

## OFFERING CIRCULAR



**UNITED UTILITIES PLC**  
(incorporated with limited liability in England)

**UNITED UTILITIES WATER PLC**  
(incorporated with limited liability in England)

### **EUR 7,000,000,000** **Euro Medium Term Note Programme**

*This Offering Circular supersedes any previous Offering Circulars issued in respect of the Programme. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes already in issue.*

Under the Programme, United Utilities PLC ("UU") and United Utilities Water PLC ("Uuw") (each an "Issuer" and together the "Issuers") may from time to time issue notes (the "Notes") denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 7,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "General Description of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

**An investment in Notes issued under the Programme involves certain risks.** For a discussion of these risks see "*Risk Factors*" on page 11.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority" or "UKLA") for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market.

References in this Offering Circular to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) (the "Markets in Financial Instruments Directive"). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in the applicable Final Terms (the "Final Terms") which, with respect to Notes to be listed will be delivered to the UK Listing Authority and to the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the relevant Issuer and the relevant Dealer. The Issuers may also issue unlisted Notes and/or Notes which are admitted to trading on any market.

The rating of the Notes to be issued under the Programme will be specified in the applicable Final Terms. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the "CRA Regulation") will be disclosed in the Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

UU and Uuw have each received corporate credit ratings. For discussion of these see "*Information on United Utilities Group Plc – Group capital structure target credit rating for Uuw and credit ratings for UU and Uuw*". Standard and Poor's Credit Market Services Europe Ltd is established in the European Union and is registered under the CRA Regulation. Moody's Investors Service Ltd is established in the European Union and is registered under the CRA Regulation.

The relevant Issuer and the Trustee (as defined below) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event and, if appropriate, a supplemental Offering Circular or a new Offering Circular will be published.

**Arranger**

**Deutsche Bank**

**Dealers**

**Barclays  
Goldman Sachs International  
Mitsubishi UFJ Securities  
RBC Capital Markets**

**Deutsche Bank  
J.P. Morgan Cazenove  
Mizuho Securities  
The Royal Bank of Scotland**

**UniCredit Bank**

The date of this Offering Circular is 19 November 2012.

**This Offering Circular comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the “Prospectus Directive”).**

Each of the Issuers (together, the “Responsible Persons”) accepts responsibility for the information contained in this Offering Circular and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuers (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Offering Circular shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular.

The requirement to publish a prospectus under the Prospectus Directive only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)).

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuers in connection with the Programme. Neither the Dealers nor the Trustee accept any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by any Issuer in connection with the Programme.

No person is or has been authorised by the Issuers to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, any of the Dealers or the Trustee.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, any of the Dealers or the Trustee that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer.

Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuers, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such 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 Issuers, the Dealers or the Trustee which would permit a public offering of any Notes outside the UK or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular 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. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of Notes in the United States, the European Economic Area (including the United Kingdom and Germany) and Japan (see “Subscription and Sale” below).

This Offering Circular has been prepared on a basis that would permit an offer of Notes with a denomination of less than EUR 100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for any 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, in each case, in relation to such offer. Neither of the Issuers nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuers or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own examination of the relevant Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Dealers, the Issuers and the Trustee makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. Furthermore, the RPI Linked Notes do not constitute, and have not been marketed as, contracts of sale of a commodity for future delivery (or options thereon) subject to the United States Commodity Exchange Act (the “CEA”), as amended, and trading in the RPI Linked Notes has not been approved by the United States Commodity Futures Trading Commission (the “CFTC”) under the CEA, and no U.S. person may at any time trade or maintain a position in the RPI Linked Notes (see “Subscription and Sale”).

All references in this Offering Circular to “U.S. dollars”, “U.S.\$” and “\$” refer to United States dollars, to “Sterling” and “£” refer to pounds sterling and to “euro” “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

In this Offering Circular and except where the context otherwise requires, references to “United Utilities”, “UUG” or the “Group” are to United Utilities Group PLC, either alone or together with its consolidated subsidiaries, as the context requires. References to “UU” are to United Utilities PLC, either alone or together with its consolidated subsidiaries, as the context requires. UU is a wholly-owned subsidiary of UUG. References to “UW” are to United Utilities Water PLC which is a wholly-owned subsidiary of UUG.

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a 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 Tranche of Notes 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 Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

## TABLE OF CONTENTS

	Page
General Description of the Programme .....	6
Risk Factors .....	11
Documents Incorporated by Reference.....	18
Form of the Notes.....	21
Form of Final Terms.....	24
Terms and Conditions of the Notes .....	33
Use of Proceeds.....	69
Information on United Utilities Group PLC .....	70
Description of the Issuers .....	72
United Utilities Water PLC.....	72
United Utilities PLC.....	82
Material Contracts .....	84
Taxation .....	85
Subscription and Sale .....	88
General Information .....	91

## GENERAL DESCRIPTION OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this overview.

<b>Issuers:</b>	United Utilities PLC United Utilities Water PLC
<b>Risk Factors:</b>	There are certain factors that may affect each Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” beginning on page 11 hereof. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
<b>Description:</b>	Euro Medium Term Note Programme
<b>Trustee:</b>	The Law Debenture Trust Corporation p.l.c.
<b>Arranger:</b>	Deutsche Bank AG, London Branch
<b>Dealers:</b>	Barclays Bank PLC Deutsche Bank AG, London Branch Goldman Sachs International J.P. Morgan Securities plc Mitsubishi UFJ Securities International plc Mizuho International plc RBC Europe Limited The Royal Bank of Scotland plc UniCredit Bank AG  and any other Dealers appointed in accordance with the Programme Agreement.

<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale”) including the following restrictions applicable at the date of this Offering Circular.
	<b>Notes having a maturity of less than one year</b>
	Notes having a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see “Subscription and Sale”).
<b>Issuing and Principal Paying Agent:</b>	Citibank, N.A., London Branch.
<b>Programme Size:</b>	Up to EUR 7,000,000,000 in nominal amount (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
<b>Redenomination:</b>	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
<b>Maturities:</b>	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.
<b>Form of Notes:</b>	The Notes will be issued in bearer form and may be issued

in New Global Note (“NGN”) form as described in “Form of the Notes”.

So long as any Notes are represented by a Temporary Global Note and/or a Permanent Global Note and the relevant clearing systems so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of such other amount as shown in the applicable Final Terms.

**Fixed Rate Notes:**

Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.

**Floating Rate Notes:**

Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

**RPI Linked Notes:**

Payments of principal and interest in respect of RPI Linked Notes will be calculated by reference to the UK Retail Prices Index (“RPI”) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace RPI.

<b>Zero Coupon Notes:</b>	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
<b>Redemption:</b>	<p>The applicable Final Terms will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving the relevant period of notice specified in the Terms and Conditions (or such other notice period as is specified in the applicable Final Terms) to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution (see “Certain Restrictions: Notes having a maturity of less than one year” above).</p>
<b>Denomination of Notes:</b>	Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency (see “Certain Restrictions - Notes having a maturity of less than one year” above), and save that the minimum denomination of each Note 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 will be EUR 100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
<b>Taxation:</b>	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within the United Kingdom, subject as provided in Condition 9. In the event that any such deduction is made, the relevant Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
<b>Negative Pledge:</b>	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
<b>Cross Default:</b>	The terms of the Notes will contain a cross default provision as further described in Condition 11.
<b>Status of the Notes:</b>	The Notes will constitute direct, unconditional,

unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.

**Rating:**

Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

**Listing:**

Application has been made for Notes issued under the Programme to be listed on the London Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

**Governing Law:**

The Notes and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with, English law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Germany), and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see “Subscription and Sale”).

**Representation of Noteholders:**

Trustee.

## **RISK FACTORS**

*The Issuers believe that the following factors may affect their ability to fulfil their respective obligations under the Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuers are not in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Notes are also described below.*

*The Issuers believe that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuers to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuers do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

*Capitalised terms used herein shall have the same meaning as given to them in the Terms and Conditions of the Notes unless otherwise stated.*

### **Risks relating to the Group and its business**

#### **Future price limits**

Ofwat has undertaken a lengthy and ongoing consultation over its proposals for reform of the methodology and approach for setting prices from 2015. In May 2012, Ofwat published a document setting out the key principles it expects to follow in future price reviews. Ofwat is still in consultation about the changes which will be implemented at the next price control review. In anticipation of future market reform, the principal decision to date is that Ofwat will set separate price controls for retail and wholesale.

Ofwat has proposed to set an average cost to serve for non-contestable customers in the retail price limit, which could result in a significant cost recovery shortfall over the next five-year price control period.

Ofwat has also made proposals to modify the licences of the water and wastewater industry to allow it, among other things, flexibility in the activities that are subject to price control, the number of price limits set and their duration. It is possible that these proposals could have a material impact on the income recovered from customers. Discussion on the eventual form and content of any modifications continues.

#### **Proposed changes to company licences**

In October 2012, Ofwat published proposals to modify the conditions of appointment (licences) of all appointed companies in the water and wastewater industry. These proposals were issued as a Notice under section 13 of the Water Industry Act 1991. The proposals would provide for separate retail and wholesale price controls, provide scope for Ofwat to make further changes to the nature, form and number of price controls over time, and enable it to remove activities from wholesale price controls, subject to limits expressed as a percentage of total industry revenues. If implemented, these changes could adversely affect the Group's results or operations. Companies have until 23 November 2012 to determine whether to accept or reject Ofwat's proposals. In the event that companies reject the proposals, Ofwat may refer the company to the Competition Commission which would then determine whether the existing licences could be expected to operate against the public interest and what changes, if any, were appropriate.

#### **Government Market Reform Agenda**

The Government's White Paper (Water for Life) was published on 8 December 2011 and highlighted the Government's key policy priorities for the water industry. These include: protecting water and the natural environment; tackling water pollution; tackling over abstraction; water's role in the green economy;

reforming and extending competition; supporting growth and innovation; affordability and bad debt; and changing the way we use and value water.

A draft Water Bill was published on 10 July 2012 and incorporates changes to legislation that would be required to enable many of the changes set out in the White Paper.

These include measures to: extend competition to all non-household customers for both water and wastewater services; remove barriers to the trading of abstraction and licences and facilitating bulk supplies of water, reform the special merger regime to allow more mergers of water companies; and reform the inset appointment regime. Whilst existing customers might opt to switch to a new water supplier (which could adversely impact the Group's profits), only a relatively small proportion of the Group's profits derive from the sale of water and wastewater services to non-household customers. On the other hand, if competition is expanded there would be opportunities for the Group to participate in a wider market in England and Wales and, potentially, Scotland. However, the Group recognises that reforms to the pricing rules that govern access to the Group's water and wastewater assets and networks and greater upstream competition could put at risk a greater proportion of the Group's profits.

### **Failure to deliver capital investment programmes could adversely affect profitability**

The core business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities.

Delivery of capital investment programmes could be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance, repair, reinstatement or renewal costs) or amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required. This may affect the Group's ability to meet regulatory and other environmental performance standards.

### **Ofwat's introduction of the service incentive mechanism could adversely affect profitability**

For the 2010-15 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the Overall Performance Assessment ("OPA"). The Service Incentive Mechanism ("SIM") compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well they deal with those contacts. Depending on UUW's relative performance under the SIM it could receive a revenue penalty (up to one per cent. of turnover) or reward (up to 0.5 per cent. of turnover) when price limits are next reset in 2014.

### **Serviceability assessment could adversely affect profitability**

The Group is required to maintain the serviceability of its water and wastewater assets ensuring they continue to deliver a level of service and performance that is at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat deploys a staged approach to regulatory action to secure corrective actions and could make financial adjustments at the next price setting if these actions did not restore service performance. If performance was to continue to decline, the Group may incur additional operating or capital expenditure to restore performance. The various indicators of performance are closely and routinely monitored by management. The company's capital investment programme is targeted to seek to maintain stable serviceability of the company's water and wastewater assets. Similarly, operational practice is intended to ensure stable serviceability. Where adverse trends develop and there is a risk of serviceability deviating from stable, then corrective action can be identified and taken.

## **Pension scheme obligations may require the Group to make additional contributions to the schemes**

The Group participates in a number of pension arrangements. The principal schemes are defined benefit schemes, although these have been closed to new employees since October 2006. The assets of these schemes are held in trust funds independent of Group finances, with the funds being well diversified and professionally managed. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require the Group to make additional contributions to these pension schemes which, to the extent they are not recoverable under the regulatory price determination process, could materially adversely affect the Group's results of operations and financial condition.

## **Failure to comply with applicable laws or regulations, or to take corrective action following such a failure, future changes to laws or regulations or the introduction of new laws or regulations could have a material adverse effect on the Group's business, results of operations, profitability or financial condition**

The Group is subject to various laws and regulations in the UK and internationally. Regulatory authorities may, from time to time, make enquiries of companies within their jurisdiction regarding compliance with regulations governing their operations. In addition to regulatory compliance proceedings, the Group could become involved in a range of third party proceedings relating to, for example: land use, environmental protection; health and safety and water and wastewater quality. Amongst others, these may include civil actions by third parties for infringement of rights or nuisance claims relating to odour, contamination or other matters.

Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous.

If the Group fails to comply with applicable law or regulations, in particular in relation to its water and wastewater licences, or has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10 per cent. of relevant turnover) or the imposition of an enforcement order requiring the Group to incur additional capital or operating expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of a licence or the appointment of a special administrator.

## **Events, service interruptions, systems failures, water shortages or contamination of water supplies could adversely affect profitability**

The Group controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. The Group is also dependent on the ability to access, utilise and communicate remotely via electronic software applications mounted on corporate information technology hardware and communicating through internal and external networks which are not wholly under its control. In exceptional circumstances, such as prolonged drought, system failure or catastrophic damage, a significant interruption of service provision could occur.

Such consequences may arise due to a number of circumstances, for example water shortages, the failure of an asset or an element of a network or supporting plant and equipment, human error, an individual's malicious intervention or unavoidable resource shortfalls.

Such instances have a low probability of occurring but if they materialise, could result in significant loss of life, environmental damage and/or economic and social disruption. The Group could be fined for breaches of

statutory obligations or be held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs..

**Material litigation could have a material adverse effect on the Group's business, results of operations, profitability or financial condition**

In February 2009, United Utilities International Limited ("UUIL") (a wholly owned subsidiary of UU) was served with notice of a multiparty 'class action' in Argentina related to the issuance and payment default of a US\$230 million bond by Inversora Eléctrica de Buenos Aires S.A. ("IEBA"), an Argentine project company set up to purchase one of the Argentine electricity distribution networks, which was privatised in 1997. UUIL had a 45 per cent. shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages, and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will vigorously resist the proceedings, given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

In March 2010, Manchester Ship Canal Company ("MSCC") issued proceedings seeking, amongst other relief, damages alleging trespass against U UW in respect of U UW's discharges of water and treated effluent into its canal. U UW filed a Defence and Counterclaim in support of its believed entitlement to make discharges into the canal without charge and await MSCC's response. Although U UW won a 'summary judgment' application against MSCC in January 2012 on a significant element of the claim, MSCC has served notice that it intends to appeal this decision.

In addition to the litigation outlined above, the Group faces the risk of further litigation in connection with its businesses. In general, liability for litigation is difficult to assess or quantify; recovery may be sought for very large and/or indeterminate amounts and the existence and magnitude of liability may remain unknown for substantial periods of time. Litigation may be adverse to the Group's reputation, profitability or financial position.

***Risks relating to a particular issue of the Notes***

With respect to an investment in Notes indexed to one or more interest rates, currencies or other indices or formulas, significant risks exist that are not associated with a conventional fixed rate or floating rate debt security. Such risks include fluctuation of the particular indices or formulas and the possibility that an investor will receive a lower amount of principal, premium or interest and at different times than expected. The Issuers have no control over a number of matters, including economic, financial and political events that are important in determining the existence, magnitude and longevity of such risks and their results. In addition, if an index or formula used to determine any amounts payable in respect of the Notes contains a multiplier or leverage factor, the effect of any change in such index or formula will be magnified. In recent years, values of certain indices and formulas have been volatile and volatility in those and other indices and formulas may be expected in the future. However, past experience is not necessarily indicative of what may occur in the future.

**RPI Linked Notes**

Each Issuer may issue RPI Linked Notes where interest and redemption amounts will be adjusted by reference to movements in RPI during a reference period.

A decrease in RPI over the reference period will reduce the interest or redemption amounts payable in respect of such Notes. In a deflationary environment, (i) the annual interest received may be lower than the rate of interest specified in the applicable Final Terms and (ii) the amount to be repaid upon redemption of the Notes would be reduced to less than the nominal amount of the Notes (unless the applicable Final Terms specifies a minimum redemption amount which is equal to or higher than the nominal amount of the Notes). As a consequence, investors may lose the value of their entire investment or part of it.

***The historical experience of RPI should not be viewed as an indication of future performance of RPI during the term of any RPI Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any RPI Linked Notes and the suitability of such Notes in light of its particular circumstances. Risks associated with the Notes generally***

### **Holding company structure**

Because UU is an intermediate holding company, its rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its subsidiary's creditors, except to the extent that UU may be a creditor with recognised claims ranking ahead of or pari passu with such prior claims against the subsidiary. UU's ability to make payments on debt obligations and pay certain operating expenses may be dependent on the receipt of dividends from its subsidiaries. Certain of UU's subsidiaries have regulatory restrictions that can limit the payment of dividends.

### **No limitation on issuing pari passu securities**

There is no restriction on the amount of securities which each Issuer may issue which rank pari passu with the Notes being offered hereby. The issue of any such securities may reduce the amount recoverable by holders of the Notes in the event that the Issuer is wound up or becomes insolvent or may increase the likelihood of a deferral of payments under the Notes.

### **Notes where denominations involve integral multiples**

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations (as defined in the Final Terms). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Risks associated with redemption of the Notes**

If the applicable Terms and Conditions specify that the Notes are redeemable at the option of each Issuer, or are otherwise subject to mandatory redemption, the Issuer may (in the case of optional redemption) or must (in the case of mandatory redemption) choose to redeem such Notes at times when prevailing interest rates may be relatively low. Accordingly, an investor generally may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

### **The Issuers cannot assure a trading market for the Notes will ever develop or be maintained**

The Issuers cannot assure a trading market for the Notes will ever develop or be maintained. If a market does develop, it may not be very liquid. Many factors independent of the creditworthiness of each Issuer affect the trading market. These factors include:

- the complexity and volatility of the index or formula applicable to the Notes;
- the method of calculating the principal, premium and interest in respect of the Notes;

- the time remaining to the maturity of the Notes;
- the outstanding amount of the Notes;
- the redemption features of the Notes;
- the amount of other debt securities linked to the index or formula applicable to the Notes; and
- the level, direction and volatility of market interest rates generally.

In addition, certain Notes have a more limited trading market and experience more price volatility because they were designed for specific investment objectives or strategies. There may be a limited number of buyers when an investor decides to sell such Notes. This may affect the price an investor receives for such Notes or the ability of an investor to sell such Notes at all. An investor should not purchase Notes unless such an investor understands and can bear these investment risks.

#### **Noteholders' interests may be adversely affected by a change of law in relation to U.K. withholding tax**

In the event that amounts due under the Notes are subject to U.K. withholding tax, the Issuers may not be obliged to pay additional amounts in relation thereto if Noteholders fall within certain exceptions to the obligation to pay such additional amounts. In addition, the Issuers may, in certain circumstances, redeem the Notes (as described in Condition 8.2 of the Notes). The applicability of any U.K. withholding tax under current law is discussed under "Taxation - Withholding Tax".

#### **Modification, waivers and substitution**

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes, in the circumstances described in Condition 19 of the Terms and Conditions of the Notes.

#### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures.

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.

If a payment were to be made or collected through a Member State which operates a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the relevant Issuer nor any

Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Pursuant to Condition 13(d), so long as such a jurisdiction exists, the Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to any law implementing or complying with, or introduced in order to confirm to, the Savings Directive.

### **Change of law**

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of any Notes affected by it.

### **Credit ratings may not reflect all risks**

One or more independent credit rating agencies may assign credit ratings to the relevant Issuers or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union (“EU”) and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular. Where a Tranche of Notes is rated, such rating will be specified in the relevant Final Terms and will not necessarily be the same as the rating of the Programme.

### **Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar risks.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Offering Circular and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Offering Circular:

- (a) the sections of the annual reports for 2011 and 2012 (consisting of the auditor's report and statutory annual financial statements for each of the financial years ended 31 March 2011 and 31 March 2012 of each of the Issuers) set out at the following pages; and

### **United Utilities Water PLC**

#### *Annual Financial Statements 2012*

- auditors' report Page 42
- profit and loss Page 43
- balance sheet Page 45
- cash flow statement Page 46
- notes to the financial statements Pages 47-80

#### *Annual Financial Statements 2011*

- auditors' report Page 37-38
- profit and loss Page 39
- balance sheet Page 41
- cash flow statement Page 42
- notes to the financial statements Pages 43-80

### **United Utilities PLC**

#### *Annual Financial Statements 2012*

- auditors' report Pages 38-39
- profit and loss Page 40
- balance sheet Page 42
- cash flow statement Page 45
- accounting policies Pages 46-56
- notes to the financial statements Pages 57-103

*Annual Financial Statements 2011*

- auditors' report Pages 33-34
- profit and loss Page 35
- balance sheet Page 37
- cash flow statement Page 40
- accounting policies Pages 41-53
- notes to the financial statements Pages 54-111

(b) the Terms and Conditions of the Notes contained in each of the following Offering Circulars:

- the Offering Circular dated 23 November 2005;
- the Offering Circular dated 23 November 2006;
- the Offering Circular dated 20 November 2007;
- the Offering Circular dated 14 November 2008;
- the Offering Circular dated 12 November 2009
- the Offering Circular dated 12 November 2010; and
- the Offering Circular dated 14 November 2011.

Following the publication of this Offering Circular, a supplement may be prepared by the Issuers and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Any statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered offices of each Issuer and from the specified offices of the Paying Agents for the time being in London and have been made available at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Only the information in the parts of the documents specified above is incorporated into and forms part of this document. Information in other parts of the documents is either covered elsewhere in the document or is not relevant for the investor.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular for the purposes of the Prospectus Directive.

The Issuers will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes,

prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

## FORM OF THE NOTES

The Notes of each Series will be in bearer form, with or without interest coupons (“Coupons”) attached.

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a “Temporary Global Note”) or, if so specified in the applicable Final Terms, a permanent global note (a “Permanent Global Note”) which, in either case, will:

- (a) if the Global Notes are intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”); and
- (b) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the “Common Depositary”) for, Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the ICSDs will be notified whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “Exchange Date”) which, in respect of each Tranche in respect of which a Temporary Global Note is issued, is 40 days after the Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, Coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless upon due certification exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be in NGN form) without any requirement for certification. The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, Coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event”

means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 9 which would not be required were the Notes represented by the Permanent Global Note in definitive form. The relevant Issuer will promptly give notice to the Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

If the Global Note may be exchanged for definitive Notes in circumstances other than upon the occurrence of an Exchange Event, only one Specified Denomination can be specified (or all Specified Denominations must be an integral multiple of the lowest Specified Denomination). The clearing systems will not accept the Notes for clearing if the "€100,000 plus integral multiples of €1,000" construct is used unless exchange of the Global Note for definitive Notes is limited to the occurrence of an Exchange Event.

The following legend will appear on all Notes which have an original maturity of 365 days or more and on all Coupons relating to such Notes:

“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 provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or Coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or Coupons.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes”) the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer and its agents as the

holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

Noteholders who hold the Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell on or before the relevant Exchange Date, a principal amount of Notes such that their holding is an integral multiple of a Specified Denomination.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Final Terms.

Any reference herein to the Common Depositary shall, whenever the context so permits, be deemed to include references to any successor common depositary or any additional or alternative common depositary as is approved by the relevant Issuer, the Principal Paying Agent and the Trustee.

## FORM OF FINAL TERMS

[Date]

[UNITED UTILITIES PLC]  
[UNITED UTILITIES WATER PLC]

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the EUR 7,000,000,000  
Euro Medium Term Note Programme**

### 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 Offering Circular dated 19 November 2012 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Offering Circular”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Circular dated [original date] which are incorporated by reference in the Offering Circular dated [current date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated [current date] [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Offering Circular”), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.]

1. Issuer: [United Utilities PLC/United Utilities Water PLC]
2. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
(c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [24] below, which is expected to occur on or about [ ]][Not Applicable]
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
(a) Series: [ ]

- (b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus [ ] days'] accrued interest from (and including) [ ] to (but excluding) [ ] (*if applicable*)
6. (a) Specified Denominations: [ ] [EUR [100,000] and integral multiples of EUR [1,000] in excess thereof up to and including EUR [199,000]. No Notes in definitive form will be issued with a denomination above EUR [199,000].]
- (b) Calculation Amount: [ ]
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [[ ]/Issue Date/Not Applicable]
8. Maturity Date: [*Fixed rate - specify date/Floating rate - Interest Payment Date falling in or nearest to [ ]*]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
[ ] [+/-] [ ] per cent. Floating Rate]  
[Zero Coupon]  
[RPI Linked Interest]  
(see paragraph [15/16/17/18]) below)
10. Redemption/Payment Basis: [Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [[98][99][100][101][102] per cent. of their nominal amount]][Par][RPI Linked Redemption]
11. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [ ] paragraph [15/16] applies and for the period from (and including) [ ], up to (but excluding) the Maturity Date paragraph [15/16] applies] [Not Applicable]
12. Put/Call Options: [Not Applicable]  
[Investor Put]  
[Issuer Call]  
[(see paragraph [19/20/21] below)
13. (a) Status of the Notes: Senior, unsecured
- (b) Date [Board] approval for issuance obtained: [ ]
14. **Method of Distribution** [Syndicated/Non-syndicated]

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

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]

- (a) Rate[(s)] of Interest: [ ] per cent. per annum payable [annually/semi-annually/quarterly] in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- (c) Fixed Coupon Amount(s): [ ] per Calculation Amount
- (d) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]/Not Applicable]
- (e) Day Count Fraction: [Actual/Actual (ICMA)] [30/360]
- (f) Determination Date(s): [[ ] in each year][Not Applicable]

16. **Floating Rate Note Provisions** [Applicable/Not Applicable]

- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) First Interest Payment Date: [ ]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (d) Additional Business Centre(s): [ ]
- (e) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [ ]
- (g) Screen Rate Determination:
  - Reference Rate: Reference Rate: [ ] month [LIBOR/EURIBOR].
  - Interest Determination Date(s): [ ]
  - Relevant Screen Page: [ ]
- (h) ISDA Determination:
  - Floating Rate Option: [ ]

- Designated Maturity: [    ]
  - Reset Date: [    ]
- (i) Margin(s): [ +/- ] [    ] per cent. per annum
- (j) Minimum Rate of Interest: [    ] per cent. per annum
- (k) Maximum Rate of Interest: [    ] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond basis]  
[30E/360 (ISDA)]
17. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (a) Accrual Yield: [    ] per cent. per annum
- (b) Reference Price: [    ]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]  
[Actual/365]
18. **RPI Linked Note Provisions** [Applicable – Conditions 5 and 6 apply/Not Applicable]
- (a) Rate of Interest: [    ] per cent. per annum multiplied by the Index Ratio (in accordance with Condition 5.3)
- (b) Name and address of Calculation Agent: [    ]
- (c) Specified Period(s)/Specified Interest Payment Dates: [    ]
- (d) Business Day Convention: [Not Applicable/Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention]
- (e) Additional Business Centre(s): [    ] [Not Applicable]
- (f) Day Count Fraction: [Actual/Actual (ICMA)]  
[30/360 (as set out in Condition 5.2(d))]  
[Actual/Actual (ISDA)]  
[Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360 (as set out in Condition 5.2(d))]

[360/360][Bond Basis]  
 [30E/360][Eurobond basis]  
 [30E/360 (ISDA)]  
 [RPI Day Count Fraction]

- (g) Base Index Figure: [ ]
- (h) Index Figure applicable to: [[3/8] month lag applies]
- (i) Reference Gilt: [[ ] per cent. Index-Linked Treasury Stock due  
[ ]]
- (j) Minimum Rate of Interest: [ ] per cent. per annum
- (k) Maximum Rate of Interest: [ ] per cent. per annum

**PROVISIONS RELATING TO REDEMPTION**

- 19. Notice periods for Condition 8.2 Minimum period: [ ] days  
Maximum period: [ ] days
- 20. Issuer Call: [Applicable/Not Applicable]
  - (a) Optional Redemption Date(s): [ ]
  - (b) Optional Redemption Amount: [ ] per Calculation Amount
    - (i) Minimum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
    - (ii) Maximum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
  - (c) If redeemable in part:
    - (i) Minimum Redemption Amount: [ ]
    - (ii) Maximum Redemption Amount: [ ]
  - (d) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
- 21. Investor Put: [Applicable/Not Applicable]
  - (a) Optional Redemption Date(s): [ ]

- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (i) Minimum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (ii) Maximum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (c) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
22. Final Redemption Amount: [ ] per Calculation Amount
- (i) Minimum Final Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (ii) Maximum Final Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
23. Early Redemption Amount payable on redemption for taxation reasons, indexation reasons or on event of default: [ ] per Calculation Amount
- (i) Minimum Early Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (ii) Maximum Early Redemption Amount: [[ ] per Calculation Amount/Not Applicable]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event.]  
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]  
[Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]
25. New Global Notes: [Yes/No]  
[Not Applicable/[ ]]
26. Additional Financial Centre(s):

27. Talons for future Coupons to be attached to Definitive Notes: [Yes/No]
28. Redenomination applicable: Redenomination [not] applicable

**DISTRIBUTION**

29. (a) If syndicated, names of Managers: [Not Applicable/[ ]]
- (b) Stabilising Manager (if any): [Not Applicable/[ ]]
30. If non-syndicated, name of relevant Manager: [ ]
31. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the EUR 7,000,000,000 Euro Medium Term Note Programme established by United Utilities PLC and United Utilities Water PLC.

**[THIRD PARTY INFORMATION**

[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:  
By: .....

[Duly authorised]

## PART B - OTHER INFORMATION

### 1. LISTING

- (a) Listing: [London/[ ]/None]
- (b) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]
- (c) Estimate of total expenses [ ] related to admission to trading:

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [ ] by [ ]]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to [the] [[ ] [(“Managers”)]/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers and their affiliates in the ordinary course of business]

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (a) [Reasons for the offer [ ]]
- (b) [Estimated net proceeds: [ ]]
- (c) [Estimated total expenses: [ ]]

### 5. YIELD

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

### 6. HISTORIC INTEREST RATES

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].

### 7. OPERATIONAL INFORMATION

- (a) ISIN Code: [ ]
- (b) Common Code: [ ]
- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. [Not Applicable/[ ]]

and Clearstream Banking,  
société anonyme and the  
relevant identification  
number(s):

- (d) Delivery: Delivery [against/free of] payment
- (e) Names and addresses of additional Paying Agent(s) (if any): [ ]

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” for a description of the content of Final Terms which will include the definitions of certain terms used in the following Terms and Conditions and/or will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by United Utilities PLC (“UU”) or United Utilities Water PLC (“UW”) (each an “Issuer” and, together, the “Issuers”) constituted by an Amended and Restated Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) dated 19 November 2012 made between the Issuers and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include any successor as trustee).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “Global Note”), units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

References herein to the “relevant Issuer” shall be to the Issuer of the Notes named as such in the applicable Final Terms (as defined below).

The Notes and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Agency Agreement, as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 19 November 2012 and made between the Issuers, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the “Principal Paying Agent”, which expression shall include any successor principal paying agent), the other paying agents named therein (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents) and the Trustee.

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “applicable Final Terms” are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest bearing definitive Notes have interest coupons (“Coupons”) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The Trustee acts for the benefit of the holders for the time being of the Notes (the “Noteholders”, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below) and the holders of the Coupons (the “Couponholders”, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement and the applicable Final Terms are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at 19 November 2012 at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. If this Note is not to be admitted to trading on the regulated market of the London Stock Exchange, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the “Specified Currency”) and the denominations (the “Specified Denomination(s)”) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or an RPI Linked Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The relevant Issuer, any Paying Agent and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and/or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in Part B of the applicable Final Terms.

## **2. STATUS OF THE NOTES**

The Notes and any relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and rank pari passu among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

## **3. NEGATIVE PLEDGE**

So long as any of the Notes remains outstanding (as defined in the Trust Deed) the relevant Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of security interest upon the whole or any part of its undertaking, revenues or assets, present or future, to secure payment of any present or future Relevant Indebtedness (as defined below) of the relevant Issuer or any Subsidiary thereof (as defined in the Trust Deed) or to secure any guarantee or indemnity in respect thereof, without at the same time according to the Notes to the satisfaction of the Trustee, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity, or such other security as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

“Relevant Indebtedness” means any present or future indebtedness (whether being principal, premium or interest) for borrowed money (other than indebtedness for borrowed money with an initial maturity falling 20 years or more after the Issue Date of the First Tranche of the Notes and having a maximum principal amount outstanding at any time not exceeding the greater of £250,000,000 and 20 per cent. of Adjusted Capital and Reserves (as defined in Condition 11) or indebtedness for borrowed money which has a stated maturity not exceeding one year) which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash and which, with the agreement of the relevant Issuer, are quoted, listed, dealt in or traded on a stock exchange or over the counter or other recognised securities market (whether or not distributed by way of private placement).

## 4. REDENOMINATION

### 4.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the relevant Issuer may, without the consent of the Trustee, the Noteholders and the Couponholders, on giving prior notice to the Trustee, the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note equal to the nominal amount of that Note in the Specified Currency, converted into euro at the Established Rate, provided that, if the relevant Issuer determines, with the consent of the Trustee and the Principal Paying Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the relevant Issuer shall promptly notify the Noteholders in accordance with Condition 15, the stock exchange or other relevant authority (if any) on which the Notes are listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the relevant Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Trustee and the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Trustee and the Principal Paying Agent shall determine and as shall be notified to the Noteholders in accordance with Condition 15;
- (d) if definitive Notes have been issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the relevant Issuer gives notice (the "Exchange Notice") that replacement euro-denominated Notes and Coupons are available for exchange (provided that such Notes and/or Coupons are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes so issued will also become void on that date although those Notes will continue to constitute valid exchange obligations of the relevant Issuer. New euro-denominated Notes and Coupons will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Trustee and the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account

(or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date it will be calculated:
- (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
  - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 5.1), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 5.1) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding;

- (g) if the Notes are Floating Rate Notes the applicable Final Terms specifies any relevant changes to the provisions relating to interest.

## **4.2 Definitions**

In these Terms and Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“Redenomination Date” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the relevant Issuer in the notice given to the Noteholders pursuant to paragraph 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union or otherwise participates in European economic and monetary union in a manner with similar effect to such third stage; and

“Treaty” means the Treaty establishing the European Community, as amended.

## **5. INTEREST**

### **5.1 Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in

arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount, is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and

- (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

## **5.2 Interest on Floating Rate Notes**

### **(a) Interest Payment Dates**

Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Terms and Conditions, Interest Period means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, 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 (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment 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 Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, “Business Day” means a day which is both:

- I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- II. either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is New Zealand dollars, shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

**(i) ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (i), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, each as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the “ISDA Definitions”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the first day of the Interest Period.

For the purposes of this sub-paragraph (i), (i) “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions; and (ii) “Euro-zone” means the region comprised of

Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty.

(ii) **Screen Rate Determination for Floating Rate Notes**

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) 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 11.00 a.m. (London time in the case of LIBOR and Brussels time in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. 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 Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (a) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (e) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest 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<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (f) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest 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<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (g) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest 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<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30.

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

**(e) Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(f) Determination or Calculation by Trustee**

If for any reason at any relevant time the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or in its obligation to calculate any Interest Amount in accordance with sub-paragraph (b)(i) or (ii) above as the case may be, and in each case (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent.

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Principal Paying Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Trustee, the Principal Paying Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the relevant Issuer, the Noteholders or the Couponholders shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**5.3 Interest on RPI Linked Notes**

This Condition 5.3 applies to RPI Linked Notes only.

**(a) Interest Payment Dates**

Each RPI Linked Note bears interest on its outstanding nominal amount (in the case of RPI Linked Notes represented by a Global Note) or the Calculation Amount (in the case of RPI Linked Notes in definitive form) from (and including) the Interest Commencement Date at the rate per annum equal to the Rate of Interest, and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.3(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, 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 (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment 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 Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, “Business Day” means a day which is both:

- I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- II. either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Any Additional Business Centre and which, if the Specified Currency is

New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of RPI Linked Notes will be the product of the rate per annum specified in the applicable Final Terms and the Index Ratio (as determined in accordance with Condition 6.1) rounded to six decimal places upwards (0.0000005 being rounded upwards).

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is capable of being determined, determine the applicable Rate of Interest and notify the Principal Paying Agent as soon as practicable after determining the same.

The amount of interest payable on each RPI Linked Note for any Interest Period (the "Interest Amount") will be calculated by the Calculation Agent by applying the Rate of Interest to:

- (i) in the case of RPI Linked Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the RPI Linked Notes represented by such Global Note; or
- (ii) in the case of RPI Linked Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such product by the Day Count Fraction specified in the applicable Final Terms and:

- (A) defined in Condition 5.1;
- (B) defined in Condition 5.2; or
- (C) in the case of Notes which pay interest on a semi-annual basis, the Day Count Fraction which is a fraction (1) the numerator of which is the number of days from and including the most recent Interest Payment Date (or Interest Commencement Date if such period is before the first scheduled Interest Payment Date) (to but excluding the next Interest Payment Date or, if earlier, the date of payment); and (2) the denominator of which is two times the number of days (including the first and excluding the last) in the Interest Period) (the "RPI Day Count Fraction"),

and rounding the resulting figure to the nearest sub-unit of the relevant Specified Currency (half of any such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention).

Where the Specified Denomination of an RPI Linked Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**(e) Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer, the Trustee, the other Paying Agents and any stock exchange, or other relevant authority, on which the relevant RPI Linked Notes are for the time being listed, or by which they have been admitted to listing, and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange, or other relevant listing authority, on which the relevant RPI Linked Notes are for the time being listed, or by which they have been admitted to listing, and to the Noteholders in accordance with Condition 15. For the purpose of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(f) Determination or Calculation by the Trustee**

If for any reason the Calculation Agent at any time after the Issue Date defaults in its obligation to determine or calculate:

- (i) the Rate of Interest;
- (ii) any Interest Amount in accordance with Condition 5.3(c) above;
- (iii) the Final Redemption Amount; or
- (iv) the Early Redemption Amount,

the Trustee shall determine or calculate the same in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 5.3 and to the provisions of Condition 6) and in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent (and, where practicable, in accordance with this Condition).

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.3, whether by the Calculation Agent, the Principal Paying Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Calculation Agent, the Principal Paying Agent, the Trustee, the other Paying

Agents and all Noteholders and Couponholders and (in the absence of the aforesaid) no liability to the relevant Issuer, the Noteholders or the Couponholders shall attach to the Calculation Agent, the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

#### **5.4 Accrual of interest**

Each RPI Linked Note (or, in the case of the redemption of part only of an RPI Linked Note, that part only of such RPI Linked Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

### **6. INDEXATION**

This Condition 6 is applicable only if the applicable Final Terms specifies the Notes as RPI Linked Notes.

#### **6.1 Definitions**

In these Conditions:

“Base Index Figure” means (subject to Condition 6.3) the base index figure as specified in the relevant Final Terms;

“Calculation Date” means any date when an Interest Amount or principal amount, as the case may be, falls due;

“Expert” means a gilt-edged market maker, an independent investment bank or other expert in London appointed by the Issuer;

“Index” or “Index Figure” means, subject as provided in Conditions 6.3, 6.5 and 8.3, the UK Retail Price Index (“RPI”) (for all items) published by the Office for National Statistics (January 1987 = 100) as published by HM Government.

Any reference to the “Index Figure applicable” to a particular Calculation Date shall, subject as provided in Conditions 6.3, 6.5 and 8.3, and if “3 months lag” is specified in the applicable Final Terms, be calculated in accordance with the following formula:

$$RPI_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (RPI_{m-2} - RPI_{m-3})$$

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

“ $RPI_{m-3}$ ” 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; and

“ $RPI_{m-2}$ ” 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;

Any reference to the “Index Figure applicable” to a particular Calculation Date shall, subject as provided in Conditions 6.3, 6.5 and 8.3, and if “8 months lag” is specified in the applicable Final Terms, means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

“Index Ratio” applicable to any Calculation Date means the Index Figure applicable to such month or date divided by the Base Index Figure and rounded to five decimal places (0.000005 being rounded upwards); and

“Reference Gilt” means the Treasury Stock specified in the applicable Final Terms (or, if such stock is not in existence, such other index-linked stock issued by or on behalf of HM Government as the Issuer, on the advice of the Expert, may consider to be the most appropriate references government stock for the RPI Linked Notes.

## **6.2 Indexation of Principal**

The Final Redemption Amount, the Early Redemption Amount and the Optional Redemption Amount in respect of the RPI Linked Notes shall be the nominal amount of the RPI Linked Notes multiplied by the Index Ratio applicable to the date on which the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount (as the case may be) becomes payable, provided that:

- (a) if a Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount is specified in the applicable Final Terms and such amount is greater than the amount of principal in respect of the Notes determined in accordance with this Condition 6.2 (expressed on a per Calculation Amount basis), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) shall be, respectively, the Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and/or
- (b) if a Maximum Final Redemption Amount, Maximum Early Redemption Amount and/or Maximum Optional Redemption Amount is specified in the applicable Final Terms and such amount is less than the amount of principal in respect of the Notes determined in accordance with this Condition 6.2 (expressed on a per Calculation Amount basis), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) shall be, respectively, the Maximum Final Redemption Amount, Maximum Early Redemption Amount or Maximum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and
- (c) the Calculation Agent will calculate the Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount (as the case may be) as soon as reasonably practicable after each time such amount is capable of being determined and will notify the Principal Paying Agent thereof as soon as practicable after calculating the same. The Principal Paying Agent will as soon as practicable thereafter notify the Issuer and any stock exchange on which the Notes are for the time being listed thereof and cause notice thereof to be published in accordance with Condition 15.

## **6.3 Changes in Circumstances Affecting the Index**

- (a) Change in Base: If at any time and from time to time the Index is changed by the substitution of a new base for it, then with effect from (and including) the month in respect of which such substitution takes effect:
  - (i) the definition of Index and Index Figure in Condition 6.1 shall be deemed to refer to the month in substitution for January 1987 (or, as the case may be, for such other date or month as may have been substituted for it); and

- (ii) the definition of Base Index Figure in Condition 6.1 shall be amended to mean the product of the then existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index immediately prior to such substitution.
- (b) Delay in publication of the Index: If in relation to a particular Interest Period or to the redemption of all or some only of the Notes and otherwise than in circumstances which the Issuer certifies to the Trustee may fall with Condition 6.5 or Condition 8.3 (notwithstanding that the Issuer may subsequently be advised that they do not fall within Condition 6.5 or Condition 8.3), the Index Figure relating to any month (the “calculation 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 day before the date on which such payment is due (the “date for payment”), the Index Figure for the relevant calculation month shall be:
  - (i) the substitute index figure (if any) as is published by the Bank of England or the United Kingdom Debt Management Office (or such other United Kingdom authority as may be appropriate) for the purposes of indexation or payments on the Reference Gilt or, failing such publication, on any one or more of HM Government’s index-linked stocks, as determined by the Expert; or
  - (ii) if no such determination is made by the Expert within seven days, the Index Figure last published before the date for payment.

#### **6.4 Application of Changes**

Where the provisions of Condition 6.3(b) apply, the Issuer shall deliver to the Principal Paying Agent and Calculation Agent a certificate, acting on the sole advice of the Expert, as to the Index Figure applicable to the date for payment which shall be conclusive and binding. If a substitute index is published as specified in Condition 6.3(b)(i) above, a determination made based on that Index shall be final and no further payment by way of adjustment shall be made, notwithstanding that the Index Figure applicable to the date for payment may subsequently be published.

If no substitute index is so published and the index relating to the date for payment is subsequently published then:

- (a) in the case of an RPI Linked Note not falling due for redemption on the date for payment of interest or principal (as the case may be), if the index so subsequently published (if published when such Note remains outstanding) is greater or less than the Index applicable by virtue of the preceding paragraph, the interest payable on that Note on the Interest Payment Date next succeeding the date of such subsequent publication shall be increased or reduced to reflect the amount by which the interest or principal (as the case may be) next payable on that Note on the date for payment on the basis of the index applicable by virtue of the preceding paragraph fell short of, or (as the case may be) exceeded the interest or principal (as the case may be) which would have been payable on that Note if the Index subsequently published had been published on or before the fourteenth business day before the date for payment; or
- (b) in the case of any Note falling due for final redemption on the date of payment, no subsequent adjustment to amounts paid will be made.

## **6.5 Cessation of or Fundamental Changes to the Index**

If the Index ceases to be published or any changes are made to it which, in the opinion of the Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer or the Noteholders and if, within 30 days after its appointment (or such longer period as the Trustee may in its sole discretion agree), the Expert recommends for the purposes of the RPI Linked Notes one or more adjustments to the Index or substitute index (with or without adjustments), then provided that such adjustments or substitute index (as the case may be) are not materially detrimental (in the opinion of the Expert) either to the interests of the Issuer or the interests of the Noteholders, as compared to the interests of the Issuer and the Noteholders (as the case may be) as they would have been had the Index continued to be published or such fundamental change in the rules governing the Index had not been made, the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Conditions to the Index shall be construed accordingly and the Issuer shall notify the Noteholders of the adjustments to the Index or the introduction of the substitute index (with or without adjustments) in accordance with Condition 15.

If any payment in respect of the RPI Linked Notes is due to be made after the cessation or changes referred to in the preceding paragraph but before any such adjustment to, or replacement of, the Index takes effect, the Issuer shall (if the Index Figure applicable (or deemed applicable) to the date of payment is not available in accordance with the provisions of Condition 6.1) make a provisional payment on the basis that the Index Figure applicable to the date for payment is the Index last published. In that event or in the event of any payment on the RPI Linked Notes having been made on the basis of an index deemed applicable under Condition 6.3(b)(i) above (also referred to below as a “provisional payment”) the Expert subsequently determines that the relevant circumstances fall within this Condition 6.5, then:

- (a) except in the case of a payment on redemption of the RPI Linked Notes, if the sum which would have been payable if such adjustments or such substitute index had been in effect on the due date for such provisional payment is greater or less than the amount of such provisional payment, the interest payable on the RPI Linked Notes on the Interest Payment Date next succeeding the date on which the Issuer and the Trustee receive such recommendation shall be increased or reduced to reflect the amount by which such provisional payment of interest fell short or, (as the case may be) exceeded, the interest which would have been payable on the Notes if such adjustments or such substituted index had been in effect on that date; or
- (b) in the case of a payment of principal or interest on redemption of the Notes, no subsequent adjustment to amounts paid will be made.

## **6.6 Trustee Action and/or Steps**

The Trustee shall be entitled to assume that no cessation of or change to the Index has occurred until informed otherwise by the Issuer and it will not be responsible for identifying or appointing an Expert. The Trustee may rely absolutely on any determination made or advice given by the Expert without need for further investigation.

## **7. PAYMENTS**

### **7.1 Method of payment**

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

## **7.2 Presentation of definitive Notes and Coupons**

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Notes in definitive form (other than RPI Linked Notes) and save as provided in Condition 5.4) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or RPI Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

## **7.3 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes

and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

#### **7.4 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the relevant Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear and Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the relevant Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the provisions of paragraph 7.1 above, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the relevant Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the relevant Issuer, adverse tax consequences to the relevant Issuer.

#### **7.5 Payment Day**

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) any Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the

Specified Currency is New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **7.6 Interpretation of principal and interest**

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 9;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.6(c)); and
- (f) any premium and any other amounts which may be payable by the relevant Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

## **8. REDEMPTION AND PURCHASE**

### **8.1 Redemption at maturity**

Unless previously redeemed or purchased and in each case cancelled as specified below, each Note (including each RPI Linked Note) will be redeemed by the relevant Issuer at its Final Redemption Amount specified in the applicable Final Terms (subject, in the case of RPI Linked Notes, to adjustment in accordance with Condition 6.2) in the relevant Specified Currency on the Maturity Date in the applicable Final Terms.

### **8.2 Redemption for tax reasons**

Subject to Condition 8.6, the Notes may be redeemed at the option of the relevant Issuer in whole, but not in part, at any time (if the Note is neither a Floating Rate Note nor an RPI Linked Note) or on any Interest Payment Date (if the Note is either a Floating Rate Note or an RPI Linked Note), on giving not less than the minimum period and not more than the maximum period of notice specified in applicable Final Terms (in the event that such periods are not so specified, the minimum period will be not less than 30 days and the maximum period will be not more than 60 days) to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the relevant Issuer satisfies the Trustee immediately before the giving of the notice referred to above that on the occasion of the next payment due under the Notes, the relevant Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on

which the relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the relevant Issuer shall deliver to the Trustee a certificate signed by two Directors of the relevant Issuer stating that the relevant Issuer is entitled to effect such redemption and setting forth a statement of the change or amendment (as referred to above) which has occurred (irrespective of whether such change or amendment is then effective) describing the facts leading thereto and accompanied by an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such change or amendment is then effective) and the relevant Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in paragraph 8.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **8.3 Redemption for Index Reasons**

In the case of RPI Linked Notes, if:

- (a) the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Noteholders and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee may in its sole discretion agree), or states to the Issuer and the Trustee that it is unable to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments), as described in Condition 6.5, the Issuer shall, within 14 days of the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall not be more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their nominal amount multiplied by the Index Ratio applicable to the date on which the date fixed for redemption falls, together with accrued interest; or
- (b) the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee may in its sole discretion agree), or states to the Issuer and the Trustee that it is unable to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments), as described in Condition 6.5, the Issuer may at its option, within 14 days of the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall not be more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their nominal amount multiplied by the Index Ratio applicable to the date on which the date fixed for redemption falls, together with accrued interest.

#### **8.4 Redemption at the option of the relevant Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the relevant Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms (in the event that such periods are not so specified, the minimum period will be not less than 30 days and the maximum period will be not more than 90 days) to the Noteholders in accordance with Condition 16; (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.4 and notice to that effect shall be given by the relevant Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

#### **8.5 Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the relevant Issuer in accordance with Condition 15 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms (in the event that such periods are not so specified, the minimum period will be not less than 30 days and the maximum period will be not more than 90 days), the relevant Issuer will, upon the expiry of such notice, redeem in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition.

## **8.6 Early Redemption Amounts**

For the purpose of Condition 8.2 and 8.4 and Condition 11, the Notes will be redeemed at their Early Redemption Amount calculated as follows:

- (a) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or
- (c) in the case of Zero Coupon Notes, at an amount (the “Amortised Face Amount”) equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes become due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (1) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360-day year consisting of 12 months of 30 days each and (2) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365).

- (d) In the case of RPI Linked Notes, at the outstanding nominal amount thereof, subject to adjustment in accordance with Condition 6.2.

## **8.7 Purchases**

The relevant Issuer or any Subsidiary (as defined in the Trust Deed) of the relevant Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the relevant Issuer surrendered to any Paying Agent for cancellation.

## **8.8 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and Notes purchased and cancelled pursuant to paragraph 8.7 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **8.9 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph 8.1, 8.2, 8.4 or 8.5 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph 8.6(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 15.

## **9. TAXATION**

All payments of principal and interest in respect of the Notes and Coupons by the relevant Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the relevant Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) presented for payment to, or to a third party on behalf of, a holder who would not be liable to such withholding or deduction if such holder had made a declaration of non-residence or similar claim for exemption to any authority of or in the United Kingdom; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

## **10. PRESCRIPTION**

The Notes and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

## **11. EVENTS OF DEFAULT AND ENFORCEMENT**

11.1 The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, (but, in the case of the happening of any of the events mentioned in paragraphs (b), (c), (e), (f) and (g) below in relation to the relevant Issuer and (c) to (g) below (inclusive) in relation to a Material Subsidiary, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the relevant Issuer that the Notes are, and they shall accordingly thereupon become, immediately due and repayable at their Early Redemption Amount, together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:

- (a) if default is made by the relevant Issuer for a period of 14 days or more in the payment of any principal or interest due in respect of the Notes or any of them; or
- (b) if default is made by the relevant Issuer in the performance or observance of any material obligation, condition or provision binding upon it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof has been given by the Trustee to the relevant Issuer requiring the same to be remedied; or
- (c) (1) any indebtedness for moneys borrowed (as defined below) of the relevant Issuer or any Material Subsidiary or (2) any present or future guarantee for, or indemnity in respect of, any indebtedness for moneys borrowed of any person given by the relevant Issuer or any Material Subsidiary where the relevant indebtedness for moneys borrowed when aggregated with all other indebtedness for moneys borrowed in respect of which one or more other events referred to in this paragraph (c) shall have occurred exceeds whichever is the greater of £30,000,000 (or the equivalent in other currencies as determined by the Trustee) and two per cent. of the Adjusted Capital and Reserves:
  - (i) is not paid or repaid or honoured when due or within any applicable grace period; or
  - (ii) is declared to be or becomes enforceable, redeemable or repayable prior to the due date for payment thereof as a result of any actual default by the relevant Issuer or any Material Subsidiary, as the case may be, or as a result of an event of default

(howsoever described) in relation thereto, unless such default or event of default is waived or remedied (to the satisfaction of the Trustee) within thirty business days,

except, in any such case, where there is a bona fide dispute as to payment; or

- (d) if an order is made or a resolution is passed for the winding up of, or an administration order is made in relation to, the relevant Issuer or any Material Subsidiary (save, in the case of a Material Subsidiary, (i) with the prior consent of the Trustee or the prior sanction of an Extraordinary Resolution for the purposes of or in connection with an amalgamation or reconstruction, or (ii) a voluntary solvent winding-up where surplus assets are available for distribution); or
- (e) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the undertaking, property and assets of the relevant Issuer or any Material Subsidiary or if a distress, execution or other process is levied or enforced upon or sued out against the whole or any substantial part of the assets of the relevant Issuer or any Material Subsidiary and, in the case of any of the foregoing events, is not discharged within 60 days or such longer period as the Trustee may allow; or
- (f) if the relevant Issuer or any Material Subsidiary is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986; or
- (g) if the relevant Issuer or any Material Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in any case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (a) not involving or arising out of the insolvency of the relevant Issuer or a Material Subsidiary and under which all or substantially all of its assets are transferred to the relevant Issuer or a Material Subsidiary or one or more of the relevant Issuer's other Subsidiaries or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Material Subsidiary or Material Subsidiaries provided that this exception (a) shall not apply where the transferor company is the relevant Issuer unless assets comprising the major part by value of the assets owned by the relevant transferor company immediately prior to such transfer are transferred to a single transferee company and contemporaneously with such transfer where the transferor company is the relevant Issuer (y) such transferee company assumes (to the satisfaction of the Trustee) all the obligations of the transferor company as principal debtor in respect of the Notes and (z) such transferor company unconditionally and irrevocably guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by such transferee company as the new principal debtor or (b) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration on an arm's length basis or (c) the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders provided that in no event shall the relevant Issuer or any Material Subsidiary be deemed to have ceased to carry on the whole or substantially the whole of its business solely by reason of any forced divestiture imposed by any government or regulatory body or by reason of the loss of the Appointment.

## 11.2 Definitions

For the purposes of this Condition:

“Accounts” means, to the extent an Issuer has Subsidiary Undertakings, a consolidation of the annual statutory accounts of the relevant Issuer (except that, in the case of UUW, such accounts shall be unconsolidated for such time as UUW has no Subsidiary Undertakings) and (in each case) its

Subsidiary Undertakings as prepared by the relevant Issuer, and audited and reported upon by the Auditors in accordance with the historical cost convention method as modified, if applicable, by the exception of, amongst other things, the revaluation of financial instruments and otherwise in accordance with United Kingdom generally accepted accounting practices and principles (with the exception of United Utilities PLC, which reports under International Financial Reporting Standards);

“Adjusted Capital and Reserves” means at any time a sum equal to the aggregate of:

- (a) the amount paid up or credited as paid up on the issued share capital of the relevant Issuer; and
- (b) the amounts standing to the credit of the capital and revenue reserves of the relevant Issuer and its Subsidiary Undertakings (including any share premium account and capital redemption reserve) after adding thereto any balance standing to the credit of the profit and loss account;

all based on the consolidated balance sheet of the relevant Issuer (except in the case of U UW, a nonconsolidated balance sheet for such time as U UW has no Subsidiary Undertakings) and its Subsidiary Undertakings as contained in the then latest Accounts but after:

- (i) excluding all sums set aside for taxation (whether in respect of deferred taxation or otherwise);
- (ii) making such adjustments as may be appropriate in respect of any variation in the amount of such share capital or such reserves subsequent to the relevant balance sheet date and so that for this purpose share capital allotted shall be deemed to have been issued and if any issue or proposed issue of shares by the relevant Issuer for cash has been underwritten then such shares shall be deemed to have been issued and the amount (including any premium) of the subscription moneys payable in respect thereof (not being moneys payable later than six months after the date of allotment) shall to the extent so underwritten be deemed to have been paid up on the date when the issue of such shares was underwritten (or, if such underwriting was conditional, on the date when it became unconditional in all respects);
- (iii) making such adjustments as may be appropriate in respect of any distributions declared, recommended or made by the relevant Issuer or any of its Subsidiary Undertakings out of profits earned up to and including the date of such balance sheet to the extent that such distribution is not provided for in such balance sheet;
- (iv) making such adjustments as may be appropriate in respect of any variation in the interests of the relevant Issuer in its Subsidiary Undertakings (including, but without limiting the generality of the foregoing, any acquisition of a new Subsidiary Undertaking or disposal of an interest which causes an undertaking to cease to be a Subsidiary Undertaking) since the date of such balance sheet;
- (v) if the calculation is required for the purposes of or in connection with a transaction under or in connection with which any company is to become or cease to be a Subsidiary Undertaking of the relevant Issuer, making all such adjustments as would be appropriate if such transaction had been carried into effect;
- (vi) excluding all minority interests and other third party interests in Subsidiary Undertakings of the relevant Issuer;
- (vii) deducting any balance to the debit of the profit and loss account;

- (viii) deducting all amounts (if any) attributable to goodwill or any other intangible assets;
- (ix) excluding such part of the interests of the relevant Issuer or any of its Subsidiary Undertakings in an associated company (as defined in the Trust Deed), not being a Subsidiary Undertaking of the relevant Issuer, as is attributable to any post-acquisition undistributed profits and reserves, but including such interests at original cost or, if lower, book value;
- (x) deducting (if not otherwise excluded) such amount as the Auditors shall consider appropriate in respect of any deferred taxation liabilities on the net amount by which the fixed assets of the relevant Issuer and its Subsidiary Undertakings shall have been written up as a result of any revaluation, and for this purpose a transfer of any assets by the relevant Issuer to any of its Subsidiary Undertakings, or by any of its Subsidiary Undertakings to the relevant Issuer or another of its Subsidiary Undertakings, for a consideration in excess of the book value thereof shall be deemed to be a writing up of the book value of such asset as a result of a revaluation;
- (xi) deducting therefrom all amounts attributable (whether by way of share or loan capital or otherwise) to the interests of the relevant Issuer and its Subsidiary Undertakings (other than Excluded Subsidiaries) in Excluded Subsidiaries; and
- (xii) making such other adjustments (if any) as the Auditors may consider appropriate;

and so that no amount shall be included or excluded more than once in the same calculation;

The Trust Deed provides that, if there is a material change in generally accepted United Kingdom accounting practices or principles as adopted and applied in the Accounts, the relevant Issuer will, at the request of the Trustee, after consultation with the relevant Issuer, restate the Accounts in accordance with generally accepted United Kingdom accounting practices and/or principles applied in respect of the Accounts for the year ended 31 March, 1998, and procure the Auditors to audit the said accounts, and the Adjusted Capital and Reserves shall be calculated accordingly.

The certificate of the Auditors as to the amount of the Adjusted Capital and Reserves at any time shall, in the absence of manifest error, be conclusive and binding on all parties.

“Appointment” means the Instrument of Appointment dated 24 August, 1989 under Sections 11 and 14 of the Water Act 1989 (as varied from time to time) appointing United Utilities Water PLC as a water undertaker and sewerage undertaker;

“Auditors” means the auditors for the time being of the relevant Issuer or, in the event of their being unable or unwilling to carry out any action requested of them pursuant to the Trust Deed, such other firm of chartered accountants as the Trustee may in writing nominate or approve for the purpose;

“Excluded Subsidiary” means any Subsidiary of the relevant Issuer (i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset, (ii) none of whose liabilities in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group other than an Excluded Subsidiary, and (iii) which has been designated as such by the relevant Issuer by written notice to the Trustee; provided that the relevant Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

“Group” means the relevant Issuer and its Subsidiaries and “member of the Group” shall be construed accordingly;

“indebtedness for moneys borrowed” means any present or future indebtedness (being principal, premium or interest) for or in respect of (a) all moneys borrowed, (b) liabilities under or in respect of any acceptance or acceptance credit and (c) all notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash which is not for the time being owned by the relevant Issuer or any of its Subsidiary Undertakings and which does not amount to Project Finance Indebtedness;

“Material Subsidiary” means any Subsidiary of the relevant Issuer (not being an Excluded Subsidiary) (i) whose gross revenues earned from outside the Group or whose gross assets (in each case consolidated in respect of a Subsidiary which itself has Subsidiaries, and in each case attributable to the relevant Issuer all as shown in the latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary represent 20 per cent. or more of the consolidated gross revenues or, as the case may be, consolidated gross assets (in each case attributable to the shareholders of its ultimate parent) of the relevant Issuer and in each case their respective Subsidiary Undertakings (other than Excluded Subsidiaries) all as shown in the latest Accounts; or (ii) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary under this sub-paragraph (ii) but shall cease to be a Material Subsidiary upon publication of its next audited accounts unless it would then be a Material Subsidiary under (i) above. A report by the Auditors (whether or not addressed to the Trustee) that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Project Finance Indebtedness” means any indebtedness for moneys borrowed to finance the ownership, acquisition, development and/or operation of an asset (whether or not an asset of a member of the Group):

- (a) which is incurred by an Excluded Subsidiary; or
- (b) in respect of which the person or persons to whom any such indebtedness for moneys borrowed is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
  - (i) recourse for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset; and/or
  - (ii) recourse for the purpose only of enabling amounts to be claimed in respect of such indebtedness for moneys borrowed in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for moneys borrowed, provided that (1) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (2) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for moneys borrowed, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or

- (iii) recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation by the person against whom such recourse is available (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition);

“Subsidiary” means a subsidiary within the meaning of Section 1159 of the Companies Act 2006; and

“Subsidiary Undertaking” has the meaning ascribed thereto in Section 1162 of the Companies Act 2006 (but, in relation to each Issuer shall exclude any Subsidiary Undertaking whose accounts are not included in the then latest Accounts, or (in the case of a Subsidiary Undertaking which has first become a Subsidiary Undertaking of a member of the Group since the date as at which such Accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

### **11.3 Enforcement**

The Trustee shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in aggregate amount of the Notes then outstanding and in either case then only if it shall be indemnified to its satisfaction against all liabilities which it may incur by so doing.

No Noteholder or Couponholder shall be entitled to proceed directly against the relevant Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure is continuing.

## **12. REPLACEMENT OF NOTES, COUPONS AND TALONS**

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

## **13. AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The relevant Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and, whilst any RPI Linked Notes are outstanding, a Calculation Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such

place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

- (c) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the relevant Issuer is incorporated; and
- (d) so long as such jurisdiction exists, the relevant Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to any law implementing or complying with, or introduced in order to conform to, European Council Directive 2003/48/EC.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the relevant Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of trust with, any Noteholders or Couponholders.

#### **14. EXCHANGE OF TALONS**

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

#### **15. NOTICES**

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times in London. The relevant Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee may approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or admitted to trading by any other relevant authority and the rules of that stock exchange or other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes is represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 16. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the relevant Issuer or the Trustee and shall be convened by the relevant Issuer at the request of Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate or amount of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders, or as a resolution in writing signed by or on behalf of all the Noteholders, shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trustee may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification of any of the provisions of these Terms and Conditions, the Notes, the Coupons or the Trust Deed which is not in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; or
- (b) any modification of the provisions of any of these Terms and Conditions, the Notes, the Coupons or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law.

The Trustee may also agree, without the consent of the Noteholders or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of these Terms and Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the relevant Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except, in the case of the relevant Issuer to the extent provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

Any such modification shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

**17. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE RELEVANT ISSUER**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (i) to enter into business transactions with the relevant Issuer and to act as trustee for the holders of any other securities issued by, or relating to, the relevant Issuer; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

**18. FURTHER ISSUES**

The relevant Issuer is at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides.

**19. SUBSTITUTION**

The Trustee may agree, without the consent of the Noteholders or the Couponholders, to the substitution at any time or times:

- (a) of any Subsidiary of UU in place of UU as principal debtor, subject to the irrevocable and unconditional guarantee of UU; or
- (b) of any Subsidiary of UUW in place of UUW as principal debtor, subject to the irrevocable and unconditional guarantee of UUW.

Any such substitution shall also be subject to the relevant provisions of the Trust Deed, including a provision to the effect that the Trustee shall have received confirmation in writing from each rating agency which, at the request of the relevant Issuer, shall have assigned a credit rating to the Notes that such substitution by itself and the circumstances pertaining to the substitution will not result in a downgrading of the then current credit rating assigned to the Notes by such rating agency.

**20. GOVERNING LAW**

The Trust Deed, the Notes and the Coupons and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, English law.

**21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the relevant Issuer for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## INFORMATION ON UNITED UTILITIES GROUP PLC

UUG is the ultimate parent company of the Issuers, UU and UUG. For the avoidance of doubt, UUG is neither an issuer nor a guarantor under the Programme.

### History of UUG

UUG was incorporated and registered in England and Wales on 8 April 2008 under the Companies Act 1985 as a private company limited by shares under the name United Utilities Newco Limited with registered number 06559020. It was re-registered as a public company and changed its name to United Utilities Group PLC on 28 April 2008. Its registered office is at Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP. UUG is a holding company and has not traded since incorporation.

On 29 November 2007, the board of directors of UU announced its intention to return approximately £1.5 billion to shareholders. The return of capital comprised the net equity proceeds of approximately £1,050 million from the sale of United Utilities Electricity Limited and a further £450 million from the Group's preexisting resources in order to create a more efficient capital structure.

The return of capital was implemented on 28 July 2008 by introducing UUG as the holding company of UU through a High Court of England and Wales (the "High Court") approved scheme of arrangement under section 899 of the Companies Act 2006, the issue of ordinary shares and B shares and the subsequent reduction of capital of UUG under section 135 of the Companies Act 1985. Following the implementation of the scheme, UUG owned no material assets other than the share capital of UU.

### Board of Directors

The directors of UUG and their functions within UUG are as follows:

<b>Name</b>	<b>Function</b>
Dr John McAdam	Non-executive chairman, chairman of the nomination committee (and non-executive director and chairman of UUG)
Steve Mogford	Chief executive officer (and director of both UUG and UU)
Russ Houlden	Chief financial officer (and director of both UUG and UU)
Dr Catherine Bell	Independent non-executive director, chairman of the corporate responsibility committee (and non-executive director of UUG)
Paul Heiden	Independent non-executive director, chairman of the audit and risk and the treasury committees (and non-executive director of UUG)
Brian May	Independent non-executive director (and non-executive director of UUG)
Nick Salmon	Senior independent non-executive director (and non-executive director of UUG)
Sara Weller	Independent non-executive director, chairman of the remuneration committee (and non-executive director of UUG)

There is no existing or potential conflict of interest between the directors' duties to UUG and/or their private interests or other duties.

The business address of each of the directors is UUG's registered office which is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP.

## **Description of UUG's business**

UUG is the holding company that owns UU and which ultimately owns the regulated water and wastewater company, U UW, as a wholly owned subsidiary. Through U UW, the Group owns and manages the licensed water and wastewater network in the North West of England serving approximately 3.2 million homes and businesses. The ordinary shares of UUG are listed on the London Stock Exchange and are traded in the USA in the form of American Depository Receipts, which trade on an over the counter basis under the symbol UUGRY. With a market capitalisation of £4.89 billion (as at 30 September 2012), UUG is the UK's largest listed water and wastewater business.

## **Group capital structure target credit rating for U UW and credit ratings for UU and U UW**

Following a review of the Group's capital structure in 2007, the UU board announced that it would be targeting an A3 Moody's credit rating for U UW which the board believed best mirrored Ofwat's assumptions for the 2005-10 regulatory period and was an appropriate investment grade rating to allow the Group to raise finance to fund its substantial capital investment programmes.

The raising of debt finance remains important given the likely scale of investment that is still required in the water and wastewater industry to replace and refurbish ageing infrastructure, address flooding risk and climate change and deliver further statutory environmental obligations and customer priorities.

Following the 2009 water price review, the Group's board announced that it would continue to target an A3 Moody's credit rating for U UW, which it believes best mirrors Ofwat's assumptions for the 2010-2015 regulatory period and remains appropriate to maintain efficient access to debt capital markets.

As at 19 November 2012, Moody's corporate credit ratings for U UW and UU are A3/P-2 and Baa1/P-2 respectively, both on stable outlook. Standard and Poor's corporate credit ratings for U UW and UU are BBB+/A-2 and BBB-/A-3 respectively, both on stable outlook.

Standard and Poor's Credit Market Services Europe Ltd is established in the European Union and is registered under the CRA Regulation.

Moody's Investors Service Ltd is established in the European Union and is registered under the CRA Regulation.

## DESCRIPTION OF THE ISSUERS

### UNITED UTILITIES WATER PLC

Uuw is a public limited company registered in England and Wales, providing water and wastewater services in North West England. The company was incorporated on 1 April 1989 under the Companies Act 1985 (as North West Water Limited) with registered number 02366678.

#### Board of Directors

The directors of Uuw and their functions within Uuw are as follows:

<b>Name</b>	<b>Function</b>
Dr John McAdam	Independent non-executive director and chairman (and non-executive chairman of UUG)
Steve Mogford	Chief executive officer (and director of both UUG and UU)
Russ Houlden	Chief financial officer (and director of both UUG and UU)
Dr Catherine Bell	Independent non-executive director (and non-executive director of UUG)
Paul Heiden	Independent non-executive director (and non-executive director of UUG)
Brian May	Independent non-executive director (and non-executive director of UUG)
Nick Salmon	Independent non-executive director (and non-executive director of UUG)
Sara Weller	Independent non-executive director (and non-executive director of UUG)

There is no existing or potential conflict of interest between the directors' duties to Uuw and/or their private interests or other duties.

The business address of each of the directors is Uuw's registered office which is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP.

#### Business description

Uuw is a wholly owned subsidiary of United Utilities North West PLC which, in turn, is a wholly owned subsidiary of UU. The ultimate parent company of Uuw is UUG.

Uuw owns, operates and manages the licensed, regulated water and wastewater network assets in North West England.

#### Key facts

- 94 water treatment works
- Over 42,000 kilometres of water pipes
- Over 56,000 hectares of catchment land
- 569 wastewater treatment works
- Over 76,000 kilometres of sewer pipes
- Serving a population of approximately seven million people

Note: The circumference of the Earth is approximately 40,000 kilometres

UUW has around £83 billion (at gross current replacement value) of assets serving its customers in North West England. It would be uneconomic for competitors to replicate the network assets owned by UUW with the inevitable consequence that UUW is an asset owning monopoly and as such is subject to price regulation.

UUW removes and treats wastewater from, and treats and distributes almost 2,000 million litres of water a day to, approximately 3.2 million homes and businesses.

UUW's activities are:

- capital intensive - improvements to the water and wastewater infrastructure are required in order to comply with applicable UK and EU environmental and drinking water quality regulations;
- subject to economic regulation - in general, the business is subject to incentive-based economic regulation. This imposes caps on increases in customer prices, rewards efficiency and high standards of customer service and penalises inefficiency and poor standards of customer service; and
- subject to environmental regulations - the business is subject to regulations governing the abstraction of water, the quality of treated water supplied, the discharges it makes to controlled water and the management of potentially contaminated land the company owns, occupies or works upon.

Further developments in the regulatory regime are expected to take effect in the next few years, in particular as a result of EU environmental initiatives (including the Water Framework Directive (2000/60/EC) and its daughter directives, the Drinking Water Directive (98/83/EC) and the Environmental Liability Directive (2004/35/CE)) and the Government's draft Water Bill.

### **Capital investment programmes**

UUW prepares for approval by its regulators an asset management programme ("AMP") covering a five year period which seeks to achieve the higher standards required by EU directives as implemented by the UK government (the "Government"). The five programmes since privatisation required, or are estimated to require, capital investments of:

AMP 1	5 years to 31 March 1995	£1.8 billion
AMP 2	5 years to 31 March 2000	£2.5 billion
AMP 3	5 years to 31 March 2005	£3.0 billion
AMP 4	5 years to 31 March 2010	£3.0 billion
AMP 5	5 years to 31 March 2015	£3.5 billion

Ofwat takes account of these investment programmes when setting price limits, as described below under "Price control". The regulator's primary duties include a requirement that regulated water and sewerage companies are able to finance their functions.

UUW's regulatory capital investment (including infrastructure renewals expenditure) for the year to 31 March 2012 was over £680 million, consistent with UUW's planned investment programme over the 2010-15 period.

### **The wastewater business**

In accordance with its licence, UUW is responsible for the reception, conveyance, treatment and disposal of domestic wastewater and trade effluent (non-domestic wastewater), and sludge treatment, in North West England.

UUW's wastewater treatment works provide a range of treatments. These include primary, secondary and tertiary treatment involving a variety of physical, chemical and biological processes. These aim to ensure the

constituents of wastewater are effectively modified before discharge. Fully treated final effluent, and storm sewage where consented, is discharged into rivers, estuaries or via sea outfalls. The Environment Agency (“EA”) consents to and monitors all these discharges to ensure they comply with all relevant limits, although there is an increasing level of self-monitoring which is then audited by the EA. A byproduct of the treatment of wastewater is sewerage sludge, which is processed for waste disposal or further treated to produce an end product that is suitable for recycling.

### **The water business**

UW obtains water from various sources including surface water catchments (collected in reservoirs), rivers and aquifers. A large proportion of the water supplied by UW flows freely by gravity and does not need to be pumped. However, due to the nature of the water catchment areas, being peaty moorlands or coal measure strata, enhanced treatment methods are required to ensure the water satisfies all regulatory and quality standards.

This untreated water is conveyed to treatment works by aqueducts. Treated water is delivered to the company’s customers through a network of large diameter trunk mains to smaller trunk mains, service reservoirs, water towers and distribution mains.

### **Economic regulation of water and wastewater**

In England and Wales almost all water and sewerage services are supplied by ten Water and Sewerage Companies (“WaSCs”) and eleven Water Only Companies (“WOCs”).

Appointments (“licences”) were originally granted to each of the WaSCs and WOCs by the Secretary of State for the Environment or for Wales in 1989. These licences continue in force for an indefinite period, subject to potential termination rights as set out below. UW holds WaSC licences for areas of North West England which comprise approximately 3.2 million homes and businesses.

The statutory basis for the regulation of the activities of licensees is now the Water Industry Act 1991, as amended in particular by the Water Act 2003. The fundamental statutory duty of a licensee in respect of its water business is to develop and maintain an efficient and economical system of water supply within its supply area. Similarly, WaSCs are subject to an overriding duty to provide, maintain, improve and extend a system of public sewers so as to ensure that its supply area is effectively drained and to make provision for emptying those sewers when necessary and effectually dealing with the contents.

Regulation pursuant to these licences is currently the responsibility of Ofwat. The independent Consumer Council for Water (the “Council”) represents the interests of the customers of appointed water and sewerage undertakers.

There have been a number of reviews in recent years relating to various aspects of the water industry, principally: the Walker Review of charging for household water and sewerage services; the Cave Review of competition and innovation in the water markets; and the independent review of Ofwat by David Gray. The Walker Review concluded that there were real problems with the current charging system and recommended a new system focussed on ensuring a sustainable supply of water which remains affordable for consumers. The Cave Review recommended increasing, among other things, competition in the non-household customer market by reducing the threshold above which customers can choose their water and wastewater supplier from fifty megalitres to five megalitres (for more detail see the sub-section entitled “*Competition in the Water and Wastewater Industry*” below).

The review of Ofwat by David Gray concluded that no major changes were needed to either the statutory framework of the water industry, nor to its regulatory landscape, though it did recommend that Ofwat work constructively with the other regulators in the sector to reduce the burden of regulation currently imposed on the water industry.

The Government's response to certain aspects of the Walker and Cave reviews is contained in the White Paper (Water for Life) that was published in December 2011. Some of the recommendations made in these reviews are adopted in the draft Water Bill it published in July 2012. The draft Water Bill is currently undergoing pre-legislative scrutiny. Both the White Paper and draft Water Bill are discussed in the subsection entitled "*Government Market Reform Agenda*" in the "*Risk Factors*" section above.

Uuw has been fully engaged in all government and Ofwat consultations in relation to competition and industry reform. Uuw has been closely engaged in the dialogue with the government and its regulators on these matters and will continue to take an active part in shaping the response the sector can make to address the issues raised in the Water White Paper and the draft Water Bill.

## **Ofwat**

Ofwat is controlled by a board which consists of the chairman, a chief executive, and a number of other directors, most of whom are non-executive directors. Appointments to the Ofwat board are made by the Secretary of State for Environment, Food and Rural Affairs in consultation with the Welsh Assembly Government.

Ofwat must comply with its statutory duties as primarily laid out in the Water Industry Act 1991, as amended by the Water Act 2003. It may receive guidance from the Government in relation to its contribution to social and environmental policies, and is obliged to have regard to any such guidance in exercising its statutory functions. It also receives views from the Government on matters such as the approach to price controls. However, Ofwat is not subject to direction about what its judgements should be and is independent of Government ministers.

Ofwat must exercise its powers and duties in the manner that it considers is best calculated to:

- protect the interests of consumers wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- secure that the functions of water and sewerage undertakers are properly carried out in respect of every area of England and Wales;
- secure that relevant undertakers are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions; and
- secure that the activities authorised by the licence of a licensed water supplier and any statutory functions imposed on it in consequence of the licence, are properly carried out.

Ofwat also has secondary duties which include an obligation to contribute to the achievement of sustainable development. It also has duties in exercising its powers to have regard to the effect on the environment, and to the desirability of preserving any rights of recreational access.

In addition to the Water Industry Act 1991, Ofwat also exercises powers under competition legislation, most significantly the Competition Act 1998, the Enterprise Act 2002 and under Articles 101 and 102 of the EC Treaty.

## **Licence provisions**

Uuw's licences are subject to a range of conditions including (amongst other things):

- provisions relating to the operation of price control (see "*Price control*" below);

- a prohibition on undue discrimination or undue preference in setting charges for water supply or sewerage services;
- restrictions on the payment of dividends. Dividends can only be declared or paid in accordance with a dividend policy approved by the board of the regulated business which will not impair the ability of the regulated business to finance its functions and will reward efficiency and the management of economic risk;
- provisions to ensure that the financial affairs of the regulated business can be separately assessed and reported on;
- obligations on the licensee to ensure that it has at its disposal sufficient financial and managerial resources to carry out the regulated activities, including a requirement to maintain at all times an issuer credit rating which is an investment grade rating;
- restrictions on the disposal of land;
- provisions on the payment of fees and the supply of information to Ofwat;
- a provision allowing a licence to be terminated on 25 years' notice;
- provisions relating to water supply licensing competition including those requiring compliance with an access code and the Customer Transfer Protocol;
- provisions prohibiting, subject to certain limited exceptions, and without the regulator's prior consent, the transfer of cash or other assets to an associated company in certain circumstances where the company's investment grade credit rating is threatened; and
- restrictions on dealings with associated companies. The consent of Ofwat is required for certain transactions including transferring certain rights or assets, guaranteeing any liability, or lending any funds to an associated company and all transactions with associated companies must be on an arm's length basis without cross subsidy.

Licence conditions can be modified by Ofwat, either with the licensee's agreement or following reference to the Competition Commission for a decision on public interest grounds. Licence modifications can also result, in certain circumstances, from a merger or market investigation reference to the Competition Commission.

### **Competition in the water and wastewater industry**

At present, there are two main forms of competition in the water and wastewater industry: inset appointments and water supply licensing. An inset appointment is made when an existing undertaker is replaced by another as the supplier of water and/or sewerage services for one or more customers within its licensed area. Since 1 December 2005, water supply licensees have been able to provide both retail supply (i.e. the supply by a licensee of water purchased from a water undertaker's supply system to an eligible customer) and combined supply (i.e. the introduction of water into an incumbent water company's existing network for retail by the licensee to an eligible customer) to non-household users with an annual consumption of not less than 50 megalitres. This threshold was reduced in December 2011 by the Water Supply (Amendment to the Threshold Requirement) Regulations 2011, implementing a recommendation made in the Cave Review. There is now competition for non-household customers with an annual consumption of 5 megalitres a year which has increased, nationwide, the size of the competitive market for water supply services. A water undertaker is obliged to allow a licensed water supplier to use its network for the purpose of supplying eligible non-household customers subject to payment of charges and certain conditions and rights of refusal.

The draft Water Bill, published in July 2012, provides for the further reduction of the threshold to zero for non-household customers. The draft Water Bill also contains provisions which would facilitate further competition and new entry in upstream activities. These proposals are currently undergoing pre-legislative scrutiny.

### **The adoption of private sewers**

In accordance with UK Government regulations, on 1 October 2011, the ownership of and responsibility for private sewers transferred to the English and Welsh water and sewerage companies. This represented a significant increase in UuW's asset base and increased the length of its sewer network by around 75/80 per cent. This transfer will provide long-term benefits for both customers and the industry, through improved asset stewardship and a more integrated approach to the management of these assets. Within the North West, the transfer has been seamless and despite, in the twelve months since Go Live, job volumes being double that of the equivalent period prior to the transfer, our customers have been experiencing their highest level of service as a result of our new operating model (as measured via the qualitative service incentive mechanism).

The same regulations will provide for the transfer of private pumping stations. There are approximately 2,100 private pumping stations in the UuW region. Transfer of ownership will happen by 1 October 2016 (though UuW may take ownership of some stations before this date); in the intervening period, the pumping stations will be surveyed and any remedial work required for health and safety and performance reasons will be undertaken.

### **Price control**

Under the existing regulatory regime, Ofwat regulates water and wastewater charges by capping the average increase in charges that a company can impose in any year. Ofwat conducts a periodic review and sets price caps every five years.

The price cap is set by reference to inflation as measured by the RPI in the UK plus an adjustment factor known as 'K', which is specific to each company and which can vary for each year of the review period. The size of a company's K factor (which can be positive, negative or zero) reflects the scale of its capital investment programme, its operating cost, its cost of capital and its operational and environmental obligations, taking into account the scope for it to improve efficiency.

'Price cap' regulation as operated in the UK is performance based. Companies are incentivised to be efficient, both in terms of their operating costs and in the implementation of their capital expenditure programme. The benefit of any efficiency savings achieved through effective management is retained by the companies for a period of five years, after which time the benefit is passed to customers via the subsequent price setting process. The current price review period runs from 2010-2015. During this time, the cost of any under-performance due to poor management is borne by the companies.

In the 2009 price review conducted in advance of the current price review period, Ofwat proposed a new Capex Incentive Scheme under which companies bear the cost of under-performance for five years, giving symmetry with treatment of efficiency savings. OPA scores (which incentivised companies to provide high quality customer service) from the period 2004-2008 were taken into consideration when setting the overall 2010-2015 price cap; licensees that were found to have provided low levels of customer service were penalised by means of an adjustment to the K factor. Additionally, a company found not to have met the requirements of the guaranteed standards scheme was required to make a specified payment to affected customers.

For the 2010-15 period, Ofwat introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the OPA. The SIM compares companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how

satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon UuW’s relative performance under the SIM it could receive a revenue penalty or reward when price limits are next reset in 2014 for the period 2015-2020.

Unexpected capital costs or savings arising from changes in certain regulatory assumptions during a review period are recorded and agreed by UuW and Ofwat. This process, known as ‘logging up and down’, allows prices to be adjusted up or down at the next periodic review to compensate companies or customers respectively for the unexpected change.

In addition, through a process known as an Interim Determination of K or ‘IDoK’, UuW can request and/or Ofwat can instigate a re-setting of the price cap between price reviews. This process is only available for certain categories of change and requires changes in capital and/or operating costs or revenues to exceed a specified materiality threshold. An IDoK may be sought when changes in legal obligations arise which, among other things, could include the transfer of private sewers and pumping stations.

All water and sewerage companies’ licences also include a ‘shipwreck’ or substantial effect clause, which allows companies’ price limits to be revised when events beyond their control have a significant effect (less than or equal to 20 per cent.) on their costs or revenues.

As noted in the subsection entitled “*Proposed changes to company licences*” in the “*Risk Factors*” section above, Ofwat is developing proposals to modify the licences of the water and wastewater industry. On 26 October 2012, Ofwat issued a notice under section 13 of the Water Industry Act 1991 setting out its latest consultation on the form and content of the licence modifications.. Among other things, these proposals seek to provide for the possibility of separate wholesale price controls for water and wastewater; a number of different price controls for retail activities; the ability for Ofwat to remove activities from the wholesale price control (subject to certain thresholds in a price control period, and an overall limit); and changes to the duration of one or more price controls, all without further additional modifications being required to the company’s licence. Wholesale prices would continue to be set by reference to the RPI.

Separately, Ofwat is expected to consult later this year on its draft methodology for the next price control period, covering the setting of price for the five year period from 2015. It is expected to publish a final methodology next Spring, following a consultation on its pricing methodology in the Winter of 2012.

**Current 2010-15 AMP5 regulatory period**

Current price limits were published in 2009 when Ofwat set out its final determination of price limits for the period 1 April 2010 to 31 March 2015 UuW’s profile of price limits for the five years is set out below:

	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>
K factor .....	-4.3	-0.2	+0.6	+1.0	+1.2

Ofwat’s final determination of price limits for UuW was based upon:

- a £3.5 billion capital investment programme (2007/08 prices);
- 12 per cent., or approximately £900 million, real growth in the RCV over the five years;
- an average annual underlying operating efficiency of 1.2 per cent. for the water service and 2.4 per cent. for the wastewater service; and
- a return on capital of 4.5 per cent. (post-tax, real).

The total capital investment programme included in the price limits of £3.5 billion (in 2007/08 prices) includes infrastructure renewals expenditure of £0.7 billion and compares with a programme of just over £3 billion in the 2005-10 period. The programme for 2010-15 comprises £1.4 billion in relation to the water service and £2.2 billion in respect of the wastewater service. Of this £3.5 billion capital programme, investment to meet tighter regulated quality standards, enhance service to customers and maintain the supply/demand balance is £1.7 billion. The remainder of the investment relates to maintenance of Uuws substantial water and wastewater assets and infrastructure.

The capital expenditure incentive scheme (“CIS”) was a new feature for the 2009 price review, providing incentives for companies to put forward challenging and efficient business plans. The lower the CIS ratio of requested to allowed investment, the greater the proportion of requested capex funded through price limits in the 2010-15 period. If a company spends more capex than included in price limit assumptions, the actual expenditure will be reflected in the future RCV. The CIS ratios in the final determination are 94 for the water service and 108 for the wastewater service.

Uuws water and wastewater service currently costs households approximately £1 per day on average. Over the 2010-15 regulatory period, the average annual bill will fall by £9 in real terms. Uuws believes this represents excellent value for money, providing customers with high quality drinking water to meet all their daily needs and for environmentally responsible wastewater collection and treatment.

### **Credit ratings of Uuws**

For details of Uuws’s credit ratings, see the subsection entitled “*Group capital structure and target credit rating for Uuws and credit ratings of UU and Uuws*” in the section entitled “*Description of the Issuers – United Utilities Group PLC*” above.

### **Enforcement and special administration**

In practice, many regulatory issues arising between licensees and Ofwat are settled without the need to resort to formal proceedings. However, where Ofwat is satisfied that a licensee is in breach of, or is likely to breach, the conditions of its licence or its statutory obligations, it has powers to secure compliance by means of an enforcement order, and to impose financial penalties.

Ofwat will not be required to make an enforcement order if it is satisfied that the regulated company has given, and is complying with, an undertaking to take all such steps as it appears to him for the time being to be appropriate for the company to take for the purpose of securing compliance with the condition or requirement in question. The requirement to comply with that undertaking will then become a statutory requirement, enforceable by Ofwat in circumstances of breach.

The imposition of financial penalties for breach of licence conditions and other regulatory duties was introduced by the Water Act 2003 to bring Ofwat’s powers into line with those of other regulators. Companies may face a penalty of up to ten per cent. of relevant regulated turnover for breaching licence conditions, prescribed standards of performance or other statutory obligations. Ofwat has published a statement of the policy that it intends to apply to the imposition of any penalty and the determination of its amount. According to the Water Act 2003, such penalties can be appealed to the High Court on the grounds that their imposition is not within Ofwat’s power; that Ofwat has failed to follow the procedure for imposing such penalties; and that the dates required for payment of such penalties are unreasonable.

Failure to comply with an enforcement order can lead to court action by Ofwat for an injunction and claims for compensation by any person who suffers loss or damage as a result of the breach. Alternatively, where actual or likely contravention of an enforcement order (or of one of a licensee’s principal statutory duties under the Act) is so serious as to make it inappropriate for the licensee to continue to hold its licence, the Secretary of State or, with his consent, Ofwat, may apply to the High Court for the appointment of a special

administrator to run the company. A special administrator may also be appointed in other circumstances such as where the licensee is, or is likely to be, unable to pay its debts.

A special administrator has powers similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. He is appointed only for the purposes of transferring to one or more different companies, as a going concern, so much of the business of the licensee as is necessary to transfer in order to ensure the proper carrying out of its water supply or sewerage functions as the case may be and, pending the transfer, of carrying out those functions.

On any application for the winding up of a licensee the court is obliged (if it is otherwise satisfied that it would be appropriate to make the order) to make a special administration order instead. A licensee also cannot be wound up voluntarily, or have an administration order made in relation to it, unless fourteen days notice is given to the Secretary of State or Ofwat (which gives them time to decide whether to apply for a special administration order). Notice must also be given before any step is taken by any person to enforce security over the licensee's property.

### **Environmental regulation of water and wastewater**

The water and wastewater industry in the UK is subject to substantial domestic and EC regulation, placing significant statutory obligations on UUW with regard to, amongst other factors, the quality of treated water supplied, wastewater treatment and the effects of UUW's activities on the environment. EC directives including the Drinking Water Directive (98/83/EC), the Bathing Water Directive (2006/7/EC), the Revised Bathing Water Directive (2006/7/EC), the Water Framework Directive (2000/60/EC) ("WFD"), the Priority Substances Directive (2008/105/EC), the Urban Waste Water Treatment Directive (91/271/EEC), the Freshwater Fish Directive (2006/44/EC), the Shellfish Waters Directive (2006/113/EC) and the Habitats Directive (92/43/EEC) are transposed into UK law by primary and secondary legislation.

The ongoing development of the regulatory framework applicable to UUW by, amongst others, the EC, the Government and Ofwat could lead to additional obligations being imposed on UUW and to increased costs of compliance, which may be difficult to ascertain with confidence. The following EU directives, among others, are expected to have a significant impact on UUW in the longer term, particularly after 2015:

- Water Framework Directive – Regulatory measures under the WFD may result in limitations on abstraction licences and restrictions on discharge consents, which could result in material expenditure by UUW;
- Priority Substances Directive (a daughter Directive of the WFD) – The proposed addition of further industrial and pharmaceutical residues to the list of pollutants that are monitored and controlled in surface waters is expected to require further investment in enhancing water treatment measures at UUW's wastewater treatment plants.

The mismatch between UUW's 5-year funding cycle and the WFD's 6-year management cycle means that WFD-driven investment could be required within periodic review periods. In addition, following the recent finding by the ECJ of the UK's non-compliance in respect of the Urban Waste Water Treatment Directive, substantial further investment in relation to the Directive may be required of UUW. There is no guarantee that any proposals to reset UUW's price limit or alternative mechanism will receive Ofwat's approval.

The impact of the draft Water Bill's proposed extension of the scope of the Environmental Permitting regime to include water abstraction licences on UUW's current abstraction activities is not certain. There can be no assurance that UUW will receive government compensation for any costs or losses incurred during transition to the new regime.

All water and wastewater companies have a general duty to exercise their powers to conserve and enhance natural beauty and to promote efficient use of water. Environmental regulation is the responsibility of the Secretary of State for Environment, Food and Rural Affairs together with:

- the Environment Agency, which is responsible for conserving and redistributing water resources and securing their proper use, including the licensing of water abstraction. The Environment Agency also regulates discharges to controlled waters, including discharges from wastewater treatment works, discharges from combined sewer networks and any associated waste management operations;
- the Drinking Water Inspectorate, which enforces drinking water quality standards; and
- Natural England, which is responsible for the protection of designated sites for nature conservation, e.g. Sites of Special Scientific Interest (“SSSIs”). There is a statutory requirement to manage these sites to conserve or improve biodiversity. U UW participates in a Sustainable Catchment Management Programme (“SCAMP”) agreed with Ofwat and implemented in close liaison with Natural England. These are expected to enable SSSIs owned by U UW within the designated areas to meet Government’s Public Service Agreement and Biodiversity Action Plan targets. Expenditure under the first phase of SCAMP was approximately £10.5 million in 2005-2010 and is projected at £11.6 million in 2010-2015 under the second phase of SCAMP.

## UNITED UTILITIES PLC

### History of UU

UU is a public limited company registered in England and Wales. UU (then known as North West Water Group PLC) was incorporated on 1 April 1989 under the Companies Act 1985 with registered number 02366616.

In November 1995, UU acquired United Utilities Electricity Limited (“UUE”) (then known as NORWEB plc), the distributor of electricity in North West England and, at that time, a supplier of electricity and gas in the UK. In August 2000, UU sold the electricity and gas supply business and as a result, no longer has any significant exposure to the competitive generation and energy supply market.

In February 2006, UU disposed of its telecommunications business, Your Communications, to THUS Group in exchange for shares in THUS Group. In June 2007, UU sold its 22.63 per cent. stake in THUS Group via an accelerated book build.

In March 2007, UU’s business process outsourcing business, Vertex, was sold to a consortium of US-based private equity firms led by Oak Hill Capital Partners.

In order to best serve shareholders’ interests by focusing on the Group’s much larger regulated water and wastewater asset base, in December 2007 UU sold UUE (which owned the licensed electricity distribution network in the North West of England), to North West Electricity Networks, a joint venture between Colonial First State Global Asset Management (part of the Commonwealth Bank of Australia) and IIF Int’l Holding GP Limited (for and on behalf of IIF Int’l Holding L.P., a fund advised by JPMorgan Asset Management Infrastructure Investments Group).

As part of the Group’s strategy to focus on its core regulated activities undertaken by UUW, during 2009-10 the Group completed the disposal of almost all of its remaining non-regulated activities.

### Board of Directors

The directors of UU and their functions within the Group are as follows:

<b>Name</b>	<b>Function</b>
Steve Mogford	Director (and director of both UUG and UUW)
Russ Houlden	Director (and director of both UUG and UUW)
Philip Aspin	Director

There is no existing or potential conflict of interest between the directors’ duties to UU and/or their private interests or other duties.

The business address of each of the directors is UU’s registered office which is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP.

### Business description

On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between UU (the Group’s previous listed holding company) and UUG (the new holding company) and UUG became the listed holding company of the Group.

UU is the intermediate holding company of the UK's largest listed water and wastewater business. The Group owns and manages the regulated water and wastewater network in the North West of England through its subsidiary United Utilities Water PLC (UW), which constitutes the vast majority of the Group's assets and profit.

UU's regulated activities comprise the operation of the licensed water and wastewater assets owned by UW in the North West of England. This involves the removal and treatment of wastewater from, and the treatment and distribution of almost 2,000 million litres of water a day to approximately 3.2 million homes and businesses.

Following the completion of the disposal of the non-regulated activities completed in November 2010, the Group now has a single segment for financial reporting purposes and the segmental information presented in previous years is no longer required to be disclosed separately. UU also has a 35.3 per cent. holding in AS Tallinna Vesi (Tallinn Water).

### **Credit ratings of UU**

For details of UU's credit ratings, see the subsection entitled "*Group capital structure and target credit rating for UW and credit ratings of UU and UW*" in the section entitled "*Description of the Issuers – United Utilities Group PLC*" above.

## **MATERIAL CONTRACTS**

The Issuers have not entered into any contracts (being contracts not entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which either Issuer or another member of the Group has an obligation or entitlement which is material to the relevant Issuer's ability to meet its obligations to security holders in respect of securities to be issued under the Programme.

## TAXATION

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuers' understanding of current United Kingdom law and published HM Revenue & Customs ("HMRC") practice relating to certain aspects of United Kingdom taxation and is subject to changes therein and thereof (possibly with retrospective effect). Some aspects do not apply to certain classes of person (such as dealers, certain professional investors and persons connected with the Issuers) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. This summary does not purport to constitute legal or tax advice. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.**

### **Withholding tax**

Payments of interest on the Notes may be made without deduction of or withholding for or on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange", as defined in section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where interest on the Notes is paid and, at the time the payment is made, that the relevant Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the person beneficially entitled to the income in respect of which the payment is made is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In all other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the relevant Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Where interest has been paid under deduction for or on account of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted under an appropriate provision in an applicable double taxation treaty.

Noteholders may wish to note that in certain circumstances HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. HMRC also has power to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purpose of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise its power to require this information in respect of amounts payable on the redemption of deeply discounted securities where such amounts are paid on or before 5 April 2013. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

### **Tax by direct assessment**

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding or deduction.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (or where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

### **United Kingdom Corporation Tax Payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

### **Other United Kingdom Tax Payers**

#### *Taxation of Chargeable Gains*

Individual holders of Notes may be subject to United Kingdom taxation of chargeable gains on a disposal or redemption of Notes if they are resident or ordinarily resident in the United Kingdom or if they carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable. For individual holders, the exemption from United Kingdom taxation on capital gains for “qualifying corporate bonds” under Section 115 of the Taxation of Chargeable Gains Act 1992 may, however, apply to the Notes if, inter alia, they represent and have at all times represented a “normal commercial loan” for the purposes of that exemption, are denominated in Sterling and there is no provision in respect of them for conversion into, or redemption in, a currency other than Sterling. Any Notes constituting “deeply discounted securities” (as mentioned below) will be treated as “qualifying corporate bonds”. Where Notes are “qualifying corporate bonds”, no chargeable gain and no allowable loss will arise on a disposal of such Notes.

### *Accrued Income Scheme*

The provisions of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007 (the “Scheme”) may apply to individuals transferring Notes which bear interest, or to individuals to whom such Notes are transferred. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to deem the transferee to obtain an equivalent credit to set off against the deemed or actual interest he subsequently receives. However, where a Note constitutes a variable rate security for the purposes of the Scheme, the amount of accrued income deemed to be received by a holder of such a Note upon transfer will be such amount as HMRC decides is just and reasonable and the transferee will not be entitled to any credit under the Scheme to set against any actual or deemed interest that he receives or is deemed to receive. Broadly, a Note will not constitute a variable rate security for these purposes if, throughout the period to redemption, it carries interest at a rate which falls into one, and only one, of the following categories: (a) a fixed rate, (b) a rate fixed by reference to a standard published base rate or (c) a rate fixed by reference to a published index of prices.

Persons who are neither resident nor ordinarily resident in the United Kingdom and who do not carry on a trade in the United Kingdom through a United Kingdom branch or agency to which the Notes are attributable will not generally be subject to the provisions of these rules.

### *Taxation of discount and premium*

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount should not constitute interest and so should not be made subject to any withholding or deduction on account of United Kingdom income tax. Such Notes may, however, constitute “deeply discounted securities” for the purpose of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 depending on the level of the discount. Where Notes constitute “deeply discounted securities”, any gain realised on redemption or transfer of the Notes by a Noteholder who is within the charge to United Kingdom income tax in respect of the Notes will generally be taxable as income but such Noteholder will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Notes. Where Notes are issued with a redemption premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest and, if so, the provisions described above in relation to withholding tax and tax by direct assessment will apply. If the premium does not constitute a payment of interest then such notes may in any event constitute “deeply discounted securities” (as mentioned above).

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures.

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.

## SUBSCRIPTION AND SALE

The Dealers have in a programme agreement dated 19 November 2012 (as supplemented and/or amended and/or restated from time to time) (the “Programme Agreement”), agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes”. In the Programme Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **Selling Restrictions**

#### *United States*

The Notes 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.

The Notes 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 a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S:

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

#### RPI Linked Notes only

The RPI Linked Notes have not been and will not be, registered under the Securities Act and trading in the RPI Linked Notes has not been approved by the CFTC under the CEA. No RPI Linked Notes may at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person.

Offers, sales, resales or deliveries of the RPI Linked Notes or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of U.S. persons would constitute a violation of United States

securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. In addition, in the absence of relief from the CFTC, offers, sales, resales, trades or deliveries of the RPI Linked Notes, or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. Persons, may constitute a violation of United States law governing commodities trading.

### **Public Offer Selling Restriction under the Prospectus Directive**

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 and agreed, and each further Dealer appointed under the Programme will be required to represent 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 Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto 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 such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 Amending Directive, 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
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to 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 Notes to the public** in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, 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.

### ***United Kingdom***

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) in relation to any Notes 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 Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as 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 Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the relevant Issuer;

- (b) 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 the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***Germany***

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as amended, and any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***General***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the relevant Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the relevant Issuers, the Trustee nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of the Notes by the relevant Issuer have been duly authorised by:

- (a) a resolution of the Board of Directors of United Utilities PLC, dated 26 May 1998 and by a resolution of the Financing Committee of United Utilities PLC, dated 5 October 1998; and
- (b) a resolution of the Board of Directors of North West Water Finance PLC, dated 5 October 1998.

United Utilities Water PLC was duly authorised to join the Programme in place of North West Water Finance PLC and to issue Notes hereunder by a resolution of the Board of Directors of United Utilities Water PLC dated 13 September 2001.

This update of the Programme was duly authorised by:

- (a) a resolution of the Board of Directors of UU to delegate certain powers by power of attorney, dated 9 May 2012;
- (b) a power of attorney, dated 9 May 2012;
- (c) a certificate of approval, made under the Power of Attorney of the Board of Directors of UU, dated 19 November 2012;
- (d) a resolution of the Board of Directors of UUW to delegate certain powers by power of attorney, dated 24 April 2012;
- (e) a power of attorney, dated 24 April 2012; and
- (f) a certificate of approval, made under the Power of Attorney of the Board of Directors of UUW, dated 19 November 2012.

Additionally, issues of Notes by either Issuer will require authorisation.

### Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and admitted to trading on the London Stock Exchange's Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of the Programme in respect of Notes is expected to be granted on or around 21 November 2012.

### Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available from the registered office of each Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Memorandum and Articles of Association of each of the Issuers;
- (b) the consolidated statutory annual audited financial statements of UU and the statutory annual audited financial statements of U UW in respect of the financial years ended 31 March 2011 and 31 March 2012, in each case together with the audit reports prepared in connection therewith;
- (c) the most recently published audited annual financial statements of each of the Issuers and the most recently published unaudited interim financial statements (if any) of each of the Issuers in each case together with any audit or review reports prepared in connection therewith;
- (d) the Programme Agreement, the Agency Agreement, the Trust Deed and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (e) a copy of this Offering Circular;
- (f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Notes admitted to trading on the Regulated Market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of each of UU and its consolidated subsidiaries since 31 March 2012 and there has been no material adverse change in the financial position or prospects of each of UU and its consolidated subsidiaries since 31 March 2012.

There has been no significant change in the financial or trading position of U UW since 31 March 2012 and there has been no material adverse change in the financial position or prospects of U UW since 31 March 2012.

## **Litigation**

In February 2009, United Utilities International Limited (“UUIL”) (a wholly owned subsidiary of UU) was served with notice of a multiparty ‘class action’ in Argentina related to the issuance and payment default of a US\$230 million bond by Inversora Eléctrica de Buenos Aires S.A. (“IEBA”), an Argentine project company set up to purchase one of the Argentine electricity distribution networks, which was privatised in 1997. UUIL had a 45 per cent. shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages, and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will vigorously resist the proceedings, given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

In March 2010, Manchester Ship Canal Company (“MSCC”) issued proceedings seeking, amongst other relief, damages alleging trespass against UUW in respect of UUW’s discharges of water and treated effluent into its canal. UUW filed a Defence and Counterclaim in support of its believed entitlement to make discharges into the canal without charge and await MSCC’s response. Although UUW won a ‘summary judgment’ application against MSCC in January 2012 on a significant element of the claim, MSCC has served notice that it intends to appeal this decision.

There are no other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which UU, UUW or any of UU’s consolidated subsidiaries are aware in the last 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of UU, UUW or any of UU’s consolidated subsidiaries.

The Group is engaged in litigation in the ordinary course of its operations, such as contract disputes, disputes over easements/wayleaves and other similar property matters, bill collections, personal injury claims and workers’ compensation claims. The Group does not believe that such litigation, either individually or in aggregate, is material. The Group maintains insurance and, to the extent that the amounts in dispute may not be covered by such insurance, maintains provisions in those situations where management deems it appropriate in accordance with International Financial Reporting Standards (“IFRS”).

## **Auditors**

Deloitte LLP audited the financial statements of the Issuers in accordance with United Kingdom auditing standards issued by the Auditing Practices Board for the year ended 31 March 2011 and issued an unqualified report thereon. Deloitte LLP has no material interest in the Issuers.

On 22 July 2011, United Utilities Group PLC announced that the Issuers had appointed KPMG as Auditors. The decision followed a formal audit tender process to ensure that the Issuers received the best value for their audit services. Accordingly KPMG LLP have now been appointed as auditors to the Issuers. Therefore, KPMG audited the financial statements of the Issuers in accordance with United Kingdom auditing standards issued by the Auditing Practices Board for the year ended 31 March 2012 and issued an unqualified report thereon. KPMG has no material interest in the Issuers.

The Trust Deed provides that the Trustee may rely on any certificate or report (whether or not addressed to the Trustee) of the auditors or any other person called for by or provided to the Trustee for the purposes of the Trust Deed notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors or such other person in respect thereof.

## **Financial Information**

The Financial Statements for UU for each of the years ended 31 March 2011 and 31 March 2012 were audited in accordance with IFRS.

The Financial Statements for U UW for each of the years ended 31 March 2011 and 31 March 2012 were audited in accordance with UK GAAP.

### **Contracts (Rights of Third Parties) Act 1999**

The Contracts (Rights of Third Parties) Act 1999 (the “Act”) was enacted on 11 November 1999 and provides, inter alia, that persons who are not parties to a contract governed by the laws of England and Wales may be given enforceable rights under such contract.

### **Post-issuance information**

The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.

### **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers and their affiliates in the ordinary course of business.

### **RPI Linked Notes**

#### *General*

RPI is one of the most familiar general purpose domestic measures of inflation in the UK. RPI has been used as a measure of inflation since 1947 and measures the average change from month to month in the prices of goods and services purchased by most households in the UK. The spending pattern on which the RPI is based is revised each year, mainly using information from official expenditure and food surveys.

RPI is compiled by the UK Office of National Statistics (“ONS”) using a large and representative selection of separate goods and services for which price movements are regularly measured in various areas throughout the UK. If prices rise compared to the previous month, the RPI goes up and if prices fall compared to the previous month, the RPI goes down. It takes two or three weeks for the ONS to compile the index, so each month's RPI figure is published during the following month, (e.g. the figure relating to July will be published in August). The RPI figures used in the calculation of payments of interest on, and the redemption amount of, the RPI Linked Notes are numerical representations of where prices on a list of items bought by an average family stand at a point in time, in relation to their past values.

More information on RPI, including past and current levels, can be found at the following website: [www.statistics.gov.uk](http://www.statistics.gov.uk).

Payments of principal and interest on RPI Linked Notes will be adjusted to take into account changes in RPI from the Base Index Figure specified in the applicable Final Terms.

In respect of each Tranche of RPI Linked Notes, a rate of interest will be specified in the applicable Final Terms. The interest amount due on each Interest Payment Date (such dates to be specified in the applicable Final Terms) will be that rate multiplied by the ratio which reflects the change in RPI between the Base Index Figure and the RPI figure relating to a particular month or date (as specified in the applicable Final Terms) prior to the relevant Interest Payment Date.

Subject to any early redemption of RPI Linked Notes, such RPI Linked Notes will be redeemed on their specified Maturity Date at a Final Redemption Amount specified in the applicable Final Terms, provided that:

- (a) if the RPI figure applicable to the relevant month or date, as the case may be, in or on which such payment falls to be made is higher than the Base Index Figure, an additional amount reflecting such increase in RPI will also be paid (subject to any maximum redemption amount specified in the applicable Final Terms); and
- (b) if the RPI figure applicable to the relevant month or date, as the case may be, in or on which such payment falls to be made is lower than the Base Index Figure, the amount payable on redemption of the RPI Linked Notes will be reduced to reflect such decrease in RPI (subject to any minimum redemption amount specified in the applicable Final Terms).

### **Index figure applicable**

The RPI figure (or “Index Figure applicable”) relating to a particular month or date will be the figure either 3 months or 8 months prior to the particular month or date (3 months or 8 months to be specified in the applicable Final Terms). If an 8 month period is specified as the Index Figure applicable it will be the first day of the month that is 8 months prior to the month in which the relevant payment falls due. The examples below, setting out how payments of interest and principal are calculated (as adjusted for inflation), are based on an 8 month period. The calculations would work in the same way if a 3 month lag were specified, except that the Index Figure applicable would be determined using the formula which is calculated by the linear interpolation between the reference RPI applicable to the first calendar day of the month in which the relevant day falls and the reference RPI applicable to the first calendar day of the month immediately following (set out in Condition 6.1).

### *Interest*

Set out below is a worked example illustrating how payments of interest in relation to a Series of RPI Linked Notes might be calculated. The real rate of interest offered on a Series of RPI Linked Notes (i.e. the rate before taking inflation into account) is fixed when the first Tranche of such Series of RPI Linked Notes is issued (the “Real Rate of Interest” in the example below). For the purposes of the example below, this Real Rate of Interest is 1 per cent. (before any adjustments for inflation). This amount will be adjusted upwards or downwards to take into account the effect of inflation or deflation as indicated below. In the example below, the Issuer will pay interest in two half-yearly instalments until the RPI Linked Notes mature, which is why the Real Rate of Interest in the example below is being divided by 2. In the example below, the interest amount due on each Interest Payment Date will be adjusted to take into account a change in inflation. To calculate any inflation adjustment that might apply, two inflation index “fixing” figures are required – one that relates to the start of the RPI Linked Note’s life (i.e. the “Base Index Figure”) and one that relates to the relevant Interest Payment Date. The “fixing” figures can be taken either 3 months or 8 months prior to the relevant issue date or relevant Interest Payment Date (commonly referred to as a “lag” period). The “lag” period will be specified in the applicable Final Terms.

In the example below, both the Base Index Figure and the RPI figure that relates to any relevant Interest Payment Date are taken 8 months prior to the relevant issue date and the relevant Interest Payment Date respectively (such 8 month period being referred to as the Relevant Period), but this “Relevant Period” can be 3 months or 8 months as specified in the applicable Final Terms. In the example below, the interest amount due on each Interest Payment Date will be adjusted to take into account the effect of inflation between the Base Index Figure relating to January 2012 (which is 8 months prior to the issue date of the first Tranche of the Series of RPI Linked Notes in the example below, i.e. September 2012, and the figure for which is 238.0) and the RPI figure relating to the 8th month prior to the relevant Interest Payment Date, and is calculated as follows:

$$\left( \text{Calculation Amount of the relevant Notes} \times \frac{\text{Real Rate of Interest}}{2} \times \frac{\text{RPI relating to the month 8 prior to the Interest Payment Date}}{\text{Base RPI of 238.0}} \right)$$

Interest amounts are calculated with reference to each Calculation Amount as set out in the applicable Final Terms.

As an example, if an Investor owns £100,000 face value of RPI Linked Notes issued in September 2012 for which the Real Rate of Interest is 1 per cent. and the Calculation Amount is £1000, the interest amount per Calculation Amount each Investor will receive on the first Interest Payment Date in March 2013 will be:

$$\begin{aligned} & \text{£1000} \times \frac{1\%}{2} \times \frac{\text{RPI relating to July 2012}}{\text{Base RPI of 238.0}} \\ & = \text{£1000} \times 0.0005 \times \frac{242.1}{238.0} = \text{£5.09} \end{aligned}$$

As the face value of RPI Linked Notes held by the Investor in this example is equal to the Calculation Amount multiplied by 100, the actual amount this Investor will receive on the first Interest Payment Date in March 2013 will be £5.09 x 100 = £509.00.

### *Redemption*

Set out below is a worked example illustrating how repayment of principal in relation to a Series of RPI Linked Notes might be calculated. The RPI Linked Notes will be redeemed either (a) on their specified Maturity Date as specified in the applicable Final Terms at the Final Redemption Amount specified in the applicable Final Terms (in this example, at 100 per cent. of the nominal amount), or (b) in certain limited circumstances described in the Terms and Conditions of the RPI Linked Notes (see, for example, Condition 7.3 on page 52 of this Offering Circular) upon expiry of the notice required by the Terms and Conditions, at 100 per cent. of their nominal amount, in the case of each of (a) and (b) above, plus or minus an additional amount to take into account the effect of inflation or deflation. To calculate any inflation adjustment that might apply, two inflation index “fixing” figures are required – one that relates to the start of the RPI Linked Note’s life (i.e. the “Base Index Figure”) and one that relates to the relevant Maturity Date or early redemption date, as applicable, of the RPI Linked Notes. The “fixing” figures can be taken either 3 months or 8 months prior to the issue date or relevant Maturity Date, or early redemption date, as applicable (commonly referred to as a “lag” period). The “lag” period will be specified in the applicable Final Terms.

In the example below, both the Base Index Figure and the RPI figure that relates to the relevant redemption date used in the example below are taken 8 months prior to the issue date and the example redemption date respectively (such 8 month period being referred to as the “Relevant Period”), but this Relevant Period can be 3 months or 8 months as specified in the applicable Final Terms. In the example below, the final amount due on the redemption of the RPI Linked Notes will be adjusted to take into account the effect of inflation between the Base Index Figure relating to January 2012 (which is 8 months prior to the issue date of the first Tranche of the Series of RPI Linked Notes in the example below, i.e. September 2012, and the figure for which is 238.0) and a hypothetical RPI figure of 253.8 relating to April 2019, being the 8th month prior to the relevant redemption date (which redemption date, in the example below, is to fall in December 2019) and is calculated as follows:

Where the Final Redemption Amount of any RPI Linked Note is specified in the applicable Final Terms as being 100 per cent. of the nominal amount of the RPI Linked Notes, the amount payable to an Investor on the redemption of any such Note will be:

$$\text{Calculation Amount of the relevant Notes} \times \frac{\text{RPI relating to April 2019}}{\text{Base Redemption RPI}}$$

The amount so payable to an Investor is calculated with reference to each Calculation Amount as set out in the applicable Final Terms.

As an example, if an Investor owns £100,000 face value of the RPI Linked Notes issued in September 2012 and the Calculation Amount is £1000, the amount per Calculation Amount each Investor will receive on redemption of the Notes in December 2019 will be:

$$£1000 \times \frac{\text{RPI relating to April 2019 of 253.8}}{\text{Base Redemption RPI of 238.0}} = £1066.38$$

As the face value of RPI Linked Notes held by the Investor in this example is equal to the Calculation Amount multiplied by 100, the actual amount this Investor will receive on redemption of the Notes in December 2019 will be £1066.38 x 100 = £106,638.00.

In this example, the Final Redemption Amount of the RPI Linked Notes is not subject to a maximum or minimum redemption amount as may be specified for any given issue of RPI Linked Notes in the applicable Final Terms.

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