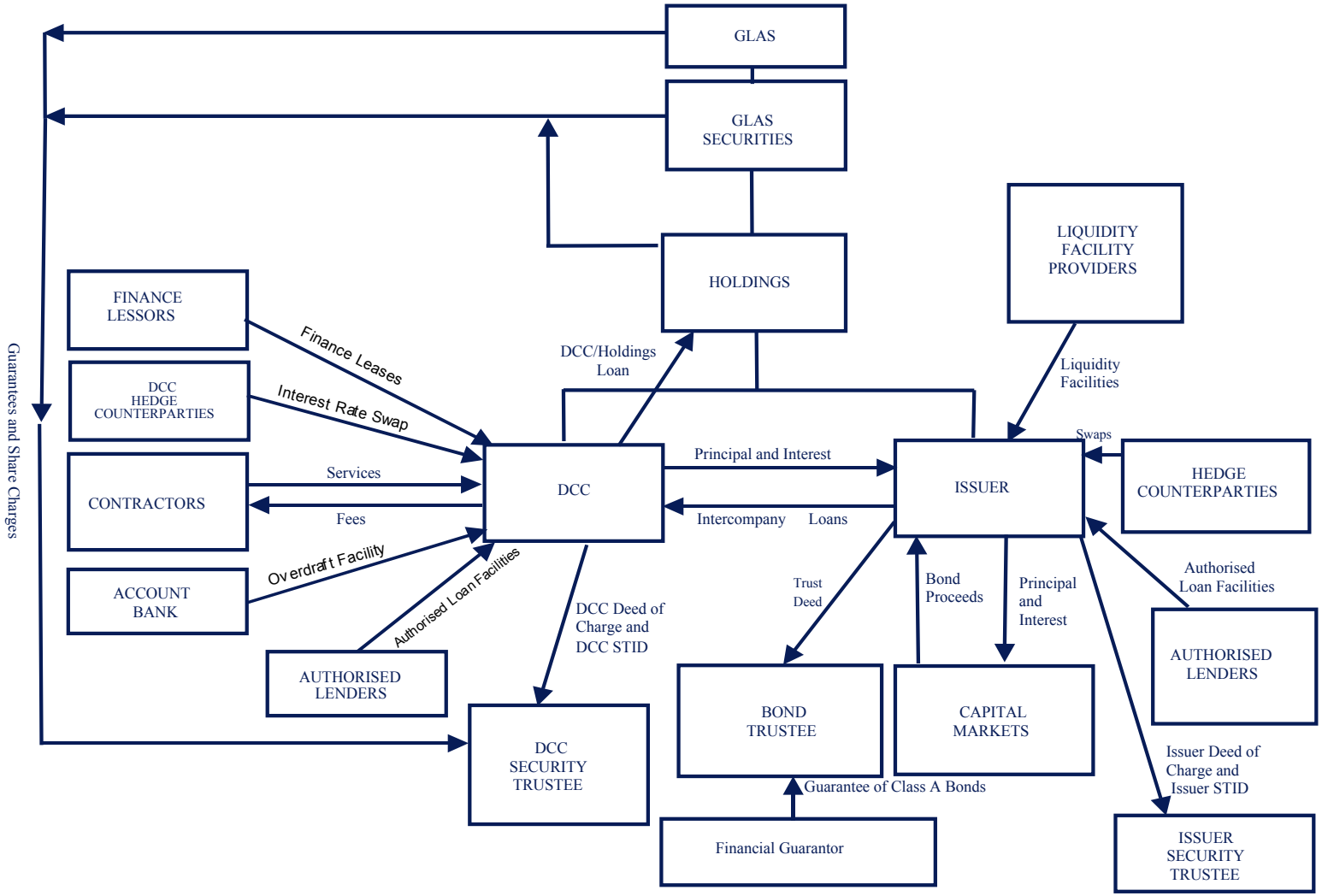
In addition, the provisions include a requirement on Undertakers to charge Licensees for common carriage and wholesale services in such a way as to meet the Government's objective of minimising the effect of competition on other customers' bills. Ofwat have published formal guidance which sets out how they apply these requirements in practice.

Following an independent review of competition and innovation in water markets in 2008-2009 by Professor Martin Cave), a joint consultation was issued by the then UK government and the Assembly in September 2009 setting out proposals to modify the framework for competition in the water industry. In Wales these would replace the present arrangements for setting common carriage and wholesale prices by giving Ofwat a new power to develop an access pricing methodology and to publish access prices subject to guidance from the Assembly and consultation with market participants. The proposals for England go further, and include the extension of competition arrangements to sewerage and the legal separation of Undertakers' "retail" functions into separate corporate entities, and also an immediate reduction in the eligibility threshold for competition to 5 mega litres per annum. The Assembly, in February 2011, has stated that "based on the evidence available, the Assembly does not believe that the case has been made to support either the separation of the retail and network businesses in the water sector or the benefits of further competition for domestic customers". The coalition UK government that was elected in May 2010 has confirmed that it intends to reduce the eligibility threshold to 5 mega litres per annum but it has not yet set out its wider position on the conclusions of the review carried out by Professor Cave. It is expected to do so in a white paper to be published later in 2011.

**Merger Regime**

A special merger regime operates in relation to the water industry. The Secretary of State has a duty to refer to the Competition Commission mergers or proposed mergers between two or more Undertakers where the annual appointed business turnover of either the target company or the acquirer exceeds £10 million. There are specific appraisal criteria for mergers between Undertakers which the Competition Commission is required to apply in order to determine whether the merger will operate against the public interest. The joint consultation referred to above includes proposals to modify the merger regime by replacing the automatic requirement for reference to the Competition Commission with a first stage assessment by the OFT that would be given similar remedy-making powers as it has under the regular merger regime to accept undertakings from the acquiring Undertaker in lieu of a second stage referral to the Competition Commission.

## 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 a 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 any Liquidity Facility Agreements specifically 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. 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 a Liquidity Facility 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 further enter into 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 has hedged and may further hedge certain of its interest rate and/or inflation exposures in respect of its obligations under the DCC Finance Leases.

- 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, 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 G&R 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 Documents". 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 Current DCC Hedge Counterparties 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 (as defined below). 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 holders of the Class A Bonds and the Authorised Lenders and, after a Default Situation, that the holder of the Class A Bonds, Class B Bonds, Class R Bonds and Authorised Loan Facilities at the Issuer level and the DCC Finance

Lessors, 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 (as defined below). 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 (as defined below), 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 (as defined below)) 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 (as defined below) 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 (as defined below) 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; and

(v) 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; and

(v) 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:

(A) in relation to the Initial Financial Guarantor:

(i) any Insured Amount or, as the case may be, Guaranteed Amount which is Due for Payment (each as defined in the relevant Financial Guarantee) is unpaid by reason of non-payment and is not paid by the Initial Financial Guarantor on the date stipulated in the relevant Financial Guarantee;

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

(iii) the Initial 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 or, as the case may be, Insolvency Law, of the Initial Financial Guarantor (or as the case may be, of a material part of its property or assets) under any Bankruptcy Law or, as the case may be, Insolvency Law (as defined below);

(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, as the case may be, Insolvency Law; or

(d) has a final and non-appealable order, judgment 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 or, as the case may be, Insolvency Law (each a "**Custodian**") for the Initial Financial Guarantor or all or any material portion of its property or authorising the taking of possession by a Custodian of the Initial Financial Guarantor; and

(B) and in relation to any other Financial Guarantor, such events as described in the relevant Financial Guarantee or Financial Guarantees of such Financial Guarantor as defined more particularly in the applicable Final Terms.

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, and "**Insolvency Law**" means any applicable United Kingdom bankruptcy or insolvency law, including the Enterprise Act 2002, the Insolvency Act 2000, the Insolvency Act 1986, the Insolvency Rules 1986, the

Insolvency Regulations 1994 or any legislation passed in substitution or replacement thereof or amendment thereof or similar law, statute or regulation for the relief of debtors of the United Kingdom or any other applicable jurisdiction.

"**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 been 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 Final Terms, 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. The expiry or maturity date of each Intercompany Loan Agreement will also match the expiry date of the corresponding Series of each Sub-Class of Bonds. The payment obligations of DCC under the Intercompany Loan Agreements are intended to enable the Issuer to service any payments due and payable on the corresponding Bonds and for the avoidance of doubt, the characteristics of each Intercompany Loan Agreement entered into in connection with an issue of Bonds are such as to demonstrate capacity to produce funds for the Issuer to service any payments due and payable on such Bonds. 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.

The Holdings/DCC Loan Agreement 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. As at 31 March 2011 Holdings owed DCC £370.5 million under the Holdings/DCC Loan Agreement.

## Common Terms Agreement

Each of the Finance Lessors, the Account Bank, the DCC Security Trustee, DCC, the Issuer, Holdings, Glas Securities and Glas, among others, entered into a common terms agreement on the Initial Issue Date (as amended, the "**Common Terms Agreement**"). Certain additional DCC Finance Lessors and the Current DCC Hedge Counterparties 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 (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, any Authorised Lender, any 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 Instrument of Appointment 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), the DCC Hedge Documents, 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 Instrument of Appointment) 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 Instrument of Appointment; 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 2 "*The Programme*" under "*Investor Information*";
- provide the WSRA with all information required by him in accordance with the Instrument of Appointment on a timely basis;
- use all reasonable endeavours to procure that the DCC Security Trustee is joined in the consultation process with the WSRA 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 Instrument of Appointment 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 Instrument of Appointment 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 Instrument of Appointment, 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 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 Instrument of Appointment 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 Holdings/DCC 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 Instrument of Appointment, (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 Instrument of Appointment 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, and (b) 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 Instrument of Appointment, 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.

"**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 WSRA for an interim determination on any available grounds (see Chapter 5 "*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 WSRA 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 not 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 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 75 per cent. 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 86 per cent. for the current and each future financial year until the next periodic review.

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 WSRA 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 Instrument of Appointment 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 WSRA or the Assembly for a special administration order to be made in respect of DCC.

*(9) Termination of Instrument of Appointment*

The giving of a notice to terminate DCC's Instrument of Appointment 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 Instrument of Appointment 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 Instrument of Appointment*

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 Instrument of Appointment or, if a notice to

terminate the Instrument of Appointment 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 Instrument of Appointment 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 Welsh Water Utilities Finance Plc, all dividends, interest and other monies payable in respect thereof and all other rights related thereto; and

(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 Instrument of Appointment 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 5 "*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 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 Assurance S.A., 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, among others, on the Initial Issue Date, entered into the Issuer STID. Certain additional Issuer Secured Creditors have subsequently acceded or will accede to the Issuer STID, including the Current Authorised Lenders and the Initial Financial Guarantor. 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 Initial Financial Guarantor 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 the Initial 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 Financial Guarantees**

On the Initial Issue Date, MBIA Assurance S.A. issued in favour of the Bond Trustee (for itself and on behalf of the relevant Class A Bondholders) a Financial Guarantee 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. (A decision of the Comité des Entreprises d'Assurance (the French insurance regulator) on 27 December 2007 approved the transfer of the business of MBIA Assurance S.A. to MBIA UK Insurance Limited with effect from 28 December 2007 pursuant to article L.324-1 of the French Insurance Code; MBIA UK Insurance Limited has, therefore, assumed all rights and obligations of MBIA Assurance S.A. under the Transaction Documents as if it were the Financial Guarantor of the Class A Bonds issued on the Initial Issue Date.)

On the Fourth Issue Date, MBIA UK Insurance Limited issued in favour of the Bond Trustee (for itself and on behalf of the relevant Class A Bondholders) a financial guarantee in respect of the issue of Class A6 Bonds issued under the Programme on the Fourth Issue Date. To the extent that MBIA UK Insurance Limited or any other Financial Guarantors issue Financial Guarantees in respect of any further Series of Class A Bonds, such Financial Guarantees 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, the relevant Financial Guarantor's obligations will continue to be to pay the Insured Amounts or Guaranteed Amounts (as applicable) as they fall Due for Payment (as defined in the relevant Financial Guarantees) on each Issuer Payment Date. A Financial Guarantor will not be obliged under any circumstances to accelerate payment under its Financial Guarantees. 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 it 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 any Financial Guarantor under any of the Financial Guarantees.

The Bond Trustee as party to the Financial Guarantees issued by MBIA Assurance S.A. on the Initial Issue Date and by MBIA UK Insurance Limited on the Fourth Issue Date has the right to enforce the terms of such Financial Guarantees, and any right of any other person to do so is expressly excluded.

**Guarantee and Reimbursement Agreements**

On the Initial Issue Date the Issuer entered into an insurance and indemnification agreement with MBIA Assurance S.A.. However pursuant to the Transfer, MBIA UK Insurance Limited has assumed all rights and obligations of MBIA Assurance S.A. under the Transaction Documents as if it were the Financial Guarantor of the Class A Bonds issued on the Initial Issue Date.) On the Fourth Issue Date, the Issuer entered into a guarantee and reimbursement agreement (a "**G&R Agreement**", and previously known as an insurance and indemnification agreement) with MBIA UK Insurance Limited.

On each relevant Issue Date in respect of Class A Bonds after the date of this Prospectus, the Issuer will enter into other G&R Agreements with a 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 Financial Guarantee and to pay any reasonable fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Insured Amounts or Guaranteed Amounts (as applicable and as defined in such Financial Guarantee), 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;

"**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; and

"**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) 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 National Westminster Bank plc (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 and repayment of the principal debit balance under the Overdraft Facility 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;
- an amount equal to the aggregate sum credited to the Customer Payments Account shall be forthwith transferred to the Debt Service Payment Account; 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 Current DCC Hedge Counterparties, each other party that enters a DCC Hedge Document, as defined in the DCC STID (each a "**DCC Hedging Counterparty**"), 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 priority of payments during a Standstill (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:

(c) 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);

(d) 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);

(e) 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);

(f) 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:

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

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

(7) 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 a contract of differences, which was entered into on 3 April 2001 and has subsequently expired, with no payment obligations remaining (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 G&R 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 G&R 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 G&R 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 G&R 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 G&R 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 G&R 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

As at 31 March 2011, DCC had entered into (a) an equipment supply agreement dated 28 June 1996 with Lloyds Plant Leasing Limited ("**Lloyds Plant Leasing**"), (b) two reimbursement and hire purchase agreements (for the supply of equipment which was 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**"), (c) two reimbursement and hire purchase agreements, each dated 21 November 2002, with A&L CF June (1) Limited ("**A&L June**") (formerly known as Sovereign Commercial Limited) (one such reimbursement and hire purchase agreement having been assigned to A&L June by A&L CF December (1) Limited ("**A&L December**") (formerly known as Sovereign Financial Services (Manchester) Limited)), (d) two reimbursement and hire purchase agreements (for the supply of equipment which was leased under the 20 year Finance Leases referred to below) dated 11 November 2004 and 20 October 2005 respectively with W&G, (e) two reimbursement and hire purchase agreements dated 11 November 2004 and 22 July 2005 respectively, with Lloyds TSB Corporate Asset Finance (No. 4) Limited ("**Lloyds Corporate Asset Finance**"), (f) one reimbursement and hire purchase agreement dated 12 November 2004 with Assetfinance December (H) Limited (formerly known as Motopurchase Limited) ("**Assetfinance**"), (g) one reimbursement and hire purchase agreement dated 31 August 2005 with Norddeutsche Landesbank Girozentrale ("**Nord**"), (h) one hire purchase agreement dated 19 March 2007 with BNP Paribas S.A. ("**BNP Paribas**") (such agreement having been assigned to BNP Paribas by Fortis Bank SA/NV, London Branch ("**Fortis**")), (i) one hire purchase agreement dated 5 October 2007 with RBSSAF (2) Limited ("**RBSSAF**") and (k) one purchase agreement dated 27 March 2009 with HSBC Equipment Finance (UK) Limited ("**HSBC Equipment (UK)**"). 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 is entitled to be reimbursed) for capital expenditure in respect thereof). The financial facilities available under the Supply Agreements are as follows: Lloyds Plant Leasing - £100million; W&G - £120million (in respect of the Supply Agreement dated 7 March 2002); £125million (in respect of the Supply Agreement dated 11 November 2004) and £30million (in respect of the Supply Agreement dated 20 October 2005); A&L June - £85million; Assetfinance - £50million; Lloyds Corporate Asset Finance - £50million (in respect of the Supply Agreement dated 11 November 2004) and £30million (in respect of the Supply Agreement dated 22 July 2005); Nord - £24 million; BNP Paribas - £32.187 million; RBSSAF - £85million and HSBC Equipment (UK) - £60million. Finance lease obligations, after the taking into account of any capital repayments under these facilities, amounted to £741.8 million as at 31 March 2011.

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 and on water and sewerage infrastructure assets. 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

As at 31 March 2011, each of Lloyds Plant Leasing, W&G, A&L June, Assetfinance, Lloyds Corporate Asset Finance, Nord, BNP Paribas, RBSSAF and HSBC Equipment (UK) (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 28 June 1996 with Lloyds Plant Leasing whose principal lease period is 25 years; (b) four lease agreements dated 7 March 2002, 7 March 2002, 11 November 2004 and 20 October 2005 with W&G, whose principal lease periods are 17 years, 20 years (upon agreement extendable up to 31 years), 20 years (upon agreement extendable up to 35 years) and 20 years (upon agreement extendable up to 35 years), respectively, from the date of commencement of such periods; (c) four lease agreements dated 21 November 2002 with A&L June (such agreements having been assigned by A&L December to A&L June pursuant to a deed of assignment and assumption dated 23 March 2010), whose principal lease periods are 11 years respectively from the date of commencement of such periods; (d) a lease agreement dated 21 November 2002, with A&L June whose principle lease period is 20 years; (e) a lease agreement dated 11 November 2004 with Lloyds Corporate Asset Finance whose principal lease period is 20 years (upon agreement extendable up to 35 years) from the date of commencement of such period and a lease agreement dated 22 July 2005 with Lloyds Corporate Asset Finance, whose principal lease period ends on 22 November 2024 (upon agreement extendable to 22 November 2039); (f) a lease agreement dated 12 November 2004 with Assetfinance, whose principal lease period is 20 years (upon agreement extendable up to 35 years) from the date of commencement of such period; (g) a lease agreement dated 31 August 2005 with Nord, whose principal lease period is 30 years from the date of commencement of such period; (h) a lease agreement dated 19 March 2007 with BNP Paribas S.A. (such agreement having been assigned by Fortis S.A./N.V. to BNP Paribas pursuant to a deed of assignment and assumption dated 27 October 2010) whose principal lease period ends on 31 March 2015; (i) a lease agreement dated 5 October 2007 with RBSSAF whose principal lease period ends on 31 March 2038; and (j) a lease agreement dated 27 March 2009 with HSBC Equipment (UK) whose principal lease period ends on 31 March 2017.

During the year to 31 March 2011, Bayersiche Landesbank, London Branch ("**Bayersiche**") assigned its rights as existing lessor under two finance leases, each dated 31 May 2002, to Riverside London Limited ("**Riverside**"), a subsidiary of Bayersiche, pursuant to an assignment and assumption agreement dated 9 August 2010. Bayersiche subsequently sold Riverside to Commerzbank A.G. London Branch ("**Commerzbank**") and Riverside subsequently assigned its rights as existing lessor to Commerzbank, pursuant to an assignment and assumption agreement dated 20 September 2010. DCC and Bayerische agreed to certain lease amendments (effective on the sale of Riverside to Commerzbank) which included an option for DCC to terminate each finance lease at a discounted termination amount on 31 March 2011 (amongst other dates). On 31 March 2011 DCC exercised these options and terminated the two leases for £118 million, recognising an accounting profit of £13.5 million in its financial statements for the year ended 31 March 2011.

The Finance Lease with Lloyds Plant Leasing was amended on the Initial Issue Date so as to be subject to 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 Plant Leasing where certain extensions are possible), of no longer than the respective principal lease period (see above) 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 1 April of each year in respect of the Finance Lease with Lloyds Plant Leasing and on 31 March of each year in respect of the other Finance Leases (each a "**Rental Payment Date**").

The primary period Rental payable under each of the Finance Leases 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 (other than under the Finance Leases with BNP Paribas, RBSSAF and HSBC Equipment (UK) (see below)) 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 assumptions set out in the Finance Leases with RBSSAF and HSBC Equipment (UK) are more limited and include assumptions relating to timing. In respect of the Finance Lease with BNP Paribas, the primary period rental payable is fixed by reference to an assumed rate comprising an assumed LIBOR rate and an assumed margin. Should the actual rate be different adjustments are made.

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, in certain cases, legal expenses, out-of-pocket expenses and 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.

Typically these indemnities survive any termination of the leasing of the Equipment under the Finance Leases and the termination of the Finance Leases themselves.

**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; (c) in respect of Lloyds Plant Leasing, it exercises its option to terminate the relevant Finance Lease on 1 April 2018; or (d) in respect of Fortis, it determines that an adverse change in circumstances has occurred or is reasonably likely to occur.

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, 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).

**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 the Equipment to the extent that it is a Moveable. 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 or becomes 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**

DCC has to maintain certain insurances under each Finance Lease (see "**DCC Obligations**" above).

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 £1.9 million 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

As of the date of this Prospectus, there are no Class R Bonds outstanding and the Issuer does not currently intend to issue any further Class R Bonds.

## Authorised Loan Facilities

The Issuer or DCC is currently party to eleven Authorised Loan Facilities with an aggregate original facility amount of £510 million (before principal repayments).

As at 31 May 2011, the aggregate drawn amount outstanding under these facilities (net of principal repayments of £22 million) was £248 million, leaving a balance of £240 million available for drawing as at that date.

These facilities are:

(i) a £35 million finance contract (of which £22 million of principal was repaid as at 23 May 2011) between the Issuer and the European Investment Bank ("**EIB**") repayable in instalments by 15 December 2014;

(ii) a second fully drawn finance contract of £100 million between the Issuer and the EIB repayable in instalments by 15 December 2021;

(iii) a third fully drawn finance contract of £100 million between the Issuer and the EIB repayable in instalments by 15 April 2025;

(iv) a fully drawn term loan of £35 million between DCC and KfW IPEX-Bank GmbH, repayable on 15 June 2016;

(v) an undrawn finance contract of £100 million between the Issuer and the EIB, which is available to be drawn (and converted into a term loan or loans) by 3 June 2012;

(vi) undrawn bilateral revolving credit facilities totalling £110 million dated 17 May 2011 between the Issuer and each of (a) Commonwealth Bank of Australia (£30 million), (b) HSBC Bank plc (£20 million), (c) JPMorgan Chase Bank, N.A., London Branch (£20 million), (d) Sumitomo Mitsui Banking Corporation Europe Limited (£20 million) and (e) The Royal Bank of Scotland plc (£20 million). Each for these facilities is available to be drawn in the five years to 17 May 2016, although each bank has an option to extend (at the request of the Issuer by the end of the first year of each facility) its facility for a further year to 17 May 2017; and

(vii) an undrawn bilateral revolving credit facility of £30 million dated 18 May 2011 between the Issuer and BNP Paribas, London Branch, which is available to be drawn in the five years ended 18 May 2016, although BNP Paribas, London Branch has an option to extend the facility (at the request of the Issuer by the end of the first year of the facility) for a further year to 18 May 2017.

(together, the "**Current Authorised Loan Facilities**").

The Issuer has voluntarily cancelled revolving credit facilities totalling £345 million previously provided by a club of lenders in respect of which The Royal Bank of Scotland plc acted as facility agent and a bilateral revolving credit facility for £40 million with BNP Paribas, London Branch. These facilities would otherwise have expired on 30 September 2011 and 30 June 2012 respectively.

Each of the Current Authorised Loan Facilities entered into by the Issuer set out above has been on-lent (or is available to be on-lent if drawn) to DCC by way of Intercompany Loans, and each of the Current Authorised Loan Facilities entered into by DCC set out above may be used, in each case to fund the working capital and capital expenditure requirements of DCC.

Interest accrues on any drawing under the Current Authorised Loan Facilities calculated at a daily rate by reference to, in the case of the facilities identified at (i) to (vii) above, the applicable sterling LIBOR plus a margin and mandatory costs (or in the case of (i) above, a predetermined variable rate spread) and in respect of (ii) above, interest on each individual tranche drawn may be calculated using either a fixed rate of interest or by reference to sterling LIBOR plus a margin and a predetermined variable rate spread.

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 any 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 Authorised Lenders to accelerate any sums owing under either of the Issuer's or DCC's Authorised Loan Facilities upon or following the occurrence of an event of default thereunder is subject to the Issuer STID or the DCC STID, respectively.

The Issuer and/or DCC may enter into further Authorised Loan Facilities 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

The Issuer is required to have available to it one or more liquidity facilities (each a "**Liquidity Facility**") to enable it to meet any Liquidity Shortfalls (as defined below).

The Issuer had entered into a liquidity facility agreement dated 10 May 2010 between the Issuer and The Royal Bank of Scotland plc (as facility agent for itself and Lloyds TSB Bank plc) (the "**Initial Liquidity Facility Agreement**"), which was terminated on 13 April 2011. The Issuer then entered into a liquidity facility agreement dated 13 April 2011 (the "**Second Liquidity Facility Agreement**") with The Royal Bank of Scotland plc (acting as facility agent for the participating banks) with a total commitment of £135 million. The participating banks (each bank a "**Further Liquidity Facility Provider**") are The Royal Bank of Scotland plc, HSBC Bank plc, Lloyds TSB Bank plc and National Australia Bank Limited, each providing a commitment of £33.75 million.

Any 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 the agreement(s) establishing a Liquidity Facility (each a "**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 to make up any Liquidity Shortfall arising on any Class C Bonds shall be limited to the proportion that the Outstanding Principal Amount of such Class C Bonds bears to the aggregate Principal Amount Outstanding of the Class A Bonds, Class Bonds, Class R Bonds (if any) and Class C Bonds. 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 and the replacement does not cause a downgrade in the Bonds which are rated.

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.

Each Liquidity Facility Agreement provides that the Issuer may request each Liquidity Facility Provider to increase its commitment, and if a Liquidity Facility Provider does not do so, the Issuer may request a new bank to accede to the Liquidity Agreement and provide the amount equal to such an increase.

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 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 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 Further 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 Second 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 included Bonds that were denominated in U.S. dollars (the "**Initial Hedging Agreements**"). Payments are made between the Issuer and the Hedge Counterparties under the Initial Hedging Agreements on Interest Payment Dates. Notwithstanding that a proportion of the Bonds issued on the Initial Issue Date have been redeemed, the Issuer has kept the Initial Hedging Agreements in place to hedge other floating interest rate exposure of the Glas Group (except the cross-currency dollar swap which has been terminated).

Under the terms of the Initial Hedging Agreements, in the event that the ratings of the 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 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 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 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 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 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 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 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 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 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 a 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 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 Hedge Counterparty has termination rights if the Issuer redeems any of the relevant Classes of Bonds prior to their Expected Maturity Date.

**The Current DCC Hedging Agreements**

DCC has entered into a number of inflation and fixed interest swap transactions with The Royal Bank of Scotland plc, HSBC Bank plc, Barclays Bank plc and Lloyds TSB Bank plc (the "**Current DCC Hedge Counterparties**") in order to hedge a proportion of its floating rate interest exposure under the Finance Leases (the "**Current DCC Hedge Agreements**").

Each of the Current DCC Hedge Agreements may, save to the extent described below, be terminated by the Current DCC Hedge Counterparty only upon the occurrence of a DCC Event of Default. Each DCC Hedge Counterparty has, notwithstanding the provisions of the Common Terms Agreement, the right to terminate its relevant Current DCC Hedge Agreements if it is required, due to a change in tax law, to gross-up any payment due from it under such agreement 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.

# 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 Part A of the relevant Final Terms and, save for the italicised paragraphs and words) will be incorporated by reference into each Global Bond representing Bonds in bearer form, Bonds 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 Final Terms 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 Financial Guarantee 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 10 May 2001, as amended and restated on 19 July 2001 as further amended on or about 7 December 2006 and as further amended and restated on or about 29 June 2011 (as further amended, supplemented, restated and/or novated from time to time, the "**Trust Deed**") between Dwr Cymru (Financing) Limited (the "**Issuer**"), MBIA Assurance S.A., any other Financial Guarantor (as defined below) acceding thereto, including MBIA UK Insurance Limited ("**MBIA UK**"), and Deutsche 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 "**Financial Guarantee**") to be issued by a 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 Financial Guarantee.

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 10 May 2001 (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.

Part A of the relevant Final Terms 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 Deutsche 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 into an amended and restated dealership agreement on or about 21 June 2011 (as amended, the "**Dealership Agreement**") 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.

If the Issuer seeks to issue any R Class Bonds it will enter into an underwriting agreement (the "**Class R Underwriting Agreement**") with underwriters named therein (the "**Class R Underwriters**") pursuant to which the Class R Underwriters will agree to underwrite the sale of the Class R Bonds.

On the Initial Issue Date, the Issuer entered into a master framework agreement (as amended, 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**") 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 Agreement, any Class R Underwriting Agreement, the Final Terms, the Liquidity Facility Agreements, the Hedging Agreements, the Authorised Loan Facilities, the Intercompany Loan Agreements (as defined below), the Guarantee and Reimbursement 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 Final Terms 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 Final Terms, the Paying Agency Agreement, the Dealership Agreement, any Class R Underwriting Agreement, the Liquidity Facility Agreements, the Authorised Loan Facilities, the Hedging Agreements, the Guarantee and Reimbursement 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 Final Terms 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 Final Terms.

## 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 Final Terms)). 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 Final Terms)) 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 Final Terms).

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 Final Terms) or a multiple thereof, or (ii) in registered form ("**Registered Bonds**") serially numbered in a Specified Denomination or a multiple thereof provided that in the case of any Bearer Bonds or Registered Bonds which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds) until and excluding the date of the implementation of Directive 2010/73/EU (the "**2010 PD Amending Directive**") into Luxembourg law or the laws of any other relevant Member State, and following (and including) the date of implementation of the 2010 PD Amending Directive into Luxembourg law or the laws of any other relevant Member State, shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds). 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.

So long as the Bonds are represented by a temporary Global Note, permanent Global Bond or Global Certificate and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) specified in the Final Terms and multiples thereof.

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 Final Terms 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 Final Terms, 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, Specified 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 Financial Guarantee

*(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 Financial Guarantee.

*(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) Financial Guarantee 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 Financial Guarantee issued by a Financial Guarantor specified in the relevant Final Terms, issued pursuant to guarantee and reimbursement 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 a **"Guarantee and Reimbursement Agreement**"). Under the relevant Financial Guarantee, 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 Financial Guarantee. 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 Financial Guarantee.

The terms of the relevant Financial Guarantee 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 Financial Guarantee) will not be treated as Insured Amounts or Guaranteed Amounts (as applicable and as defined in such Financial Guarantee) which are Due for Payment (as defined in such Financial Guarantee) under such Financial Guarantee 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 Financial Guarantee 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 Financial Guarantee.**

*(e) Status of Financial Guarantee*

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 Financial Guarantee 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 Final Terms.

*(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. 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 the Glas website. At the Issuer's sole discretion this part of the Glas website may be password protected and, if so, the password to such part of the website will be 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, if applicable, 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 area of the Glas website which may also be a secure site 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 Final Terms, 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 Final Terms) 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 Final Terms) 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 Final Terms, 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 Final Terms 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 Final Terms 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 Final Terms specifies the Bonds as Floating Rate Bonds.

(i) If Screen Rate Determination is specified in the relevant Final Terms 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, subject as provided below, be either;

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Agent Bank. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be

disregarded by the Agent Bank for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Bonds is specified in the relevant Final Terms as being other than LIBOR or EURIBOR, the Interest Rate in respect of such Bonds will be determined as provided in the relevant Final Terms.

(ii) If, the Relevant Screen Page is not available or if sub-paragraph (i)(1) above applies and no such offered quotation appears on the Relevant Screen Page or, if sub-paragraph (i)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Agent Bank shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Agent Bank with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent Bank with such offered quotations, the Interest Rate for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Agent Bank.

(iii) If paragraph (ii) above applies and the Agent Bank determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Interest Rate shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Agent Bank by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Relevant Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Agent Bank with such offered rates, the offered rate for deposits in the Relevant Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Relevant Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Agent Bank it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Interest Rate cannot be determined in accordance with the foregoing provisions of this paragraph, the Interest Rate shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Interest Rate is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Interest Rate relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Interest Rate relating to that last preceding Interest Period).

If ISDA Determination is specified in the relevant Final Terms 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 Final Terms;

(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 Final Terms.

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 Final Terms 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 Final Terms.

*(e) Indexed Bonds*

This Condition 6(e) is applicable only if the relevant Final Terms 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 Final Terms.

*(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 per Calculation Amount (as specified in the Final Terms) in respect of any Bond for each Interest Period shall be equal to the product of the Interest Rate, the Calculation Amount, and the Day Count Fraction (as defined in Condition 6(i)), for such Interest Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period , in which case the amount of interest payable per Calculation Amount in respect of such Bond for such Interest Period will equal such Interest Amount (or be calculated in accordance with such formula). In respect of any

other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

*(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 Interest Amounts 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 Final Terms; 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 Final Terms;

"**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 (ICMA)**" is specified, the sum of, for each Determination Period (as specified in the Final Terms) 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 Final Terms) that would occur in one calendar year;

(ii) if "**Actual/Actual**" or "**Actual/Actual-ISDA**" 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, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and $D_1$ is greater than 29, in which case D2 will be 30; and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**$Y_1$**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**$Y_2$**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$M_1$**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**$M_2$**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**$D_1$**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**$D_2$**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

"**euro**" means the lawful currency of the Participating Member States;

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"**Interest Amount**" means:

(i) in respect of an Interest Period, the amount of interest payable per Calculation Amount for that Interest Period and which, in the case of Fixed Rate Bonds, and unless otherwise specified in the relevant Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified as being payable on the Interest Payment Date ending the Interest Period; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms;

"**Interest Determination Date**" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms 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 Final Terms;

"**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 Final Terms;

"**ISDA Definitions**" means the 2006 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.).

"**Issue Date**" means the date specified in the relevant Final Terms;

"**Margin**" means the rate per annum (expressed as a percentage) specified in the relevant Final Terms;

"**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 Final Terms;

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Agent Bank or as specified in the relevant Final Terms;

"**Reference Rate**" means the rate specified as such in the relevant Final Terms;

"**Relevant Currency**" means the currency specified as such in the relevant Final Terms 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 Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the Relevant Final Terms;

"**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 Final Terms 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*

The Issuer will procure that there shall at all times be an Agent Bank if provision is made for them in these Conditions applicable to this Bond and for so long as it is outstanding. 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 Final Terms 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)), as specified in the Final Terms.

"**Index**" or "**Index Figure**" means, in relation to any relevant month (as defined in Condition 7(c)(ii) (Delay in publication of index)), subject as provided in Condition 7(c)(i) (Change in base), 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 Calculation Date shall, subject as provided in Condition 7(c) and (e), and if "3 months lag" is specified in these terms and conditions of the Bonds, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{\text{m}-3} + \frac{\left(\text{Day of Calculation Date} - 1\right)}{\left(\text{Days in month of Calculation Date}\right)} \times \left(\text{RPI}_{\text{m}-2} - \text{RPI}_{\text{m}-3}\right)$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"**IFA**" means the Index Figure applicable;

"**$\text{RPI}_{\text{m}-3}$**" means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

"**$\text{RPI}_{\text{m}-2}$**" means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due; and

"**Calculation Date**" means any date when a payment of interest or, as the case may be, principal falls due.

"**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 Final Terms, 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 Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor.

"**Limited Indexation Month**" means any month specified in the relevant Final Terms 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 Final Terms) applies.

"**Reference Gilt**" means the Treasury Stock specified in the relevant Final Terms 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 as specified in the Final Terms) 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 relating to any month (the "**relevant month**") which is required to be taken into account for the purposes of the determination of the Index Figure applicable to any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Bonds is due (the "**date for payment**"), the Index Figure applicable to the relevant month 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 Final Terms 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 Final Terms.

*(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 Final Terms, 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 Final Terms.

(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 Final Terms) 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, and updated on 16 March 2005 (as further updated, supplemented, amended or replaced from time to time), pages 12 to 13 or any replacements therefor; "**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.

*(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.

Notwithstanding the foregoing, if the requirement to withhold or account for tax set out in Condition 10 arises as a result of:

(i) a withholding or deduction imposed on a payment by or on behalf of the Issuer to an individual required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(ii) the presentation for payment of any Bearer Bond, Receipt or Coupon by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bearer Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union,

then Condition 8(c)(*Redemption for taxation reasons*) shall not apply. The Issuer shall deduct such taxes from the amounts payable to such Bondholder, all other Bondholders shall receive the due amounts payable to them and the Bonds shall not be redeemed. Any such deduction shall not constitute an Issuer Event of Default under Condition 11.

*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 regulated market of 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:

(e) if any Issuer Event of Default exists; or

(f) (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.

(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 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; or

(b) (in the case of any Class R Extension Amount) if any DCC Event of Default exists.

(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 a 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) 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 2006;

"**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 any Class R Underwriting Agreement and its successors and assigns; and

"**Underwriting Period**" means the period specified as such in any Class R Underwriting Agreement.

*(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 Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) 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 Final Terms. 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 (i) a Principal Paying Agent, (ii) a Paying Agent in Luxembourg (so long as any Bonds remain listed on the Luxembourg Stock Exchange) and (iii) (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. Further, the Issuer shall maintain a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

*(f) Unmatured Coupons and Receipts and unexchanged Talons*

(i) Subject to the provisions of the relevant Final Terms, 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 Final Terms, 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 Financial Guarantee 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 Financial Guarantees 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 Financial Guarantee 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 Financial Guarantee 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 Financial Guarantee 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 Financial Guarantee 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 Financial Guarantee 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 are listed on the Luxembourg Stock Exchange published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in 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 SA/NV, or Clearstream Banking, société anonyme or any other Relevant Clearing System as specified in the relevant Final Terms 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 Financial Guarantee (if any) and the other Issuer Transaction Documents and any non-contractual obligations arising out of or in connection with them 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 Final Terms. 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 Final Terms 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 Final Terms 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 Final Terms; or
- at any time, if so specified in the relevant Final Terms; or
- if the relevant Final Terms 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 Final Terms), 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 Final Terms 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 Bonds in definitive form ("**Definitive Bonds**") not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms 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 Final Terms), 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 Final Terms 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 Final Terms; or
- at any time, if so specified in the relevant Final Terms; or
- if the relevant Final Terms 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 Final Terms), 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.

In the event that a Global Bond is exchanged for Definitive Bonds, such Definitive Bonds shall be issued in Specified Denomination(s) only.

**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 Final Terms 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 Final Terms 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.

So long as the Bonds are represented by a temporary Global Bond, permanent Global Bond or Global Certificate and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and multiples thereof provided in the relevant Final Terms.

### 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 Prospectus. 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 integral currency unit of the Specified Currency of the Bonds.
- *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 FINAL TERMS

## 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]

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 21 June 2011 [and the supplemental Prospectus dated [●][†] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") contained in the Trust Deed dated [original date] and set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [●]. This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated [current date] [and the supplemental Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus dated [●] and are attached hereto. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [●] and [●]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing [at [website]] [and] during normal business hours at [address] and copies may be obtained from [address].]

[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 Final Terms.*]

*[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.][Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out*

[†] Only include details of a supplemental Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

*below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.*]

| | | | |
|---|---|---|---|
| 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 | (i) | Specified Denominations: | [€50,000 and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Bonds in definitive form will be issued with a denomination above [€99,000]]/[*minimum denomination of any other currency must be equivalent to at least €50,000 as at the Issue Date of the Bonds*] [*only relevant prior to the date of implementation by Luxembourg or any other relevant Member State of the 2010 PD Amending Directive*]<br>[€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Bonds in definitive form will be issued with a denomination above [€199,000]]/[*minimum denomination of any other currency must be equivalent to at least €100,000 as at the Issue Date of the Bonds*] [*to be used after the date of implementation by Luxembourg or any other relevant Member State of the 2010 PD Amending Directive*] |
| | (ii) | Calculation Amount | [●] |
| 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:]*<br>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;<br>[*if Class C Bonds:*]<br>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;<br>[*if Class D Bonds:*]<br>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:*]<br>[The Financial Guarantee will rank *pari passu* with all unsecured obligations of the Financial Guarantor.]/[Not Applicable] |
| | (iii) | FG Event of Default (if not MBIA UK or the Initial Financial Guarantor): | [*Specify for Financial Guarantor*]/[Not Applicable] |
| 14 | [Date [Board] approval for issuance of Bonds obtained: | | [[●] and [●] respectively]<br>*(N.B. Only relevant where Board (or similar) authorisation is required for the particular Sub-Class of Bonds)* |
| 15 | Method of distribution: | | [Syndicated/Non-syndicated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| 16 | Fixed Rate Bond Provisions: | | [Applicable/Not Applicable]<br>(*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 (ICMA)] [Actual/Actual or Actual/ Actual - ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] |
| | (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): | [●] |
| | | – Relevant Screen 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 (ICMA)] [Actual/Actual or Actual/ Actual - ISDA] [Actual/365 (Fixed)] [Actual/360] [30/ 360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] |
| | (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: | |
| 18 | Zero Coupon Bond Provisions: | | [Not Applicable/Applicable (*give details*)] |
| 19 | Indexed Bond Provisions: | | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (i) | Index/Formula/other variable: | UK Retail Price Index |
| | (ii) | Interest Rate: | [●] |
| | (iii) | Calculation Agent responsible for calculating the interest due: | Agent Bank |
| | (iv) | Interest Determination Date | [●] |
| | (v) | Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: | Applicable – Condition 7(c) and Condition 7(e) |
| | (vi) | Interest Payment Dates: | [●] |
| | (vii) | First Interest Payment Date: | [●] |
| | (viii) | Business Day Convention: | [Following Business Day/Modified Following Business Day /Preceding Business Day/other (*give details*)] |
| | (ix) | Minimum Indexation Factor: | [Not Applicable/*specify*] |
| | (x) | Maximum Indexation Factor: | [Not Applicable/*specify*] |
| | (xi) | Limited Indexation Months(s): | [●] |
| | (xii) | Base Index Figure: | [●] |
| | (xiii) | Reference Gilt: | [●] |
| | (xiv) | Day Count Fraction: | [Actual/Actual (ICMA)] [Actual/Actual or Actual/ Actual - ISDA] [Actual/365 (Fixed)] [Actual/360] [30/ 360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] |
| 20 | Dual Currency Bond Provisions: | | Not Applicable |

**PROVISIONS RELATING TO REDEMPTION**

| | | | |
|---|---|---|---|
| 21 | Call Option: | | Applicable – Condition 8<br>(*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): | [●] per Calculation Amount |
| | (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 | Final Redemption Amount: | | [●] per Calculation Amount |

**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.]<br>[Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice.]<br>[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 mature): | | [Yes/No. *If yes, give details*] |
| 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*] |

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading on [the Luxembourg Stock Exchange Regulated Market/other (*specify*)] 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 these Final Terms.

Signed on behalf of the Issuer:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

## 1 LISTING AND ADMISSION TO TRADING

| | | |
|---|---|---|
| (i) | Listing: | [Luxembourg/other (*specify*)/None] |
| (ii) | Admission to trading: | [Application has been made for the Bonds to be admitted to trading on [the Luxembourg Stock Exchange Regulated Market/other (*specify*)] with effect from [●].] [Not Applicable.] |
| (iii) | Estimate of total expenses related to admission to trading: | [●] |

## 2 RATINGS

Ratings: The Bonds to be issued have been rated:

[S & P: [●]]

[Fitch: [●]]

[Moody's: [●]]

[[Other]: [●]]

(*The above disclosure should reflect the rating allocated to Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

*Insert one (or more) of the following options, as applicable:*

[[*Insert credit rating agency/ies*] [is]/[are] established in the European Union and [has]/[have] each applied for registration under Regulation (EC) No 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency/ies*] [is]/[are] not established in the European Union but [insert name of European Union affiliate] has applied for registration under Regulation (EC) No 1060/2009 indicating an intention to endorse its ratings, although notification of the corresponding registration decision (including its ability to endorse [insert credit rating agency]'s ratings) has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency/ies*] [is]/[are] established in the European Union and registered under Regulation (EC) No 1060/2009.]

[[*Insert credit rating agency/ies*] [is]/[are] not established in the European Union and [has]/[have] not applied for registration under Regulation (EC) No 1060/2009.]

[[Insert credit rating agency/ies] [is]/[are] not established in the European Union and [has]/[have]

not applied for registration under Regulation (EC) No 1060/2009 but [[is]/[are] certified in accordance with Regulation (EC) No 1060/2009]/[[is]/[are]applying to be certified in accordance with Regulation (EC) No 1060/2009 although notification of the corresponding certification decision has not yet been provided by the relevant competent authority.]

**3 [NOTIFICATION**

The Commission de Surveillance du Secteur Financier in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities [has been requested to provide/has provided - *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

**4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer."]

**5 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

| | | |
|---|---|---|
| (i) | Reasons for the offer: | [An amount equal to the [sterling equivalent of the] gross proceeds of [issue/(*or, in the case of Class R Bonds*) sale] of the [*series details*] Bonds has been or may be advanced by the Issuer to DCC under the terms of [the relevant] Intercompany Loan Agreement][(*Specify if different*)]. |
| (ii) | Estimated net proceeds: | [●]<br>*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*) |
| (iii) | Estimated total expenses: | [●]. *[Include breakdown of expenses.]*<br>*(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*]* |

**6 [Fixed Rate Bonds only – YIELD**

| | |
|---|---|
| Indication of yield: | [●].<br>The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.] |

* Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

**7 [Index Linked or other variable-linked Bonds only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation]**
*[Include a description of any market disruption or settlement disruption events that affect the underlying]*
*[Include adjustment rules with relation to events concerning the underlying.]*

**8 [Dual Currency Bonds only – PERFORMANCE OF RATE[S] OF EXCHANGE**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*****

**9 OPERATIONAL INFORMATION**

| | |
|---|---|
| ISIN Code: | [●] |
| Common Code: | [●] |
| Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s [and addresses])*] |
| Delivery: | Delivery [against/free of] payment |
| Names and addresses of additional Paying Agent(s) (if any): | [●] |
| Intended to be held in a manner which would allow Eurosystem eligibility | No |

**10 GENERAL**

| | |
|---|---|
| Applicable TEFRA exemption: | [C Rules/D Rules/Not Applicable] |

# CHAPTER 8
# TAX CONSIDERATIONS

*The following is a general summary of the United Kingdom withholding taxation treatment in relation to payments of principal and interest in respect of the Bonds, certain Luxembourg tax considerations in relation to the Bonds and the Cayman Islands taxation treatment of the Issuer, in each case as at the date of this Prospectus.*

*Prospective purchasers of Bonds should be aware that the particular terms of issue of any Sub-Class of Bonds as specified in the relevant Final Terms may affect the tax treatment of that and other Sub-Classes or Classes of Bonds.*

## United Kingdom Withholding Tax

*These comments in relation to United Kingdom withholding tax do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Bonds. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are absolute beneficial owners of the Bonds and may not apply to certain classes of persons such as dealers or certain professional advisers, or persons connected with the Issuer.*

*This summary as it applies to United Kingdom taxation is based upon current United Kingdom law and HM Revenue & Customs ("HMRC") practice as in effect on the date of this Prospectus and is subject to any change in law or practice that may take effect after such date, sometimes with retrospective effect.*

*Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the 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 United Kingdom 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 United Kingdom.*

*Prospective purchasers who are in any doubt as to their tax position should consult their professional advisers.*

**Payment Of Interest By The Issuer**

Bonds will constitute "quoted Eurobonds" provided they carry a right to interest and are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007. Whilst such Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The Luxembourg Stock Exchange is such a recognised stock exchange for these purposes.

If this requirement is not satisfied as at the date interest on the Bonds is paid, then such interest will generally be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to the availability of other relief or to any direction to the contrary from HMRC in respect of such relief as may be available under the provisions of any applicable double taxation treaty.

If United Kingdom 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 free of United Kingdom withholding tax on the Bonds to Bondholders whom it reasonably believes are either:

(a) a company resident in the United Kingdom;

(b) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits; or

(c) a partnership each member of which is a company referred to in (i) or (ii) above or a combination of companies referred to in (i) or (ii) above,

whether or not the Bonds are listed on a recognised stock exchange (provided that HMRC has not given a direction that the interest should be paid under deduction of tax).

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 United Kingdom withholding tax, but it may be subject to reporting requirements as outlined below.

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 reporting requirements as outlined below and United Kingdom withholding tax as outlined above (and also subject to the exemptions outlined above).

**Provision Of Information By United Kingdom Paying And Collecting Agents**

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on the redemption of the Bonds which constitute deeply discounted securities as defined in Section 430 in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual may be required to provide certain information to HMRC regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on the redemption of any Bonds which constitute deeply discounted securities, HMRC published practice indicates that HMRC will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2012.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

**Payments By Financial Guarantors Under The Financial Guarantees**

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 United Kingdom withholding tax at the basic rate (currently 20 per cent.) subject to the availability of exemptions, reliefs or any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. Such payments by the Financial Guarantors may not be eligible for the exemption from United Kingdom withholding tax described above. If United Kingdom withholding tax is imposed, then the Financial Guarantor will not pay any additional amounts under the Financial Guarantees.

**Other Rules relating to United Kingdom Withholding Tax**

As the Issuer is managed in such a way to be resident in the United Kingdom for tax purposes the interest may be deemed to be from a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of Bondholders who are not resident in the United Kingdom, except where the holder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade or vocation through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Bonds lost their listing), Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 15(c) of the Bonds or otherwise and does not consider the tax consequences of any such substitution.

## Luxembourg tax

*The following is a general description of certain Luxembourg tax laws relating to the Bonds as in effect and as applied by the relevant tax authorities as at the date hereof, is subject to any change in law or practice that may take effect after such date, sometimes with retrospective effect, and does not purport to be a comprehensive discussion of the tax treatment of the Bonds.*

*Prospective investors should consult their own professional advisers on the implications of making an investment in, holding or disposing of Bonds and the receipt of interest with respect to such Bonds under the laws of the countries in which they may be liable to taxation.*

**Withholding tax**

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual Noteholders and to certain entities, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders and to certain entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Bonds.

**Taxation of Luxembourg non-residents**

Under the Luxembourg laws dated June 21, 2005 implementing the European Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income (the "**Savings Directive**") and several agreements concluded between Luxembourg and certain dependent and associated territories of the European Union ("**EU**") Member States, a Luxembourg-based paying agent (within the meaning of the Savings Directive) is required since July 1, 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for the procedure of exchange of information or for the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain ''residual entities'' within the meaning of Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent and associated territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, that are not UCITS recognised in accordance with the Council Directive 85/611/EEC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands and have not opted to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC).

The withholding tax rate is 20 per cent. increasing to 35 per cent. as from 1 July 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

**Taxation of Luxembourg residents**

As of January 1, 2006, interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS

recognised in accordance with the Council Directive 85/611/EEC or for the exchange of information regime) are subject to a 10 per cent. withholding tax.

Pursuant to the Luxembourg law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10 per cent. tax on interest payments made after 31 December 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area other than an EU Member State or in a State or territory which has concluded an international agreement directly related to the Savings Directive.

## EU Savings Directive

Under the Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person to (or for the benefit of) an individual or to certain other persons in another Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments unless during such period they elect otherwise. (See "*Luxembourg tax*" above for more details). The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

## Cayman Islands

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bond under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands Laws:

1. payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Bonds nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

2. no stamp duty is payable in respect of the issue of the Bonds although duty may be payable if Bonds, in Bearer form, are executed in or brought into the Cayman Islands; and

3. certificates evidencing the Bonds, in registered form, to which title is not transferable by delivery, should not attract Cayman Islands stamp duty. However, an instrument transferring title to a Bond in registered form, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty.

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 HSBC Bank plc and any other dealer appointed from time to time (collectively, the "**Dealers**") pursuant to the amended and restated dealership agreement dated 19 March 2010 as amended and restated on or about 21 June 2011 made between, *inter alia*, DCC, the Issuer and the Dealers (as further amended from time to time, 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 Final Terms 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

As at the date of this Prospectus, the Issuer is not intending to issue any further Class R Bonds. Nevertheless, if subsequently it does intend to issue Class R Bonds at any time it will enter into an underwriting agreement between, *inter alios*, the dealers named therein (the "**Class R Underwriters**"), DCC and the Issuer (a "**Class R Underwriting Agreement**") pursuant to which and subject to certain conditions, such Class R Underwriters will 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 Issue Date of any Class R Bonds, the Class R Underwriters will subscribe and pay for all of the Class R Bonds. Such Class R Bonds will then be immediately repurchased, but not cancelled, by the Issuer on such 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 will 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.

Any Class R Underwriting Agreement will be 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) will agree 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 and any guarantees in respect thereof 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 and each further Dealer or Class R Underwriter under the Programme will be required to agree 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.

## European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Bonds to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State:

*(1)* at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

*(2)* at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (as defined below), 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

*(3)* at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Bonds referred to in (1) to (3) above shall require the Issuer or any dealer to publish a Prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Bonds to the public**" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

## Cayman Islands

No invitation or solicitation may 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 and each further Dealer or Class R Underwriter under the Programme will be required to represent, warrant and agree that:

*(1)* ***No-deposit taking***: in relation to any Bonds which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Bonds other than 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 who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Bonds would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

*(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 any Bonds in, from or otherwise involving the United Kingdom; and

*(3)* ***Investment advertisements***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 21(1) of FSMA does not apply to the Issuer or the Financial Guarantor.

## General

Save for obtaining the approval of the Prospectus by the CSSF for the approval of this Prospectus as a base prospectus for the purposes of Article 5.4 of Directive 2004/71/EC and for the approval for the Bonds to be issued under the Programme for the period of 12 months from the date of this Prospectus to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the "Bourse de Luxembourg" of the Luxembourg Stock Exchange Regulated Market, 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 Prospectus or any Final Terms 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 provides (and any Class R Underwriting Agreement will provide) that the Dealers (and the Class R Underwriters (if applicable)) 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 (if applicable)) 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 Final Terms (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 the Luxembourg Stock Exchange for the Bonds issued under the Programme to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange Regulated Market

2. The establishment of the Programme was authorised by resolutions of the board of directors of the Issuer passed on 3 May 2001 and the updates of the Programme were authorised by resolutions of the board of directors of the Issuer passed on 3 November 2006, 11 March 2010 and 16 June 2011. 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 Final Terms. If the Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

4. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

5. Bearer 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 a Bearer Bond or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such 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.

6. Neither the Issuer, DCC nor Glas is or has been involved in any governmental, legal or arbitration proceedings within the period of twelve months preceding the date of this Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer, DCC or Glas, as the case may be, nor is the Issuer, DCC or Glas aware of any such proceedings as being pending or threatened.

7. The latest financial statements of the Issuer, DCC and Glas have been prepared as of 31 March 2011. The Issuer has not published any interim financial statements. DCC has not published any interim financial statements. The latest published audited annual financial statements and all future audited annual financial statements of the Issuer, DCC and Glas will be available free of charge in accordance with paragraph 10 below.

8. Since 31 March 2011, the date of the last audited annual financial statements, 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, DCC or Glas.

9. The financial statements of Glas, DCC and the Issuer have been audited for each of the two financial years immediately preceding the date of this Prospectus by the Glas Group Auditors and were not qualified. The last published audited annual financial statements and all future financial statements of Glas, DCC and the Issuer will be available free of charge in accordance with paragraph 10 below.

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 (i) 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) MBIA UK Insurance Limited's Memorandum and Articles of Association;

    (e) MBIA Insurance Corp.'s By laws;

    (f) the auditors' reports from the Glas Group Auditors in respect of latest annual audited financial statements of Glas, DCC and the Issuer and, in the case of Glas, its latest unaudited semi-annual financial statements;

    (g) the auditor's report from the auditors of MBIA UK Insurance Limited, PricewaterhouseCoopers LLP, in respect of the latest annual audited financial statements of MBIA UK Insurance Limited;

    (h) each Final Terms relating to each Sub-Class of Bonds issued under the Programme;

    (i) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Class A Bonds issued under the Programme;

    (j) each Intercompany Loan Agreement relating to each Series of Bonds issued under the Programme;

    (k) the Common Terms Agreement and any amendment thereto;

    (l) the DCC STID;

    (m) the Deed of Amendment to DCC STID;

    (n) the DCC Deed of Charge;

    (o) the Holdings Deed of Charge;

    (p) the Glas Securities Deed of Charge;

    (q) the Glas Deed of Charge;

    (r) each Finance Lease;

    (s) the DCC Account Bank Agreement;

    (t) the Trust Deed (as amended and restated);

    (u) the Deeds of Amendment to the Trust Deed;

    (v) the Master Framework Agreement (as amended and restated);

    (w) the Deed of Amendment to the Master Framework Agreement;

    (x) the Issuer Deed of Charge;

    (y) the Issuer STID and any amendment thereto;

(z) each Liquidity Facility Agreement;

(aa) each Hedging Agreement;

(bb) the Issuer Account Bank Agreement;

(cc) each Subscription Agreement;

(dd) any Class R Underwriting Agreement;

(ee) the Dealership Agreement (as amended and restated);

(ff) the Paying Agency Agreement;

(gg) the Tax Deed of Covenant;

(hh) the Issuer Corporate Services Agreement;

(ii) the Authorised Loan Facilities;

(jj) a copy of this Prospectus;

(kk) a copy of the prospectus dated 19 March 2010 in respect of the Programme;

(ll) a copy of the prospectus dated 4 December 2006 in respect of the Programme;

(mm) a copy of the series prospectus dated 23 March 2010 in respect of the Programme;

(nn) a copy of the Information Memorandum dated 7 April 2003 in respect of the Programme; and

(oo) a copy of the Information Memorandum dated 4 May 2001 in respect of the Programme.

11. The information with respect to Glas Securities, Holdings and Ofwat's assessment for water and sewerage companies contained in Chapter 4 "*DCC and the Glas Group*" has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information with respect to Glas Securities and Holdings contained herein has been obtained from each of Glas Securities and Holdings respectively.

12. Neither the Issuer nor DCC has entered into contracts outside the ordinary course of their business, which could result in the Issuer or DCC being under an obligation or entitlement that is material to each of their ability to meet, in the case of the Issuer, its obligations to holders of any Bonds and, in the case of DCC, its obligations to the Issuer under any Intercompany Loan Agreement.

13. The issue price and the amount of the relevant Bonds will be determined, before filing of relevant Final Terms of each Sub-Class, based on the prevailing market conditions. Other than the information issued under the Investors Report (see Chapter 6 "*Financing Structure*" – "*Common Terms Agreement*" for details), the Issuer does not intend to provide any post-issuance information regarding securities to be admitted to trading and the performance of the underlying collateral.

# APPENDIX A
# KEY CHARACTERISTICS OF BONDS CURRENTLY IN ISSUE
## Sub-Class of Bonds

For the avoidance of doubt, this Appendix A is for informational purposes only.

| | A1 | A4 | A5 | A6 | B1 | B3 | B4 | B5 | B6 |
|---|---|---|---|---|---|---|---|---|---|
| Nominal amount per Bond | £1,000<br>£10,000<br>£100,000 | £1,000<br>£10,000<br>£100,000 | £1,000<br>£10,000<br>£100,000 | £50,000 | £1,000<br>£10,000<br>£100,000 | £1,000<br>£10,000<br>£100,000 | £1,000<br>£10,000<br>£100,000 | £50,000 | £50,000 |
| Total nominal amount | £350,000,000 | £265,000,000 | £85,000,000 | £100,000,000 | £325,000,000 | £128,600,000 | £75,000,000 | £50,000,000 | £140,000,000 |
| Issue Price | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Currency | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Rating - S&P | A | A | A | A | A | A | A | A | A |
| Rating - Moody's | A3 | A3 | A3 | A3 | A3 | A3 | A3 | A3 | A3 |
| Rating – Fitch | A | A | A | A | A | A | A | A | A |
| Interest rate | 6.015 | 3.514 | 3.512 | 4.473 | 6.907 | 4.377 | 4.375 | 1.375 | 1.859 |
| Interest Basis | Fixed Rate | Index-Linked | Index-Linked | Fixed Rate | Fixed Rate | Index-Linked | Index-Linked | Index-Linked | Indexed |
| Frequency of payment of interest | Annually | Semi-annually | Semi-annually | Annually | Annually | Semi-annually | Semi-annually | Semi-annually | Semi-annually |
| Frequency of amortisation of principal | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment | Bullet repayment |
| Expected maturity | 31 March 2028 | 31 March 2030 | 31 March 2031 | 31 March 2057 | 31 March 2021 | 31 March 2026 | 31 March 2027 | 31 March 2057 | 31 March 2048 |
| Final maturity | 31 March 2028 | 31 March 2030 | 31 March 2031 | 31 March 2057 | 31 March 2021 | 31 March 2026 | 31 March 2027 | 31 March 2057 | 31 March 2048 |
| Early redemption premium | Higher of par and spens | Higher of par (after indexation) and spens | Higher of par (after indexation) and spens | Higher of par and spens | Higher of par and spens | Higher of par (after indexation) and spens | Higher of par (after indexation) and spens | N/A | Higher of par (after indexation) and spens |
| Payment dates for interest and principal payments | 31 March | 31 March<br>30 Sept | 31 March<br>30 Sept | 31 March<br>30 Sept | 31 March | 31 March<br>30 Sept | 31 March<br>30 Sept | 31 March<br>30 Sept | 31 March<br>30 Sept |
| Form at issue | Bearer form | Bearer form | Bearer form | Bearer form | Bearer form | Bearer form | Bearer form | Bearer form | Bearer form |
| Common Code | 012831102 | 012831170 | 012906536 | 027578772 | 012831196 | 012831331 | 012906544 | 027627889 | 049783957 |
| ISIN | XS0128311023 | XS0128311700 | XS0129065362 | XS0275787728 | XS0128311965 | XS0128313318 | XS0129065446 | XS0276278891 | XS0497839570 |

## INDEX OF DEFINED TERMS

The following terms are used throughout this Prospectus. The page number(s) opposite a term indicates the page(s) on which such term is defined.

**REGISTERED OFFICE OF THE ISSUER**

PO Box 309, Ugland House
Grand Cayman
KY1-1104
Cayman Islands

**REGISTERED OFFICE OF DCC**

Pentwyn Road
Nelson Mid Glamorgan
Wales, UK
CF46 6LY

**REGISTERED OFFICE OF GLAS**

Pentwyn Road
Nelson Mid Glamorgan
Wales, UK
CF46 6LY

**DEALERS**

**The Royal Bank of Scotland plc**
135 Bishopsgate
London EC2M 3UR

**HSBC Bank plc**
8 Canada Square
London E14 5HQ

**PRINCIPAL PAYING AGENT AND TRANSFER AGENT**

**Deutsche Bank AG London**
Winchester House
1 Great Winchester Street
London EC2N 2DB

**REGISTRAR, PAYING AGENT AND TRANSFER AGENT**

**Deutsche Bank Luxembourg S.A.**
2 Boulevard Konrad Adenauer
L-1115 Luxembourg

**ISSUER SECURITY TRUSTEE, DCC SECURITY TRUSTEE AND BOND TRUSTEE**

**Deutsche Trustee Company Limited**
Winchester House
1 Great Winchester Street
London EC2N 2DB

**LEGAL ADVISERS**

***To the Issuer as to Cayman Islands law***

**Maples and Calder**
7 Princes Street
London EC2R 8AQ

***To Glas, Glas Securities, DCC, Holdings and the Issuer (as to English law)***

**Linklaters LLP**
One Silk Street
London EC2Y 8HQ

***To the DCC Security Trustee, the Issuer Security Trustee and the Bond Trustee***

**Clifford Chance LLP**
10 Upper Bank Street
London E14 5JJ

***To the Arrangers***

**Clifford Chance LLP**
10 Upper Bank Street
London E14 5JJ

**AUDITORS**

***To Glas, Glas Securities, DCC, Holdings and the Issuer***

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London SE1 9SY