



UNITED UTILITIES ELECTRICITY PLC (formerly NORWEB plc)

*(Incorporated in England with limited liability under the Companies Act 1985
with registered number 2366949)*

£100,000,000

8.875 per cent. Bonds 2026

to be consolidated and form a single series, and to be fungible, with the £200,000,000 8.875 per cent. Bonds 2026 issued on 3 August 1995, the £100,000,000 8.875 per cent. Bonds 2026 issued on 6 July 2001 and the £50,000,000 8.875 per cent. Bonds 2026 issued on 20 December 2001 (together, the "Existing Bonds") from, and including, the date on which the Global Bond (as defined herein) is exchanged for definitive Bearer Bonds, as described herein

Issue price: 143.165 per cent.

(plus accrued interest from, and including, 25 March 2001 to, but excluding, 15 February 2002)



The Royal Bank of Scotland

This Offering Circular comprises listing particulars in accordance with the listing rules made under Part VI of the Financial Services and Markets Act 2000 for the purpose of giving information with regard to United Utilities Electricity PLC (formerly NORWEB plc) (the "Issuer", the "Company" or "UUE"), the Issuer and its subsidiary undertakings (together, the "Group") and its £100,000,000 8.875 per cent. Bonds 2026 (the "Bonds").

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") for the Bonds to be admitted to the official list maintained by the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Bonds to be admitted to trading on the London Stock Exchange's market for listed securities, which together, under the listing rules of the UK Listing Authority, will constitute official listing on the London Stock Exchange. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of the Financial Services and Markets Act 2000.

The Bonds will be issued in ~~bearer form~~ ("Bearer Bonds") in the denominations of £1,000, £10,000 and £100,000 and in registered form ("Registered Bonds") in the denominations of £1 and any integral multiple thereof.

On the Closing Date, the Bonds will be issued as Bearer Bonds and will be represented initially by a single temporary global Bond, without interest coupons, (the "Global Bond") which will be deposited with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 15 February 2002 (the "Closing Date") and will be exchangeable for definitive Bearer Bonds with interest coupons and one talon for further interest coupons attached on or after 27 March 2002 upon certification as to non-U.S. beneficial ownership.

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

With effect from, and including, the date on which the Global Bond is exchanged for definitive Bearer Bonds, as described herein, the Bonds will be consolidated and form a single series, and be fungible, with the Existing Bonds. Upon consolidation the aggregate principal amount of the Bonds and the Existing Bonds will total £450,000,000.

No payments of any amounts due in respect of the Bonds will be guaranteed by either United Utilities PLC or any subsidiary of United Utilities PLC.

No person is authorised to give any information or to make any representation not contained in this document and any information or representation not contained herein must not be relied upon as having been authorised by or on behalf of the Issuer or the Manager (as defined under "Subscription and Sale" below). This document does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Manager to subscribe for, or purchase, any of the Bonds. Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof.

The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Manager to inform themselves about, and to observe, any such restrictions.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933 and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Bonds and on the distribution of this document, see "Selling Restrictions" below.

The names "Norweb" and "Energi" are owned by TXU Europe Group PLC and are used under licence. The names of NORWEB plc and Norweb Distribution (a trading division of NORWEB plc) were changed to United Utilities Electricity PLC and United Utilities Electricity (respectively) on 26 November 2001.

All references herein to "pounds", "sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom.

In connection with this issue, The Royal Bank of Scotland plc may over-allot or effect transactions with a view to supporting the market price of the Bonds and/or the Existing Bonds at a level higher than that which might otherwise prevail for a limited period after the Closing Date. However, there may be no obligation on The Royal Bank of Scotland plc to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

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Terms and Conditions of the Bonds

The following is the text of the terms and conditions of the Bonds which are the same in all material respects as the terms and conditions of the Existing Bonds (as defined below) as amended by the First Supplemental Trust Deed dated 2 July 2001 and which (subject to amendment and save for certain paragraphs in italics) will be endorsed on each Bond in definitive form:

The £100,000,000 8.875 per cent. Bonds 2026 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of United Utilities Electricity PLC (formerly NORWEB plc) (the "Issuer") are constituted by a Fourth Supplemental Trust Deed dated 15 February 2002 between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Fourth Supplemental Trust Deed" and the "Trustee", which expression shall include its successors as the trustee under the Trust Deed, respectively) as trustee for the holders of the Bonds (the "Bondholders") supplemental to the Trust Deed dated 3 August 1995 between NORWEB plc and the Trustee (the "Original Trust Deed") constituting £200,000,000 8.875 per cent. Bonds 2026 of NORWEB plc (the "Original Bonds") as supplemented by a First Supplemental Trust Deed dated 2 July 2001 between NORWEB plc and the Trustee (the "First Supplemental Trust Deed") modifying the Original Trust Deed, by a Second Supplemental Trust Deed dated 6 July 2001 between NORWEB plc and the Trustee (the "Second Supplemental Trust Deed") constituting £100,000,000 8.875 per cent. Bonds 2026 of NORWEB plc (the "Tranche No. 2 Bonds") and by a Third Supplemental Trust Deed dated 20 December 2001 between the Issuer and the Trustee (the "Third Supplemental Trust Deed" and, together with the Original Trust Deed, the First Supplemental Trust Deed, the Second Supplemental Trust Deed and the Fourth Supplemental Trust Deed, the "Trust Deed") constituting £50,000,000 8.875 per cent. Bonds 2026 of the Issuer (such bonds, together with the Original Bonds and the Tranche No. 2 Bonds, the "Existing Bonds"). The Bonds are consolidated and form a single series with the Existing Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer passed on 7 February 2002. The Bonds are, on issue, admitted to the official list of the UK Listing Authority and admitted to trading on the London Stock Exchange plc (the "London Stock Exchange"). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and of an Agency Agreement dated 3 August 1995 (the "Principal Agency Agreement"), the First Supplemental Agency Agreement dated 6 July 2001 (the "First Supplemental Agency Agreement"), the Second Supplemental Agency Agreement dated 20 December 2001 (the "Second Supplemental Agency Agreement") and the Third Supplemental Agency Agreement dated 15 February 2002 (together with the Principal Agency Agreement, the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement, the "Agency Agreement"), each made between the Issuer, Citibank, N.A. (or in the case of the Principal Agency Agreement, Morgan Guaranty Trust Company of New York, London office but now replaced by Citibank, N.A.), as principal paying agent (the "Principal Paying Agent", which expression shall include any successor), Computershare Investor Services PLC as registrar (the "Registrar", which expression shall include any successor), 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 are available for inspection during normal business hours by the Bondholders and the holders of the interest coupons appertaining to the Bonds in bearer form (respectively, the "Couponholders" and the "Coupons", which latter expression shall, unless the context otherwise requires, include the Talon referred to below) at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX, and at the specified office of each of the Paying Agents and the Registrar. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

The Bonds are in bearer form, serially numbered in the denominations of £1,000, £10,000 and £100,000 each ("Bearer Bonds") with Coupons and one Talon for further Coupons (a "Talon") attached on issue and in registered form in the denominations of £1 and integral multiples thereof ("Registered Bonds") without interest coupons. Title to the Bearer Bonds and to the Coupons will pass by delivery and title to the Registered Bonds will pass upon the registration of transfers in accordance with the provisions of the Agency Agreement and the Trust Deed. Bearer Bonds of one denomination cannot be exchanged for Bearer Bonds of another denomination.

The Issuer, any Paying Agent, the Registrar and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bearer Bond and the holder of any Coupon and the registered holder of any Registered Bond as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon).

On the Closing Date, the Bonds will be issued as Bearer Bonds and will be represented initially by the Global Bond, without Coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about the Closing Date for credit against payment to the accounts designated by the relevant subscribers with Euroclear or Clearstream, Luxembourg. The Global Bond will be exchangeable on or after a date which is expected to be 27 March 2002 for definitive Bearer Bonds, with Coupons and one Talon attached, upon certification that the beneficial owners of the relevant Bearer Bonds are not U.S. persons or persons who have acquired such Bearer Bonds for resale to any U.S. person.

Unless, upon due presentation of the Global Bond for exchange, delivery of definitive Bearer Bonds is improperly withheld or refused and such withholding or refusal is continuing at the relevant due date for payment thereof, definitive Bearer Bonds with Coupons attached must be obtained before interest can be collected in respect of the relevant Bearer Bonds.

Bonds (both in bearer and registered form) and Coupons will bear the following legend:

"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 Section 165(j) and 1287(a) of the Internal Revenue Code".

2. TRANSFER AND EXCHANGE

(a) Transfer of Registered Bonds

A Registered Bond may be transferred in whole or in part (in the principal amount of £1 or any integral multiple thereof) by the transferor depositing the Registered Bond for registration of the transfer of the Registered Bond (or the relevant part of the Registered Bond) at the specified office of the Registrar with a form of transfer (in a form approved by the Registrar and the Trustee) duly completed and signed by or on behalf of the transferor and upon the Registrar after due and careful enquiry being satisfied with the evidence of title and the identity of the person making the request and subject to such reasonable regulations as the Issuer and the Registrar may (with the prior approval of the Trustee) prescribe. Subject as provided above and subject to the payment of any sum in respect of any stamp duty, tax or other governmental charge as is referred to in paragraph (e) below, the Registrar will, within three Business Days (as defined below) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver at its specified office to the transferee or (at the risk and, if mailed at the request of the transferee otherwise than by ordinary uninsured mail, at the expense of the transferee) send by mail to such address as the transferee may request a new Registered Bond of a like aggregate principal amount to the Registered Bond (or the relevant part of the Registered Bond) transferred. In the case of the transfer of part only of a Registered Bond, a new Registered Bond in respect of the balance of the Registered Bond not transferred will be so delivered or (at the risk and, if mailed at the request of the transferor otherwise than by ordinary uninsured mail, at the expense of the transferor) sent by mail to the transferor. For the purpose of this Condition 2, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments in London.

(b) Exchange of Bearer Bonds for Registered Bonds

At the option of the holder thereof, upon presentation to the Principal Paying Agent at any time on or after 27 March 2002 (the "Exchange Date") of a duly completed and signed request for exchange (in the form for the time being obtainable from the specified office of the Registrar or the Principal Paying Agent (a "Registration Request")) together with the relevant Bearer Bond(s) and payment of any sum in respect of any such stamp duty, tax or other governmental charge as is referred to in paragraph (e) below, subject to the terms of the Agency Agreement, Bearer Bonds are exchangeable in whole, but not in part, for the same aggregate principal amount of Registered Bonds, provided that all unmatured Coupons relating thereto are attached thereto or are surrendered therewith. Registration Requests may not be presented on or after the Record Date (as defined in Condition 5) in respect of any Interest Payment Date (as defined in Condition 4) up to and including such Interest Payment Date. Interest on a Registered Bond issued on exchange will

accrue, and interest on the corresponding Bearer Bond(s) presented for exchange will cease to accrue, as from the immediately preceding Interest Payment Date or, if none, as from 25 March 2001. Registration Requests may only be presented, and Bearer Bonds and Coupons may only be surrendered for exchange for Registered Bonds, at the specified office of the Principal Paying Agent. The Registrar will, within five Business Days of the date of presentation to the Principal Paying Agent of any Registration Request together with the relevant Bearer Bond(s) and Coupons, deliver at its specified office to the Bondholder or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary uninsured mail, at the expense of the Bondholder) mail to such address (other than an address in the United States) as may be specified by the Bondholder in the Registration Request a Registered Bond of the same aggregate principal amount as that of the Bearer Bond exchanged.

(c) Exchange of Registered Bonds for Bearer Bonds

At the option of the holder thereof, upon presentation to the Registrar at any time on or after the Exchange Date of a duly completed and signed request for exchange (in the form for the time being obtainable from the specified office of the Registrar or the Principal Paying Agent (a "Bearer Request")) together with the relevant Registered Bond(s) and payment of any sum in respect of any such stamp duty, tax or other governmental charge as is referred to in paragraph (e) below, subject to the terms of the Agency Agreement, Registered Bonds are exchangeable in whole or in part in principal amounts of £1,000 or integral multiples thereof for the same aggregate principal amount of Bearer Bonds. Bearer Requests may not be presented on or after the Record Date in respect of any Interest Payment Date up to and including such Interest Payment Date. Bearer Requests may not be presented on or after the date the Issuer validly gives notice to the Bondholders of its intention to redeem Bearer Bonds pursuant to Condition 6(c). Interest on Bearer Bonds issued on exchange will accrue, and interest on the corresponding Registered Bonds presented for exchange will cease to accrue, as from the immediately preceding Interest Payment Date or, if none, 25 March 2001. Bearer Requests may only be presented, and Registered Bonds may only be surrendered for exchange for Bearer Bonds, at the specified office of the Registrar. The Principal Paying Agent will, within five Business Days of the date of presentation to the Registrar of any Bearer Request together with the relevant Registered Bond(s), deliver at its specified office to the Bondholder or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary uninsured mail, at the expense of the Bondholder) mail to such address, other than an address in the United States, as may be specified by the Bondholder in the Bearer Request, the Bearer Bond or Bearer Bonds requested together with all Coupons in respect of all Interest Payment Dates falling after the date of presentation. In the case of exchange of part only of a Registered Bond, a new Registered Bond for the balance so exchanged will be sent by mail by the Registrar (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary uninsured mail, at the expense of the Bondholder) to such address, other than an address in the United States, as may be specified by the Bondholder in the Bearer Request.

(d) Closed Periods

In the event of a partial redemption of Bonds under Condition 6(b), the Issuer shall not be required:

- (i) to register the transfer of Registered Bonds (or parts of Registered Bonds) or to exchange Bearer Bonds for Registered Bonds (or *vice versa*) during the period beginning on the sixty-fifth day before the date of the partial redemption and ending on the day on which notice is given specifying the serial numbers of Bonds called (in whole or in part) for redemption (both inclusive); or
- (ii) to register the transfer of any Registered Bond, or part of a Registered Bond, called for partial redemption; or
- (iii) to exchange any Registered Bond (or part thereof) or Bearer Bond called for partial redemption;

except that a Registered Bond (or part thereof) or Bearer Bond called for partial redemption may be exchanged for a Bearer Bond or Registered Bond, respectively, which is simultaneously surrendered not later than the relevant Record Date.

(e) Formalities free of charge

Such transfer or exchange will be effected without charge subject to (i) the person making such application for transfer or request for exchange paying or procuring the payment of any stamp duty, tax or other governmental charge, (ii) the Registrar being satisfied with the documents of title and identity of the person making the application or request and (iii) such reasonable regulations as the Issuer may from time to time agree with the Trustee, the Principal Paying Agent and the Registrar. The exchange of Bearer Bonds for

Registered Bonds and Registered Bonds for Bearer Bonds will be subject to the provisions of all applicable fiscal or other laws and regulations in effect at the time of such exchange.

(f) Registrar

The name of the initial Registrar and its initial specified office are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Registrar and to appoint another Registrar provided that it will at all times maintain a Registrar approved by the Trustee having a specified office in the United Kingdom. Notice of any termination or appointment and of any changes in specified office will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

3. STATUS

The Bonds and the Coupons are direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. INTEREST

The Bonds bear interest from (and including) 25 March 2001 at the rate of 8.875 per cent. per annum payable (less United Kingdom income tax, if appropriate) annually in arrear on 25 March in each year (each an "Interest Payment Date").

Each Bond or, in the case of the redemption of part only of a Registered Bond, that part only of the Registered Bond will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of such payment, in which event interest shall continue to accrue as provided in the Trust Deed.

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each.

5. PAYMENTS AND EXCHANGE OF TALONS

Payments of principal and interest in respect of each Bearer Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bearer Bond, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons, in each case at the specified office of any of the Paying Agents.

Payments in respect of each Bearer Bond will be made at the specified office of any Paying Agent, at the option of the holder, by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

Each Bearer Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bearer Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9), or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

If the due date for redemption of any Bearer Bond is not an Interest Payment Date interest accrued on such Bond from (and including) the preceding Interest Payment Date (or, if none, 25 March 2001) up to (but excluding) the date of redemption shall be paid only against presentation and surrender of such Bearer Bond.

Payments of principal in respect of each Registered Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Registered Bond at the specified office of the Registrar

in London by sterling cheque drawn on a bank in the City of London. Payments of interest on each Registered Bond will be made by sterling cheque drawn on a bank in the City of London and mailed on the Business Day in the City of London immediately preceding the relevant due date to the holder (or to the first named of joint holders) of the Registered Bond appearing on the register at the close of business on the seventh day before the relevant due date (the "Record Date") at his address shown on the register on the Record Date. Upon application of the holder to the specified office of the Registrar, not less than three Business Days before the due date for any payment in respect of a Registered Bond, the payment may be made (in the case of payment of principal against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Registered Bonds as provided above) by transfer on the due date to a sterling account maintained by the payee with a bank in the City of London. Payments in respect of principal and interest on Registered Bonds are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 9):

- (a) is or falls after the relevant due date but, if the due date is not or was not a Business Day in the City of London, is or falls after the next following such Business Day; and
- (b) is a Business Day in the place of the specified office of the Paying Agent (or the Registrar in the case of payments of principal in respect of Registered Bonds) at which the Bond or Coupon is presented for payment and, in the case of payment by transfer to a sterling account in the City of London as referred to above, in the City of London.

In this Condition 5, "Business Day" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place.

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon Sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

The names of the initial Paying Agents and their initial specified office are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain at least two Paying Agents having specified offices in separate European cities approved by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange, shall be London or such other place as the London Stock Exchange may approve and one of which shall be outside the United Kingdom. Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

6. REDEMPTION AND PURCHASE

- (a) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 25 March 2026.
- (b) The Issuer may, at any time, having given notice to the Bondholders in accordance with this Condition 6(b) (which notice shall be irrevocable), redeem the Bonds in whole or in part (but if in part, in integral multiples of £1,000,000 in principal amount thereof), at the price which shall be the higher of the following, together with interest accrued up to (but excluding) the date of redemption:
 - (i) par; and
 - (ii) that price (the "Redemption Price"), expressed as a percentage rounded to three decimal places (0.0005 being rounded down), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption or, in the case of a partial redemption, the first notice of redemption referred to below, would be equal to the Gross Redemption Yield on such dealing day of the 8¾ per cent. Treasury

Stock 2017 or of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing on such dealing day, as determined by UBS AG, acting through its business group UBS Warburg (or such other person(s) as the Trustee may approve).

The Gross Redemption Yield on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978, page 18 or on such other basis as the Trustee may approve.

In the case of a partial redemption of Bonds, Bonds (or, as the case may be, parts of Registered Bonds) to be redeemed will be selected individually by lot in such place as the Trustee may approve and in such manner as the Trustee shall deem to be appropriate and fair without involving any part only of a Bearer Bond, not more than 65 days before the date fixed for redemption. In the case of a redemption of all of the Bonds pursuant to this Condition 6(b), notice will be given to the Bondholders by the Issuer in accordance with Condition 14 once not less than 30 nor more than 60 days before the date fixed for redemption. In the case of a partial redemption, notice will be so given twice, first not less than 80 nor more than 95 days, and secondly not less than 30 nor more than 60 days, before the date fixed for redemption. Each notice will specify that date fixed for redemption and the redemption price and, in the case of a partial redemption, the aggregate principal amount of the Bonds to be redeemed, the serial numbers of Bonds previously called (in whole or in part) for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption. In addition, in the case of a partial redemption, the first notice will specify the period during which exchanges or transfers of Bonds may not be made as provided in Condition 2 and the second notice will specify the serial numbers of the Bonds called (in whole or, in the case of Registered Bonds, in part) for redemption.

Upon the expiry of any such notice period as is referred to above, the Issuer shall be bound to redeem the Bonds to which the notice refers at the relative redemption price applicable at the date of such redemption together with interest accrued to (but excluding) such date.

- (c) If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division 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 after 28 July 1995, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall, in the absence of manifest error, accept such certificate and opinion as sufficient evidence thereof) of (i) a certificate signed by two Directors of the Issuer on behalf of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective)), the Issuer may, at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, in a case where the requirement to pay such additional amounts results solely from the deduction from payments of interest in respect of Bearer Bonds of any United Kingdom income tax required to be withheld or deducted at source, of only the Bearer Bonds and, in any other case, of the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 6(b) prior to any notice being given under this Condition 6(c)), in each case at their principal amount together with interest accrued to the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay such additional amounts were a payment in respect of the Bonds then due. Any notice to Bondholders pursuant to this Condition 6(c) which applies only to Bearer Bonds shall also inform holders of Bearer Bonds of their right to exchange such Bearer Bonds for Registered Bonds pursuant to Condition 2(b) and the period or periods during which such exchange can take place.

N.B. Holders of Registered Bonds should note that if the Issuer gives a notice under this Condition 6(c) to redeem only the outstanding Bearer Bonds, their right to exchange their Registered Bonds for Bearer Bonds will thereupon cease and there will be no obligation on the Issuer to redeem any Registered Bonds which may be outstanding nor will there be any obligation on the Issuer to maintain in issue any minimum principal amount of Registered Bonds.

Upon the expiry of any such notice period as is referred to above (and subject as provided above), the Issuer shall be bound to redeem the relevant Bonds at their principal amount together with interest accrued to (but excluding) the redemption date.

- (d) The Issuer or any of its Subsidiaries (as defined in Condition 10) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.
- (e) All Bonds which are redeemed by the Issuer will forthwith be cancelled (together, in the case of Bearer Bonds, with all relative unmatured Coupons attached to the Bearer Bonds or surrendered with the Bearer Bonds) and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries may be held or reissued or resold or surrendered for cancellation.

7. REDEMPTION AT THE OPTION OF BONDHOLDERS

- (a) (i) If, at any time while any of the Bonds remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below) an independent financial adviser (as defined below) shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition 7 shall cease to have any further effect in relation to such Restructuring Event.
- (ii) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and (subject to Condition 7(a)(i)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs there are Rated Securities (as defined below), a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
 - (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) also occurs; and
 - (B) an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event will be or is, in its opinion, materially prejudicial to the interests of the Bondholders (a "Negative Certification"),

then, unless at any time the Issuer shall have given a notice under Condition 6(b) in respect of his Bond or Condition 6(c), in each case expiring prior to the Put Date (as defined below), the holder of each Bond will, upon the giving of a Put Notice (as defined below), have the option (the "Put Option") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bond on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Bondholders if, notwithstanding the occurrence of a Rating Downgrade, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to an investment grade rating (BBB-/Baa3 or their respective equivalents for the time being, or better) prior to any Negative Certification being issued.

Any certification by an independent financial adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event will be or is materially prejudicial to the interests of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Bondholders. For the purposes of this Condition 8, an "independent financial adviser" means a financial adviser

appointed by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed) or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of such Restructuring Event and the Trustee is indemnified to its satisfaction against the costs of such adviser, appointed by the Trustee following consultation with the Issuer.

- (b) Promptly upon the Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5) in the City of London and in the place of such specified office falling within the period (the "Put Period") commencing on the date on which a Put Event Notice is given and ending on the 45th day thereafter, 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 may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 7. Each Bearer Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the "Put Date") being the fifteenth day after the date of expiry of the Put Period, failing which an amount equal to the face value of any such missing Coupon will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner provided in Condition 5 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Bearer Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made on the Put Date, by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1, 9, 10, 11, 13 and 15, receipts issued pursuant to this Condition 7 shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.
- (d) For the purposes of these Terms and Conditions:
 - (i) A "Negative Rating Event" shall be deemed to have occurred if (A) the Issuer does not either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more from a Rating Agency or (B) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB- /Baa3, or their respective equivalents for the time being or better).
 - (ii) A "Put Event" occurs on the date of the last to occur of (aa) a Restructuring Event, (bb) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (cc) the relevant Negative Certification.
 - (iii) "Rating Agency" means Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies Inc. or any of its subsidiaries and their successors ("Standard & Poor's") or Moody's Investors Service Limited or any of its subsidiaries and their successors ("Moody's") or any rating agency substituted for either of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed).

- (iv) A "Rating Downgrade" shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category.
- (v) "Rated Securities" means the Bonds, if at any time and for so long as they shall have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more which is rated by a Rating Agency.
- (vi) "Restructuring Event" means the occurrence of any one or more of the following events:
 - (A) (aa) the Secretary of State for Trade and Industry (or any successor) giving the Issuer written notice of revocation of the Licence provided that the giving of notice pursuant to paragraph 3 of Part 1 of the PES Licence shall not be deemed to constitute the revocation of the PES Licence and the giving of notice pursuant to the equivalent provision in the Distribution Licence shall not be deemed to constitute the revocation of the Distribution Licence or (bb) the Issuer agreeing in writing with the Secretary of State for Trade and Industry (or any successor) to any revocation or surrender of the Licence or (cc) any legislation (whether primary or subordinate) being enacted terminating or revoking the Licence, except in any such case in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Issuer or a wholly-owned Subsidiary of the Issuer (the "Relevant Subsidiary") and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Bonds in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or becomes the primary obligor under the Bonds in accordance with Condition 12; or
 - (B) any modification (other than a modification which is of a formal, minor or technical nature) is made to the terms and conditions of the Licence unless two Directors of the Issuer have certified in good faith to the Trustee that the modified terms and conditions are not materially less favourable to the business of the Issuer provided that any modifications arising from a periodic review shall not constitute a Restructuring Event unless it results in the credit rating assigned to the short term debt of the Issuer by Standard & Poor's or Moody's being either (i) downgraded to a "speculative grade" rating "B" or below in the case of Standard & Poor's or to "not prime" or worse in the case of Moody's or (ii) withdrawn; or
 - (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Trade and Industry (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under Section 3(A) of the Electricity Act 1989, unless two Directors of the Issuer have certified in good faith to the Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Issuer;

provided that the replacement of the PES Licence with separate distribution and supply licences pursuant to the provisions of Schedule 7 of the Utilities Act 2000 (including without limitation under a scheme under part II of such Schedule 7) and any notice, agreement, legislation, direction, scheme or modification relating to the implementation of the new regime contained in the Utilities Act 2000 shall not constitute a Restructuring Event.

- (vii) "Restructuring Period" means:
 - (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
 - (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day

90 days following the later of (aa) the date on which the Issuer shall seek to obtain a rating pursuant to Condition 7(d)(i) prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (bb) the date on which a Negative Certification shall have been given to the Issuer in respect of that Restructuring Event.

- (viii) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 7 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Restructuring Event, Negative Rating Event or other such event has occurred.

8. TAXATION

All payments in respect of the Bonds (other than payments of interest in respect of Registered Bonds which will be made subject to the deduction of any United Kingdom income tax required to be withheld or deducted at source) by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event (other than where the deduction or withholding is in respect of Registered Bonds as aforesaid), the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (b) where the Coupon is presented for payment in the United Kingdom; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days; or
- (d) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

As used herein, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to the effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14.

Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. PRESCRIPTION

Bonds (whether in bearer or registered form) and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Conditions 5 or 7(c). There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Conditions 5 or 7(c).

10. EVENTS OF DEFAULT

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 Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall (subject in each case to being indemnified to its satisfaction), (but, in the case of the happening of any of the events mentioned in sub-paragraphs (b), (c), (e), (f), (g) and (h) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed) if any of the following events (each an "Event of Default") shall have occurred (unless such Event of Default has been remedied to the satisfaction of the Trustee):

- (a) if default is made for a period of 14 days or more in the payment of any principal or the purchase price due in respect of any Bond pursuant to Condition 7 or 21 days or more in the payment of any interest due in respect of the Bonds or any of them; or
- (b) if the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any other indebtedness for borrowed money of the Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default (howsoever described) or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (iii) the Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds £20,000,000 or its equivalent in other currencies (as determined by the Trustee) or, if greater, 3 per cent. of the Capital and Reserves, and for the purposes of this sub-paragraph (c), "indebtedness for borrowed money" shall exclude Project Finance Indebtedness; or
- (d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (e) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries or (ii) the terms of which have

previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

- (f) if the Issuer or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member of the Group or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer or a Principal Subsidiary on an arm's length basis or (iii) where the transferee is or immediately upon such transfer becomes a Principal Subsidiary or (iv) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, provided that if the Issuer shall cease to hold or shall transfer the Licence other than where the Issuer ceases to hold the PES Licence (or the PES Licence has effect as separate distribution and supply licences) pursuant (in either case) to the provisions of Schedule 7 of the Utilities Act 2000 (including without limitation under a scheme under part II of such Schedule 7) it shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and none of exceptions (i) to (iii) shall apply) unless the transferee assumes all the Issuer's obligations under the Bonds and the Trust Deed as primary obligor or gives a guarantee in form and substance acceptable to the Trustee in respect of the obligations of the Issuer under the Bonds and the Trust Deed; or
- (g) if the Issuer or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Section 1 of the Insolvency Act 1986; or
- (h) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or an encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit).

For the purposes of sub-paragraph (g) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as the Gas and Electricity Markets Authority (or any successor) may from time to time determine by notice in writing to the Secretary of State for Trade and Industry (or any successor) and the Issuer.

Neither the Issuer nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (g) above if any such demand as is mentioned in Section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer or the relevant Principal Subsidiary with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Trustee under the first paragraph of this Condition 10.

For the purposes of these Terms and Conditions:

- (A) "Principal Subsidiary" at any time shall mean a Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer more than 70 per cent. of whose indebtedness for borrowed money is Project Finance Indebtedness):
 - (i) whose (a) net profits before tax or (b) gross assets represent 20 per cent. or more of the consolidated net profits before tax of the Group or consolidated gross assets of the Group respectively, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries and which, in the normal course, prepares consolidated accounts) and the then latest audited consolidated financial statements of the Group; or

- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (ii) (but without prejudice to the provisions of sub-paragraph (i) above), upon publication of its next audited financial statements;

all as more fully defined in the Trust Deed.

A report by the Auditors that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

- (B) "Capital and Reserves" means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Issuer; and
- (ii) the total of the capital, revaluation and revenue reserves of the Group, including any share premium account, capital redemption reserve and credit balance on the profit and loss account but excluding sums set aside for taxation and amounts attributable to outside shareholders in Subsidiary Undertakings (as defined below) and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet of the Group prepared in accordance with the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 1985, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

A report by the Auditors as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on all parties;

- (C) "Excluded Subsidiary" means any Subsidiary of the Issuer (other than a Licensed Subsidiary):

- (i) which is a company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset whether directly or indirectly;
- (ii) none of whose indebtedness for borrowed money 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 the Subsidiary itself or another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in paragraph (G)(ii)(c); and
- (iii) which has been designated as such by the Issuer by written notice to the Trustee, provided that the 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;

- (D) "Group" means the Issuer and the Subsidiary Undertakings;

- (E) "Subsidiary Undertaking" shall have the meaning given to it by Section 258 of the Companies Act 1985 (but shall exclude any undertakings (as defined in the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Issuer, nor (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would its accounts have been so included or consolidated if it had become so on or before that date);

- (F) "indebtedness for borrowed money" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance credit or (iii) any 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;

(G) "Project Finance Indebtedness" means any indebtedness for borrowed money to finance the ownership, acquisition, development and/or operation of an asset:

- (i) which is incurred by an Excluded Subsidiary; or
- (ii) in respect of which the person or persons to whom any such indebtedness for borrowed money 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:
 - (a) recourse to such borrower 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
 - (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money 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 borrowed money, provided that (aa) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, 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
 - (c) 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 (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) by the person against whom such recourse is available;

(H) "Subsidiary" means a subsidiary within the meaning of Section 736 of the Companies Act, 1985;

(I) "Licensed Subsidiary" means any Subsidiary of the Issuer which holds a public electricity supply licence granted under the Electricity Act 1989 or a distribution licence granted under Section 6(1)(c) of the Electricity Act 1989 as amended by Section 30 of the Utilities Act 2000;

(J) "Licence" means the PES Licence until such time as the Secretary of State for Trade and Industry (or any successor) makes a scheme under Section 13(2)(a) of Schedule 7 of the Utilities Act 2000 for the PES Licence to have effect as if it were a distribution licence and a supply licence granted under Section 6(1)(c) and 6(1)(d) respectively of the Electricity Act 1989 as amended by Section 30 of the Utilities Act 2000 from which point on it means the Distribution Licence;

(K) "PES Licence" means the public electricity supply licence granted by the Secretary of State for Energy to the Issuer under the Electricity Act 1989 in relation to its authorised area and excluding any second tier supply licence; and

(L) "Distribution Licence" means either the distribution licence granted to the Issuer under Section 6(1)(c) of the Electricity Act 1989 as amended by Section 30 of the Utilities Act 2000 or the licence of the Issuer having effect as if it were a distribution licence granted under Section 6(1)(c) of the Electricity Act 1989 as amended by Section 30 of the Utilities Act 2000, as appropriate.

11. ENFORCEMENT

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons but it shall not be

bound to take any proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

12. SUBSTITUTION

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of any Subsidiary of the Issuer, subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer (save where the Issuer has transferred the Licence to the substituted Subsidiary), (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

13. REPLACEMENT OF BONDS AND COUPONS

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in London, in the case of a Bearer Bond or Coupon, or the Registrar, in the case of a Registered Bond, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. NOTICES

Notices to holders of Registered Bonds will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth day (excluding Sundays) after the date of mailing, provided that, if at any time by reason of suspension or curtailment (or expected suspension or curtailment) of postal services within the United Kingdom or elsewhere, the Issuer is unable effectively to give notice to holders of Registered Bonds through the post, notices to holders of Registered Bonds will be valid if given in the same manner as other notices set out below.

Other notices to the Bondholders (including notices to holders of Bearer Bonds) will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. Any notice shall be deemed to have been given on the date of publication or, if so published more than once, on the date of the first publication. It is expected that publication will normally be made in the *Financial Times*. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

15. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

- (a) The Trust Deed contains provisions for convening meeting of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions for the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

- (b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or 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 which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.
- (c) In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers, authorities or discretions for individual Bondholders and Couponholders 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 Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- (d) Any modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. INDEMNIFICATION OF THE TRUSTEE

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.

17. FURTHER ISSUES

The Issuer is at liberty from time to time, without the consent of the Bondholders or Couponholders, to create and issue further bonds or notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or notes may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series in certain circumstances where the Trustee so decides.

18. THIRD PARTY RIGHTS

The Bonds confer no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

19. GOVERNING LAW

The Trust Deed, the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

Use of Proceeds

The net proceeds of the issue of the Bonds are estimated to amount to approximately £150,398,889 and will be used by the Issuer for its general corporate purposes.

United Utilities Electricity PLC

INTRODUCTION

United Utilities Electricity PLC ("UUE") (formerly called NORWEB plc) was incorporated under the Companies Act 1985 on 1 April 1989 as a public limited company and is indirectly a wholly owned subsidiary of the holding company United Utilities PLC ("United Utilities"). United Utilities is a public limited company whose ordinary shares are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange.

In November 1995, North West Water Group PLC acquired all of the issued share capital of UUE, which was at the time the distributor and supplier of electricity in North West England, to form a multi-utility group. Shortly after the acquisition, North West Water Group PLC changed its name to United Utilities PLC.

On 19 April 2000, UUE sold its electrical contracting business to Alstom UK Ltd. On 3 August 2000, UUE sold the electricity and gas supply business, Norweb Energi, to TXU Europe Group PLC ("TXU"). Further details regarding this disposal are contained in "Licence Separation" on page 22. Following the sale of Norweb Energi, UUE is focused upon its core activity of electricity distribution.

During the last financial year, United Utilities and its subsidiary undertakings (the "United Utilities Group") completed a group restructuring. The United Utilities Group now has four business segments, licensed multi-utility operations, asset management services, customer management outsourcing and telecommunications.

UUE is managed within United Utilities Service Delivery PLC, part of the licensed multi-utility operations business segment of the United Utilities Group.

UNITED UTILITIES ELECTRICITY PLC

UUE derives virtually all its income from licensed regulated monopoly activities. It owns, operates and manages the United Utilities Group's licensed electricity network assets in North West England, comprising primarily:

Assets involved in distribution of electricity:

- 14,000 kilometres of overhead lines;
- 44,000 kilometres of underground cables; and
- 32,000 sub-stations.

Note:

The circumference of the earth is approximately 40,000 km.

UUE distributes approximately 24,000 gigawatt hours of electricity annually to more than 2 million homes and businesses in North West England. UUE holds an electricity distribution licence granting it the right to distribute electricity to all current and future electricity suppliers in Great Britain. Changes have recently been made to the licence held by UUE (see "Electricity Regulation" and "Licence Separation" below).

Between 1 April 2000 and 31 March 2005 UUE plans to invest £0.5 billion in its electricity distribution network. Capital investment in the last financial year was £110.9 million, of which 30.7 per cent. was load related, 63.4 per cent. was non-load related and 5.9 per cent. was non-operational.

The management and operations of the network assets owned by UUE and United Utilities Water PLC ("UUEW") have been brought together under a single management team in United Utilities Service Delivery PLC ("UUSD").

UUSD has been created in order to extract the synergy benefits of managing three utility networks comprising wastewater, water and electricity distribution in broadly the same geographical region, running largely under the same streets and serving the same customer premises. UUE's asset management resources are combined with those of UUEW under a common management structure headed by Mr Les Dawson who was recruited in 2000 from Transco, the UK's nationwide gas distribution network business.

The regulators' last price reviews assumed that for the five-year period to 31 March 2005 UUE would achieve efficiencies totalling £300 million and UUE would achieve efficiencies totalling £100 million. By combining multi-utility asset management and operations within UUE the United Utilities Group's target for cost savings over the five-year period to 31 March 2005 has been raised from £400 million to £450 million.

ELECTRICITY DISTRIBUTION

The income derived from the distribution business depends in part on changes in the demand for electricity by customers in North West England. Demand for electricity is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by customers, weather conditions, energy efficiency measures and other factors.

ELECTRICITY REGULATION

The electricity industry in Great Britain is regulated under the Electricity Act 1989 and the Utilities Act 2000. The latter established a single regulator for the gas and electricity sectors, the Gas and Electricity Markets Authority (the "Authority") in place of the two posts of Director General of Electricity Supply and Director General of Gas Supply. The Authority governs and acts through the Office of the Gas and Electricity Markets ("Ofgem"). Ofgem's principal statutory objective in carrying out its electricity sector regulatory functions is to protect the interests of consumers, whenever appropriate by promoting competition. In addition to its regulatory powers, Ofgem exercises powers under UK competition legislation, including the Competition Act 1998.

As a licensed distributor of electricity, UUE has a statutory duty to develop and maintain an efficient, co-ordinated and economical system of electricity distribution, and to facilitate competition in the supply and generation of electricity.

UUE is required to maintain certain standards relating to its distribution of electricity. These standards are divided into guaranteed standards and overall standards. Each year UUE must report to Ofgem on these standards. Ofgem monitors and audits compliance with these standards and this enables it to seek improvement plans from the companies failing to meet these standards. In addition, failure to meet guaranteed standards will result in a prescribed compensation payment to the customer concerned (via the relevant supplier).

Licence

Throughout England and Wales, electricity generation, transmission and distribution systems constitute a single integrated network. Almost all electricity generated at power stations in England and Wales is delivered through a high voltage transmission network owned by The National Grid Company p.l.c. to the local distribution networks. All companies distributing electricity must be licensed unless they are covered by an exemption. UUE's distribution licence (the "Licence") authorises it to distribute electricity in the whole of Great Britain. This Licence can be terminated on 25 years' notice given by the Secretary of State.

The Licence can also be revoked in certain circumstances, including where the licensee fails to comply with an enforcement order made by Ofgem. The Licence contains various conditions regulating the conduct of the business. In particular, the disposal of any part of the distribution system is restricted; distribution businesses and suppliers which Ofgem deems to be in a dominant position must provide services on non-discriminatory terms; cross subsidies to or from UUE's licensed business are prohibited; and the directors must provide a certificate of compliance before declaring dividends or making distributions. In general, licences also contain increasingly strict provisions to maintain and ring-fence the financial and management resources of the licensed business. Ofgem can modify licence conditions either with the agreement of the licensee or following an investigation by the Competition Commission. In addition, new collective licence modification procedures, introduced by the Utilities Act 2000, enable Ofgem to modify standard licence conditions without a Competition Commission reference even if some licensees disagree.

Price control

UUE's distribution activities are subject to price control, which caps the maximum increases in prices charged by reference to the Retail Price Index in the UK ("RPI"). A new price control for Norweb Distribution (now UUE) came into effect on 1 April 2000 and required a one-off reduction in real terms of 27 per cent. in average regulated revenue in 2000/1. At the same time, responsibility for some data collection activities was

transferred to suppliers. Average revenue in the next four years must not increase faster than RPI -3 per cent. Ofgem intends to introduce additional incentive mechanisms from the beginning of 2002/3.

Ofgem is also in the process of conducting a review of distribution charges (the first since 1993). Ofgem had originally announced its intention to publish its proposals arising from this review later in 2001, with a view to implementation between October 2001 and April 2002, but publication of the proposals is not now expected before Spring 2002.

Utilities Act 2000

New legislation affecting the electricity sector, the Utilities Act 2000 was enacted by the UK Parliament in July 2000. The changes that the Utilities Act has introduced include a new principal objective of the Authority to protect the interest of consumers, wherever appropriate by promoting competition; financial penalties for bad practice or poor performance; and new collective licence modification procedures (described under "Licence" above).

On 1 October 2001 the relevant provisions of the Utilities Act 2000 came into force requiring electricity supply and distribution to be licensed separately. Prior to that date, UUE (then NORWEB plc) held a public electricity supply licence (the "PES Licence") which allowed the supply and distribution of electricity. It is no longer possible for the same legal entity to hold supply and distribution licences. UUE conducts its business under a distribution licence.

LICENCE SEPARATION

Norweb Energi (the electricity and gas supply business) was sold to TXU Europe Group PLC ("TXU") on 3 August 2000 for £310 million in cash. Following the sale the Norweb name was used by the group under licence from TXU. NORWEB plc changed its name to United Utilities Electricity PLC on 26 November 2001, following the separate licensing of the distribution and supply businesses. Prior to licence separation TXU operated Norweb Energi pursuant to an agency agreement.

The process to separate the PES Licence into a distribution licence, under which UUE conducts its distribution business, and a supply licence, which enables a member of TXU's group of companies to carry on the supply business in its own name became effective on 1 October 2001.

The licence separation transfer scheme:

- transferred to Norweb Energi Limited, a new wholly-owned subsidiary of UUE, the residual electricity supply business and customers and certain related assets and liabilities;
- granted that wholly-owned subsidiary an electricity supply licence; and
- granted UUE a distribution licence.

Once the scheme became effective, TXU bought the shares in Norweb Energi Limited. The purchase of those shares was for nominal consideration, consistent with the terms of the sale of the Norweb Energi supply business.

DESCRIPTION OF PROPERTY

As at 31 March 2001, UUE's facilities included approximately 14,000 kilometres of overhead lines and 44,000 kilometres of underground cables operating at 132 kilovolts, 33 kilovolts, 11 kilovolts, 6.6 kilovolts, 3.3 kilovolts, 2.2 kilovolts and 400/230 volts. UUE holds wayleaves which entitle it to run these lines and cables through private land and in some circumstances these can be determined by the landowner upon notice. However, UUE has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner. Although UUE does not anticipate that any relocation of these facilities will be required, any such relocation of a major portion of these facilities would have a material adverse effect on UUE. UUE also maintains approximately 32,000 primary and secondary sub-stations located in North West England. These are situated on properties either owned by UUE or under lease. UUE anticipates that it will be able to negotiate lease renewals on satisfactory terms or relocate equipment so that the non-renewal of any such leases would not have a material adverse effect upon UUE.

In addition to the properties described above, UUE occupies various non-operational properties consisting primarily of offices, depots, warehouses and workshops. These are either owned by UUE or leased. It is

anticipated that UUE will be able to negotiate renewals of any expiring leases, or relocate the relevant facilities, without the same having a material adverse impact on UUE. The headquarters of UUE and Your Communications Limited, a subsidiary of United Utilities, are owned by UUE. These properties are located in Manchester. UUE also owns an operations and computer centre in Manchester, an operations and customer centre at Bolton and a centre at Chorley, all of which are used by Vertex Data Science Limited, a subsidiary of United Utilities.

SUBSIDIARIES

UUE's subsidiary companies as at 11 February 2002 are set out below. All are incorporated in Great Britain, registered in England and Wales and operate within the United Kingdom. None of the subsidiaries are material in the context of the Group.

Subsidiary undertakings	Proportion of ordinary share capital owned	Nature of Business
Northern Hydro Limited	100%	Non trading company
Norweb Generation Limited*	100%	Investment in electricity generation
Norweb Gas Limited*	100%	Sales of gas
Norweb (Miles Platting Community Project) Limited*	100%	Project company
Norweb Leasing Limited*	100%	Lessor of assets
Norweb Property and Estate Services Limited*	100%	Investment activities
NOR.WEB DPL Limited*	50%	Digital Powerline technology
Norweb Hydro Power (Wales) Limited	100%	Non trading company
Norweb Power Services (No. 1) Limited	100%	Non trading company
Elean Power Limited	100%	Non trading company

Notes:

* Direct subsidiary of United Utilities Electricity PLC. All others are indirect subsidiaries held through a number of intermediate companies.

DIRECTORS

The business address for each of the directors is UUE's registered office which is Dawson House, Great Sankey, Warrington WA5 3LW.

The directors of UUE as at 11 February 2002 and their functions within UUE are as follows:

Name	Function	Other Significant Activities Outside of the Group
John E Roberts	<i>Chairman</i>	Director of United Utilities
John A Barnes	<i>Director</i>	
Simon G Batey	<i>Director</i>	Director of United Utilities
Steven Beaumont	<i>Finance Director</i>	
Martin F Bradbury	<i>Director</i>	
Les W Dawson	<i>Director</i>	Director of United Utilities
Clive H Elphick	<i>Director</i>	

None of the directors of UUE performs activities outside the United Utilities Group which are significant with respect to the Group.

Capitalisation and Indebtedness of United Utilities Electricity PLC

The following table, which has been extracted from the audited financial statements for the year ended 31 March 2001, sets out the consolidated capitalisation and indebtedness of United Utilities Electricity PLC at 31 March 2001.

	(£ millions)
Short Term Debt:	
Short term debt (including overdrafts)	267.6
Current portion of long term debt.	—
Total short term debt ^(a)	<u>267.6</u>
Long Term Debt:	
Long term debt, net of current portion	195.2
Total long term debt ^(a)	<u>195.2</u>
Shareholders' Funds: ^(b)	
Revaluation reserve	207.4
Share premium account	4.4
Called up share capital	78.4
Profit and loss account	214.8
Other reserves.	8.6
Total shareholders' funds ^(c)	<u>513.6</u>
Total capitalisation: ^{(d)(e)(f)}	<u>708.8</u>

Notes:

- (a) As at 30 December 2001, the total short term debt of UUE and its subsidiaries was approximately £136.5 million and the total long term debt was approximately £403.4 million.
- (b) As at 31 March 2001, the authorised share capital of UUE was £125,000,001 comprising 249,999,996 ordinary shares of 50p nominal each, 4 'A' ordinary shares of 50p nominal each and one special rights redeemable preference share of £1. The allotted, called up and fully paid share capital of UUE was £78,410,673 comprising 156,821,341 ordinary shares of 50p nominal each and 4 'A' ordinary shares of 50p nominal each.
- (c) As at 30 December 2001, shareholders' funds totalled approximately £563 million.
- (d) As at 31 March 2001, there were no material contingent liabilities, none of the indebtedness of UUE was guaranteed and there was no secured indebtedness.
- (e) UUE's obligations under certain agreements have been transferred to TXU following the sale of the electricity supply business described on page 22.
- (f) Save as disclosed above, there has been no material change in the capitalisation, indebtedness or contingent liabilities of UUE since 31 March 2001.

United Kingdom Taxation

The following comments are of a general nature and relate only to persons who are the beneficial owners of the Bonds. They reflect the Issuer's understanding of current law and practice in the United Kingdom in relation to certain aspects of United Kingdom taxation. These comments may not apply to certain classes of person (such as dealers in securities) to whom special rules may apply. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are in any doubt as to their tax position should seek their own professional advice.

1. Payment of interest on the Bonds

Payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Bonds are and continue to be listed on the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange.

If the Bonds cease to be listed on the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange, payments of interest on the Bonds will generally be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

Persons in the United Kingdom who either pay interest to, or receive interest for the benefit of, an individual may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and such information may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

2. Proposed EU Savings Directive

On 13 December 2001 the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments.

The terms of the draft directive will not apply, for a limited period of seven years from 1 January 2004, to:

- (i) negotiable debt securities issued before 1 March 2001; or
- (ii) negotiable debt securities issued before 1 March 2002 where the original prospectus was approved by the relevant competent authority (or by the responsible authority if approved in a non-EU Member State) before 1 March 2001.

The proposed directive is not yet final and may be subject to further amendment.

3. Further United Kingdom income tax issues

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

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 Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which the Bonds are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

Subscription and Sale

The Royal Bank of Scotland plc (the "Manager") has, pursuant to a Subscription Agreement dated 11 February 2002 (the "Subscription Agreement") agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at 143.165 per cent. of their principal amount plus accrued interest from, and including, 25 March 2001 to, but excluding, 15 February 2002. The Issuer has agreed to pay to the Manager a combined management and underwriting and selling commission of 0.625 per cent. of such principal amount. The Subscription Agreement entitles the Manager to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed to indemnify the Manager against certain liabilities in connection with the issue of the Bonds.

Selling Restrictions

UNITED STATES

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (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 Bonds 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 1986 and regulations thereunder.

The Manager has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells any Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds 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 addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer that is not participating in the offer may violate the registration requirements of the Securities Act.

UNITED KINGDOM

The Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the "FSMA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSMA;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of 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 Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General Information

LISTING

The admission of the Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). Transactions will normally be effected for settlement in sterling and for delivery on the third business day after the date of the transaction. It is anticipated that such admission of the Bonds to the Official List and admission of the Bonds to trading on the London Stock Exchange's market for listed securities will be granted on or around 14 February 2002 subject only to the issue of the Global Bond. Prior to the official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

The Bearer Bonds have been accepted for clearance through Clearstream, Luxembourg and Euroclear. Until exchange of the Global Bond for definitive Bearer Bonds, the Common Code reference number for the Bearer Bonds is 014237437 and the International Security Identification Number for the Bearer Bonds is XS0142374379. Thereafter the Common Code reference number and the International Security Identification Number for the Bearer Bonds will be the same as for the Existing Bonds in bearer form. The Common Code reference number for the Existing Bonds in bearer form is 005895731 and the International Security Identification Number for the Existing Bonds in bearer form is XS0058957316.

SIGNIFICANT OR MATERIAL CHANGE

There has been no significant change in the financial or trading position of the Issuer or the Group since 31 March 2001 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 March 2001.

LITIGATION

There are no nor have there been legal or arbitration proceedings, including any which are pending or threatened of which the Issuer is aware, which may have or have had during the 12 months prior to the date hereof a significant effect on the financial position of the Issuer or the Group.

AUDITORS

KPMG Audit plc, Chartered Accountants and Registered Auditors, have audited the Group's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the financial years ended 31 March 1999, 2000 and 2001.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB during usual business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the financial statements of the Group in respect of the financial years ended 31 March 2000 and 2001;
- (iii) drafts, subject to modification, of each of the Fourth Supplemental Trust Deed (which contains the forms of the Global Bond, the definitive Bonds (in bearer and registered form) and the Coupons) and the Third Supplemental Agency Agreement; and
- (iv) the Subscription Agreement, the Principal Agency Agreement, the Principal Trust Deed, the First Supplemental Trust Deed, the Second Supplemental Trust Deed, the Third Supplemental Trust Deed, the First Supplemental Agency Agreement and the Second Supplemental Agency Agreement.

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