



United Utilities

UNITED UTILITIES PLC

(incorporated with limited liability in England)

NORWEB plc

(incorporated with limited liability in England)

NORTH WEST WATER FINANCE PLC

(incorporated with limited liability in England)

U.S.\$2,000,000,000

Euro Medium Term Note Programme

Notes issued by North West Water Finance PLC

unconditionally and irrevocably guaranteed by

NORTH WEST WATER LIMITED

(incorporated with limited liability in England)

Under this U.S.\$2,000,000,000 Euro Medium Term Note Programme (the "Programme"), United Utilities PLC, NORWEB plc and North West Water Finance PLC ("NWW") (each an "Issuer" and together the "Issuers") may from time to time issue notes (the "Notes") denominated in any currency (including ECU) agreed between the relevant Issuer and the relevant Dealer (as defined below).

The payment of all amounts payable in respect of Notes issued by NWW will be unconditionally and irrevocably guaranteed by North West Water Limited (the "Guarantor").

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for Notes issued during the period of 12 months from the date of this Offering Circular to be admitted to the Official List of the London Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a pricing supplement (the "Pricing Supplement") which, with respect to Notes to be admitted to the Official List of the London Stock Exchange, will be delivered to the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) and the relevant Dealer. The Issuers may also issue unlisted Notes. This Offering Circular has not been submitted to the clearance procedures of the Commission des Opérations de Bourse (the "COB") and has not been registered by the COB. It is a requirement that, prior to the listing of any Notes on the Paris Bourse, the COB approve this Offering Circular and evidence such approval by issuing a registration number.

Notes to be issued under the Programme by United Utilities PLC with an initial maturity of one year or less will be rated P1 by Moody's Investors Service Limited ("Moody's") and A1 by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. ("Standard & Poor's") and Notes with an initial maturity of more than one year will be rated A2 by Moody's and A+ by Standard & Poor's. Notes to be issued under the Programme by NORWEB plc and NWW with an initial maturity of one year or less will be rated P1 by Moody's and A1+ by Standard & Poor's and Notes with an initial maturity of more than one year will be rated A1 by Moody's and AA- by Standard & Poor's. A credit rating may be subject to revision, suspension or withdrawal at any time by the rating organisation.

The relevant Issuer, the Guarantor (where the relevant Issuer is NWW) and the Trustee (as defined below) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes admitted to the Official List of the London Stock Exchange only) supplementary listing particulars or further listing particulars, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger
Deutsche Bank

Dealers

ABN AMRO
Credit Suisse First Boston
J.P. Morgan Securities Ltd.

Tokyo-Mitsubishi International plc
Deutsche Bank
Warburg Dillon Read

The date of this Offering Circular is 13 October, 1998.

Each of the Issuers and the Guarantor accepts responsibility for the information contained in the Listing Particulars (as defined below). To the best of the knowledge and belief of the Issuers and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in the Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of this Offering Circular, which comprises the listing particulars approved by the London Stock Exchange as required by the Financial Services Act 1986 (the "Listing Particulars") in relation to Notes listed on the London Stock Exchange and issued during the period of 12 months from the date of this Offering Circular, have been delivered for registration to the Registrar of Companies in England and Wales as required by section 149 of that Act. Copies of each Pricing Supplement (in the case of Notes to be admitted to the Official List of the London Stock Exchange) will be available from FT Business Research Centre, operated by FT Electronic Publishing at Fitzroy House, 13-15 Epworth Street, London EC2A 4DL and from the specified office set out below of each of the Paying Agents (as defined below).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below) (provided, however, that such incorporated documents do not form part of the Listing Particulars). This Offering Circular shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular but not part of the Listing Particulars.

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

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

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

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

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, 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 and the regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Guarantor, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor, the Dealers or the Trustee (save for the approval of this document as listing particulars by the London Stock Exchange and delivery of copies of this document to the Registrar of Companies in England and Wales) which would permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of Notes in the United States, the United Kingdom, Japan and Germany, see "Subscription and Sale".

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

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

All references in this Offering Circular to "U.S. dollars", "U.S.\$" and "\$" refer to the currency of the United States of America, to "Sterling" and "£" refer to the currency of the United Kingdom, to "Deutsche Marks" and "DM" refer to the currency of Germany and to "ECU" refer to European Currency Units.

In connection with the issue and distribution of any Tranche of Notes, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement may over-allot or effect transactions which stabilise or maintain the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular (provided, however, that such incorporated documents do not form a part of the Listing Particulars):

- (a) the most recently published audited consolidated and non-consolidated statutory annual financial statements and, if published later, the most recently published interim consolidated and non-consolidated financial statements (if any) of each of the Issuers and the Guarantor; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuers and the Guarantor from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular (but not the Listing Particulars) to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuers and the Guarantor will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to any of the Issuers or the Guarantor at their respective offices set out at the end of this Offering Circular. In addition, such documents will be available free of charge from the office of the London Listing Agent.

The Issuers and the Guarantor have undertaken to the Dealers in the Programme Agreement (as defined in "Subscription and Sale") to comply with sections 147 and 149 of the Financial Services Act 1986.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as supplemented, inaccurate or misleading, a new offering circular will be prepared.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuers:	United Utilities PLC NORWEB plc North West Water Finance PLC
Guarantor in respect of Notes issued by North West Water Finance PLC:	North West Water Limited
Description:	Euro Medium Term Note Programme
Arrangers:	Deutsche Bank AG London Deutsche Bank Aktiengesellschaft (in respect of Deutsche Mark denominated Notes)
Dealers:	ABN AMRO Bank N.V. Tokyo-Mitsubishi International plc Credit Suisse First Boston (Europe) Limited Deutsche Bank AG London J.P. Morgan Securities Ltd. UBS AG, acting through its division Warburg Dillon Read and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale") including the following restrictions applicable at the date of this Offering Circular.

Deutsche Marks

Each issue of Notes denominated in Deutsche Marks will take place only in compliance with the guidelines applicable for the time being of the German Central Bank regarding the issue of Deutsche Mark denominated debt securities. Under current guidelines only credit institutions domiciled in Germany or German branches of foreign credit institutions can act as Dealers in relation to such Notes except in the case of an issue of Deutsche Mark denominated Notes in a syndicated transaction (which need only be lead managed by a credit institution domiciled in Germany or a German branch of a foreign credit institution).

Swiss Francs

Issues of Notes denominated in Swiss francs or carrying a Swiss franc-related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8 November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24 March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2 December, 1996. Under the said

regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the "Swiss Dealer"), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24 March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

Sterling

Issues of Notes denominated in Sterling shall comply with all applicable laws and regulations (as amended from time to time) of United Kingdom authorities. See "Banking Act 1987 (Exempt Transactions) Regulations 1997" under "General Information".

Trustee:	The Law Debenture Trust Corporation p.l.c.
Issuing and Principal Paying Agent:	Citibank, N.A.
Programme Size:	Up to U.S.\$2,000,000,000 in nominal amount (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
Payments in euro, Redenomination and Exchange:	<p>Payments in respect of Notes denominated and payable or payable in ECU will, with effect from the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended from time to time (the "Treaty"), be made in euro at the rate of one euro for one ECU.</p> <p>The applicable Pricing Supplement may provide that, with effect from the start of the third stage of European economic and monetary union pursuant to the Treaty, Notes may be redenominated in euro and/or exchanged for other Series of Notes denominated in euro.</p> <p>The relevant provisions applicable to any such payments, redenomination and exchange are contained in Conditions 5 and 6.</p>
Maturities:	<p>Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.</p> <p>At the date of this Offering Circular, the minimum maturity of all Notes is one month. Unless otherwise permitted by the then current laws, regulations and directives, Notes denominated in Deutsche Marks will have a minimum maturity of two years.</p>
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in "Form of the Notes".

Fixed Rate Notes:

Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption.

Interest will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each (or such other basis as may be agreed).

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 1991 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer.

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

Indexed Notes:

Payments of principal in respect of Indexed Redemption Amount Notes or of interest in respect of Indexed Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.

Indexed Notes denominated in Deutsche Marks will be issued in compliance with the policy of the German Central Bank regarding the indexation of Deutsche Mark denominated debt obligations.

Other provisions in relation to Floating Rate Notes and Indexed Interest Notes:

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

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

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Pricing Supplement will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving the relevant period of notice specified in the Terms and Conditions (or such other notice period as is specified in the applicable Pricing Supplement) to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and

at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.

Under applicable laws and regulations at the date of this Offering Circular, Notes denominated in Deutsche Marks may not be redeemed (other than for taxation reasons or following an Event of Default) prior to two years from the relevant Issue Date.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom must have a minimum redemption amount of £100,000 (or its equivalent in other currencies), unless such Notes may not be redeemed until the third anniversary of their Issue Date and are to be listed on the London Stock Exchange.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom must have a minimum denomination of £100,000 (or its equivalent in other currencies), unless such Notes may not be redeemed until the third anniversary of their Issue Date and are to be listed on the London Stock Exchange.

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within the United Kingdom, subject as provided in Condition 10. In the event that any such deduction is made, the relevant Issuer or, as the case may be, the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) will, save in certain limited circumstances provided in Condition 10, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 12.

Status of the Notes:

The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the relevant Issuer and will rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.

Guarantee:

Notes issued by NWW will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid and save for certain

obligations required to be preferred by law) will rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor.

Rating:

Notes to be issued under the Programme by United Utilities PLC with an initial maturity of one year or less will be rated P1 by Moody's and A1 by Standard & Poor's and Notes with an initial maturity of more than one year will be rated A2 by Moody's and A+ by Standard & Poor's. Notes to be issued under the Programme by NORWEB plc and NWW with an initial maturity of one year or less will be rated P1 by Moody's and A1+ by Standard & Poor's and Notes with an initial maturity of more than one year will be rated A1 by Moody's and AA- by Standard & Poor's. A credit rating may be subject to revision, suspension or withdrawal at any time by the rating organisation.

Listing:

Application has been made to list the Notes on the London Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the Notes are to be listed and, if so, on which stock exchange(s).

Governing Law:

The Notes will be governed by, and construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, Japan and Germany and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes – see "Subscription and Sale".

FORM OF THE NOTES

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

Each Tranche of Notes will initially be issued in the form of either a temporary global note (a "Temporary Global Note") or a permanent global note (a "Permanent Global Note") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the "Common Depository") for Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank"). Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Cedel Bank and Euroclear and/or Cedel Bank, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "Exchange Date") which, in respect of each Tranche in respect of which a Temporary Global Note is issued, is the later of (i) 40 days after the Temporary Global Note is issued and (ii) 40 days after the completion of the distribution of the relevant Tranche, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue) (the "Restricted Period"), interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, receipts, Coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement) in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless upon due certification exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Cedel Bank against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification. The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, Coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Cedel Bank (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Principal Paying Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Cedel Bank have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 10 which would not be required were the Notes represented by the Permanent Global Note in definitive form. The relevant Issuer will promptly give notice to the Noteholders in accordance with Condition 16 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Cedel Bank (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

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

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

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

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

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes") the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the Restricted Period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Cedel Bank each person (other than Euroclear or Cedel Bank) who is for the time being shown in the records of Euroclear or of Cedel Bank as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Cedel Bank as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Cedel Bank shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the relevant Issuer, the Principal Paying Agent and the Trustee.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

[UNITED UTILITIES PLC]
[NORWEB plc]
[NORTH WEST WATER FINANCE PLC]

[Title of relevant Series of Notes (specifying type of Notes)]

issued pursuant to the U.S.\$2,000,000,000 Euro Medium Term Note Programme

(Terms used herein shall be deemed to be defined as such for the purposes of the Conditions)

[Include whichever of the following apply or specify items as "not applicable"]

[The Notes constitute [commercial paper/shorter term debt securities/longer term debt securities]* issued in accordance with regulations made under section 4 of the Banking Act 1987. The Issuer of the Notes is not an authorised institution or a European authorised institution (as such terms are defined in the Banking Act 1987 (Exempt Transactions) Regulations 1997). Repayment of the principal and payment of any interest or premium in connection with the Notes has [not] been guaranteed [by North West Water Limited, which is not an authorised institution or a European authorised institution]].**

* Include "commercial paper" if Notes must be redeemed before their first anniversary. Include "shorter term debt securities" if Notes may not be redeemed before their first anniversary but must be redeemed before their third anniversary. Include "longer term debt securities" if Notes may not be redeemed before their third anniversary.

** Unless otherwise permitted, text to be included for all Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are accepted by the Issuer in the United Kingdom.

Type of Notes

1. Interest/Payment Basis: [Fixed Rate/ Floating Rate/ Zero Coupon/ Indexed Redemption Amount/ Indexed Interest/ Dual Currency/ Partly-Paid/ Instalment/ Combination/ Other]
2. If Instalment Note, insert Instalment Amount(s)/ Instalment Date(s): *[Insert details]*
3. If Partly Paid Notes, insert amount of each instalment (expressed as a percentage of the nominal amount of each Note)/due dates for any subsequent instalments/consequences of failure to pay/rate and method of calculating interest: *[Insert details]*
4. If Dual Currency Notes, insert the Rate of Exchange/calculation agent/fall back provisions/person at whose option Specified Currency is to be payable: [The Rate(s) of Exchange is the exchange rate(s) or basis of calculating the exchange rate(s) to be used in determining the amounts of principal and/or interest payable in the Specified Currencies]

Description of the Notes

5. Notes to be represented on issue by a Temporary Global Note or a Permanent Global Note: [Temporary/Permanent] Global Note
6. Provisions for exchange of Temporary Global Notes: [Exchangeable for Permanent Global Note] [Exchangeable into Definitive Notes upon *[specify notice period]*] *[other]*

7. Provisions for exchange of Permanent Global Notes: Exchangeable into Definitive Notes [if requested by the holder upon not less than 60 days' notice/only upon an Exchange Event]
8. (a) Coupons to be attached to Notes in definitive form: [Yes/No]
- (b) Talons for future Coupons to be attached to Notes in definitive form: [Yes/No]
- (c) Date(s) on which the Talons mature: *[give details]*
9. (a) Series Number: []
- [(b) Tranche Number: []]
- [(c) If forming part of an existing Series, details of the Series (including the date, if any, on which the Notes become fungible): *[number and other details]*
10. (a) Nominal Amount of Notes to be issued: []
- (b) Aggregate nominal amount of Series (if more than one issue for the Series): []
- (c) Specified Currency (or Currencies in the case of Dual Currency Notes): []
- (d) Specified Denomination(s): []
11. Issue Price: []
12. Issue Date: []
13. Interest Commencement Date: *[Issue Date/other]*
14. Automatic/optional conversion from one Interest/Payment Basis to another: *[insert details]*

Provisions relating to interest (if any) payable

Fixed Rate Notes

15. (a) Fixed Rate(s) of Interest: [] per cent. per annum
- (b) Fixed Interest Date(s): *[If interest is payable other than annually, amend Condition 5(a)(iv) and Condition 6(a)(viii), if applicable]*
- (c) Broken Amounts: *[specify dates on which payable and amounts]*

Zero Coupon Notes

16. (a) Accrual Yield: *[insert details]*
- (b) Reference Price: *[insert details]*
- (c) Other formula or basis for determining Amortised Face Amount: *[insert details]*

Floating Rate Notes or Indexed Interest Notes

17. (a) Specified Period(s) or specified Interest Payment Date(s): *[NB: specify either a period or periods if Floating Rate Convention is used or a specific date or dates if any other Business Day Convention is used]*
- (b) Minimum Rate of Interest (if any): []

- (c) Maximum Rate of Interest (if any): ☐
- (d) Business Day Convention: [Floating Rate/Following Business Day/Modified Following Business Day/Preceding Business Day/ other convention – *insert details*]
- (e) Additional Business Centres: ☐
- (f) Day Count Fractions: [Actual/365 or Actual/Actual]/
[Actual/365 (Fixed)]/
[Actual/360]/
[30/360 or 360/360 or Bond Basis]/
[30E/360 or Eurobond Basis]
- (g) Other terms relating to the method of calculating interest: [*insert details*]

Floating Rate Notes

- 18.** (a) Margin(s): [plus/minus] ☐ per cent. per annum
- (b) Manner in which Rate of Interest is to be determined: [ISDA Determination/ Screen Rate Determination/ other – *insert details*]
- (c) If ISDA Determination:
- (i) Floating Rate Option: ☐
 - (ii) Designated Maturity: ☐
 - (iii) Reset Date(s): ☐
- (d) If Screen Rate Determination:
- (i) Reference Rate: ☐
 - (ii) Interest Determination Date: ☐
 - (iii) Relevant Screen Page: ☐
- (e) If Rate of Interest to be calculated otherwise than by reference to (c) or (d) above *insert details*, including Rate of Interest/Margin/fall back provisions: ☐

Indexed Interest Notes

- 19.** Index/Formula: [*insert details of the index to which amounts payable in respect of interest are linked and/or the formula to be used in determining the rate of interest, together with details of the calculation agent and the fallback provisions*]

Provisions regarding payments

- 20.** Definition of "Payment Day" for the purpose of Conditions if different from that set out in Condition 8(f): [*insert details*]

Provisions regarding Redemption/Maturity

- 21.** Maturity Date: ☐

22. (a) Redemption at Issuer's option: [No/Yes]
 If Yes, insert Optional Redemption Date(s)/ Optional Redemption Amount(s): []
- (b) Redemption at Noteholder's option: [No/Yes]
 If Yes, insert Optional Redemption Date(s)/ Optional Redemption Amount(s): []
- (c) Minimum Redemption Amount/ Higher Redemption Amount: []
- (d) Other terms applicable on redemption: []
23. Final Redemption Amount for each Note, including the method, if any, of calculating the same: *[insert amount or details including party responsible for calculation NB – fall back provisions must be inserted]*
24. Early Redemption Amount for each Note payable on redemption for taxation reasons or on an Event of Default and/or the method, if any, of calculating the same: *[insert amount or details including party responsible for calculation]*

General provisions applicable to this issue of Notes

25. Redenomination and/or Exchange applicable: Redenomination [not] applicable
 Exchange [not] applicable
[If Redenomination is applicable, any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)]
26. Other terms or special conditions: *[insert details]*
27. Details of additional/ alternative clearing system approved by the Issuer, the Principal Paying Agent and the Trustee: *[insert details]*
28. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
29. Additional selling restrictions: *[insert details]*
30. Method of distribution: [Non-syndicated] [Syndicated – *please insert management group details here*]
31. Stabilising Dealer/Manager: *[insert details/None]*
32. (a) Notes to be listed: [Yes/No]
 (b) Stock Exchange(s): London Stock Exchange [Other – *insert details*]
33. Ratings: [As Offering Circular/other – *specify*]

34. *[Notes in respect of which the issue proceeds are accepted by the Issuer in the United Kingdom and which are to be listed. The text set out below may be deleted if the Issuer is relying on any of Regulation 13(4)(c) through to (g)]*

The Issuer confirms that it:

- (a) has complied with its obligations under the relevant rules (as defined in the Banking Act 1987 (Exempt Transactions) Regulations 1997) in relation to the admission to and continuing listing of the Programme and of any previous issues made under it and listed on the same exchange as the Programme;
- (b) will have complied with its obligations under the relevant rules in relation to the admission to listing of such Notes by the time when such Notes are so admitted; and
- (c) has not, since the last publication, if any, in compliance with the relevant rules of information about the Programme, any previous issues made under it and listed on the same exchange as the Programme, or the Notes, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as Issuer in respect of the Notes as they fall due.

ISIN: []

Common Code: []

[insert here any other relevant codes, such as CUSIP and CINS codes]

Acceptance on behalf of the Issuer of the terms of the Pricing Supplement

For and on behalf of

[Insert name of relevant Issuer]

By

35. Listing:

The above Pricing Supplement comprises the details required to list this issue of Notes pursuant to the listing of United Utilities PLC, NORWEB plc and North West Water Finance PLC's U.S.\$2,000,000,000 Euro Medium Term Note Programme (as from *[insert issue date for the Notes]*) for which purpose it is hereby submitted.

Citibank, N.A.

(as Principal Paying Agent)

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 5, 7, 8, 9 (except Condition 9(b)), 13, 14, 15, 16 (insofar as such Notes are not listed on any stock exchange) or 19, they will not necessitate the preparation of supplementary Listing Particulars. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, supplementary Listing Particulars will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by United Utilities PLC, NORWEB plc or North West Water Finance PLC ("NWW") (each an "Issuer" and, together, the "Issuers") constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the "Trust Deed") dated 13 October, 1998 made between the Issuers, North West Water Limited (the "Guarantor") as guarantor of Notes issued by NWW and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include any successor as trustee).

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

- (i) in relation to any Notes represented by a global Note (a "Global Note"), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

References herein to the "relevant Issuer" shall be to the Issuer of the Notes named as such in the applicable Pricing Supplement (as defined below).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 13 October, 1998 and made between the Issuers, the Guarantor, Citibank, N.A. as issuing and principal paying agent and agent bank (the "Principal Paying Agent", which expression shall include any successor principal paying agent), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents) and the Trustee.

Interest bearing definitive Notes (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("Coupons") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "applicable Pricing Supplement" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

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

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

Copies of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at 12 October, 1998 at Princes House, 95 Gresham Street, London EC2V 7LY) and at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

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

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Interest Note, an Indexed Redemption Amount Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, or a combination of any of the foregoing, depending upon the Interest/Payment Basis shown in the applicable Pricing Supplement.

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and/or Cedel Bank, société anonyme ("Cedel Bank"), each person (other than Euroclear or Cedel Bank) who is for the time being shown in the records of Euroclear or of Cedel Bank as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Cedel Bank as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Guarantor (where the relevant Issuer is NWW), the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, the Guarantor (where the relevant Issuer is NWW), any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

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

and/or Cedel Bank shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the relevant Issuer, the Principal Paying Agent and the Trustee.

2. Status of the Notes

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the relevant Issuer and rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3. The Guarantee

The payment of principal, premium (if any) and interest in respect of the Notes and all other moneys payable by NWW under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed (the "Guarantee"). The obligations of the Guarantor under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid and save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

4. Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed) neither the relevant Issuer nor the Guarantor (where the relevant Issuer is NWW) will create or permit to subsist any mortgage, charge, pledge, lien or other form of security interest upon the whole or any part of its undertaking, revenues or assets, present or future, to secure payment of any present or future Relevant Indebtedness (as defined below) of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) or any Subsidiary (as defined in the Trust Deed) of either the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor or to secure any guarantee or indemnity in respect thereof, without at the same time according to the Notes or, as the case may be, the Guarantee, to the satisfaction of the Trustee, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity, or such other security as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

"Relevant Indebtedness" means any present or future indebtedness (whether being principal, premium or interest) for borrowed money (other than indebtedness for borrowed money with an initial maturity falling 20 years or more after the issue of the Notes and having a maximum principal amount outstanding at any time not exceeding the greater of £250,000,000 and 20 per cent. of Adjusted Capital and Reserves (as defined in Condition 12) or indebtedness for borrowed money which has a stated maturity not exceeding one year) which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash and which, with the agreement of the relevant issuer, are quoted, listed, dealt in or traded on a stock exchange or over the counter or other recognised securities market (whether or not distributed by way of private placement).

5. ECU Notes

(a) Application of this Condition

This Condition only applies if the Notes are denominated or payable in ECU.

(b) Value and composition of the ECU

Subject to Condition 8(e), the ECU in which the Notes are denominated or payable ("ECU") will be the same as the ECU, as referred to in Article 109g of the Treaty establishing the European Communities, as amended by the Treaty on European Union (such first-mentioned Treaty as so amended, the "Treaty") and as defined in Council Regulation (EC) No 3320/94, that is from time to time used as the unit of account of the European Communities (the "EC"). Changes to the ECU may be made by the EC in which event the ECU will change accordingly. References to the ECU shall be deemed to be references to the ECU as so changed from time to time.

- (c) Provisions applicable from the start of the third stage of European economic and monetary union

Notwithstanding the other provisions of these Terms and Conditions, on and after the Commencement Date:

- (i) all payments in respect of the Notes, the Receipts and the Coupons will be made solely in euro, including payments of interest in respect of periods commencing before the Commencement Date, as though references in the Notes to ECU were to euro;
- (ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (iii) references in these Terms and Conditions to "ECU Settlement Day" shall be read as references to any day on which the TARGET system (as defined in Condition 6) is open;
- (iv) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Commencement Date is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (i) the number of those days falling in a leap year divided by 366 and (ii) the number of those days falling in a non-leap year divided by 365);
- (v) if the Notes are Floating Rate Notes the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest.

In this paragraph (c), "Commencement Date" means the start of the third stage of European economic and monetary union pursuant to the Treaty.

6. Redenomination and Exchange

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the relevant Issuer may, without the consent of the Trustee, the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Trustee, the Principal Paying Agent, Euroclear and Cedel Bank and at least 30 days' prior notice to the Noteholders in accordance with Condition 16, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the relevant Issuer determines, with the consent of the Trustee and the Principal Paying Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the relevant Issuer shall promptly notify the Noteholders in accordance with Condition 16, the stock exchange (if any) on which the Notes are listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the relevant Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Trustee and the Principal Paying Agent may

approve) euro 0.01 and such other denominations as the Trustee and the Principal Paying Agent shall determine and notify to the Noteholders in accordance with Condition 16;

- (iv) if definitive Notes have been issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the relevant Issuer gives notice (the "Exchange Notice") that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the relevant Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Trustee and the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
 - (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
 - (vi) paragraph (B) of the definition of Business Day in Condition 7(b) shall read as follows:

"either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is New Zealand dollars, shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET system is open.";
 - (vii) sub-paragraph (iii) of the definition of Payment Day in Condition 8(f) shall read as follows: "in relation to Notes denominated or payable in euro, a day on which the TARGET system is open.";
 - (viii) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (i) the number of those days falling in a leap year divided by 366 and (ii) the number of those days falling in a non-leap year divided by 365);
 - (ix) if the Notes are Floating Rate Notes the applicable Pricing Supplement specifies any relevant changes to the provisions relating to interest.
- (b) Exchange

Where exchange is specified in the applicable Pricing Supplement as being applicable, the relevant Issuer may, without the consent of the Trustee, the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Trustee, the Principal Paying Agent, Euroclear and Cedel Bank and not less than 30 days' prior notice to the Noteholders in accordance with Condition 16, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be exchangeable for Notes expressed to be denominated in euro in accordance with such arrangements as the relevant Issuer may decide, with the consent of the Trustee and the Principal Paying Agent, and as may be specified in the notice, including arrangements under which Receipts and Coupons unmatured at the date so specified become void.

(c) Definitions

In this Condition, the following expressions have the following meanings:

"Established Rate" means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 109(4) of the Treaty;

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

"Redenomination Date" means the date (being, in the case of interest bearing Notes, a date for payment of interest) specified as such by the relevant Issuer in the notice given to the Noteholders pursuant to paragraph (a) or, as the case may be, (b) above and which falls on or after the start of the third stage of European economic and monetary union pursuant to the Treaty or, if the country of the Specified Currency is not one of the countries then participating in such third stage, which falls on or after such later date as it does so participate and which falls before the date on which the Specified Currency ceases to be a sub-division of the euro; and

"TARGET system" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

7. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Fixed Rate(s) of Interest payable in arrear on the Fixed Interest Date(s) in each year and on the Maturity Date if that does not fall on a Fixed Interest Date.

Payments of interest on any Fixed Interest Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount(s) so specified.

If interest is required to be calculated for a period of other than a full year, such interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each.

(b) Interest on Floating Rate Notes and Indexed Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Indexed Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no express Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 7(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (A) a day on which commercial banks and foreign exchange markets settle payments in London and any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than ECU, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is New Zealand dollars, shall be Auckland) or (2) in relation to any sum payable in ECU, an ECU Settlement Day (as defined in the 1998 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes, published by the International Swaps and Derivatives Association, Inc. (the "ISDA Definitions") but not including part (b) of such definition).

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

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

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) Minimum and/or maximum Rate of Interest

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

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

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Indexed Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Indexed Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

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

applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if "Actual/365" or "Actual/Actual" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
 - (ii) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
 - (iii) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
 - (iv) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
 - (v) if "30E/360" or "Eurobond Basis" is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer and any stock exchange on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 16 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 8(e)) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 16.

- (vi) Determination or Calculation by Trustee

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any minimum or

maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Guarantor (where the relevant Issuer is NWW), the Principal Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the relevant Issuer, the Guarantor (where the relevant Issuer is NWW), the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) Interest on Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Pricing Supplement.

(d) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) Accrual of interest

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

8. Payments

(a) Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than ECU will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland); and
- (ii) payments in ECU will be made by credit or transfer to an ECU account specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10.

(b) Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in

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

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the relevant Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes or Indexed Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

(c) Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the relevant Issuer or, as the case may be, the Guarantor (where the relevant Issuer is NWW) will be discharged by payment to, or to the order

of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear and Cedel Bank as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear and Cedel Bank, as the case may be, for his share of each payment so made by the relevant Issuer or, as the case may be, the Guarantor (where the relevant Issuer is NWW) to, or to the order of, the holder of such Global Note.

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

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

If any payment of principal or interest in respect of a Note, Receipt or Coupon is to be made in ECU and, on the relevant due date, the ECU is used neither as the unit of account of the EC nor as the currency of the European Union, the Trustee shall, without liability on its part and without having regard to the interests of individual Noteholders, Receiptholders or Couponholders and after consultation, if practicable, with the relevant Issuer, choose a currency which was a component of the ECU when the ECU was most recently used as the unit of account of the EC (the "chosen currency") in which all payments due on that due date with respect to such Notes, Receipts and Coupons shall be made. Notice of the chosen currency selected by the Trustee shall, where practicable, be published in accordance with Condition 16. The amount of each payment in such chosen currency shall be computed on the basis of the equivalent of the ECU in that currency, determined as set out in this paragraph (e), as of the fourth London Business Day prior to the date on which such payment is due. For the purposes of this paragraph (e), the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

Without prejudice to the preceding paragraph, on the first London Business Day from which the ECU is used neither as the unit of account of the EC nor as the currency of the European Union, the Trustee shall, without liability on its part and without having regard to the interests of individual Noteholders, Receiptholders or Couponholders and after consultation, if practicable, with the relevant Issuer, choose a currency which was a component of the ECU when the ECU was most recently used as the unit of account of the EC (also the "chosen currency") in which all payments with respect to Notes, Receipts and Coupons having a due date prior thereto but not yet presented for payment are to be made. The amount of each payment in such chosen currency shall be computed on the basis of the equivalent of the ECU in that currency, determined as set out in this paragraph (e), as of such first London Business Day.

The equivalent of the ECU in the relevant chosen currency as of any date (the "Day of Valuation") shall be determined on the following basis by the Principal Paying Agent. The component currencies of the ECU for this purpose (the "Components") shall be the currency amounts which were components of the ECU as of the last date on which the ECU was used as the unit of account of the EC.

The equivalent of the ECU in the chosen currency shall be calculated by first aggregating the U.S. dollar equivalents of the Components, and then, using the rate used for determining the U.S.

dollar equivalent of the Component in the chosen currency as set forth below, calculating the equivalent in the chosen currency of such aggregate amount in U.S. dollars.

The U.S. dollar equivalent of each of the Components shall be determined by the Principal Paying Agent on the basis of the middle spot delivery quotations prevailing at 11.00 a.m. (London time) on the Day of Valuation, as obtained by the Principal Paying Agent from one or more leading banks as selected by the Principal Paying Agent in the country of issue of the Component in question.

If the official unit of any Component is altered by way of combination or subdivision, the number of units of that Component shall be divided or multiplied in the same proportion. If two or more Components are consolidated into a single currency, the amounts of those Components shall be replaced by an amount in such single currency equal to the sum of the amounts of the consolidated Components expressed in such single currency. If any Component is divided into two or more currencies, the amount of that Component shall be replaced by amounts of such two or more currencies each of which shall be equal to the amount of the former Component divided by the number of currencies into which that Component was divided.

If no direct quotations are available for a Component as of a Day of Valuation from any of the banks selected by the Principal Paying Agent for this purpose because foreign exchange markets are closed in the country of issue of that Component or for any other reason, the most recent direct quotations for that Component obtainable by the Principal Paying Agent shall be used in computing the U.S. dollar equivalent of the ECU on such Day of Valuation, provided, however, that such most recent quotations may be used only if they were prevailing in the country of issue of each Component not more than two London Business Days before such Day of Valuation. If the most recent quotations obtained by the Principal Paying Agent are those which were so prevailing more than two London Business Days before such Day of Valuation, the Principal Paying Agent shall determine the U.S. dollar equivalent of such Component on the basis of cross rates derived from the middle spot delivery quotations for such Component and for the U.S. dollar prevailing at 11.00 a.m. (London time) on such Day of Valuation, as obtained by the Principal Paying Agent from one or more leading banks, as selected by the Principal Paying Agent, in a country other than the country of issue of such Component. If such most recent quotations obtained by the Principal Paying Agent are those which were so prevailing not more than two London Business Days before such Day of Valuation, the Principal Paying Agent shall determine the U.S. dollar equivalent of such Component on the basis of such cross rates if it judges that the U.S. dollar equivalent so calculated is more representative than the U.S. dollar equivalent calculated on the basis of such most recent direct quotations. If there is more than one market for dealing in any Component by reason of foreign exchange regulations or for any other reason, the market to be referred to in respect of such Component shall be that upon which a non-resident issuer of securities denominated in such Component would ordinarily purchase such Component in order to make payments in respect of such securities.

All choices and determinations made by the Trustee or the Principal Paying Agent for the purposes of this paragraph (e) shall be at its sole discretion and shall, in the absence of manifest error, be conclusive for all purposes and binding on the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) and all Noteholders, Receiptholders and Couponholders.

Whenever a payment is to be made in a chosen currency as provided in this paragraph (e), such chosen currency shall be deemed to be the Specified Currency for the purposes of the other provisions of this Condition.

From the start of the third stage of the European economic and monetary union, all payments in respect of Notes denominated or payable in ECU will be payable in euro at the rate of one euro for one ECU. This paragraph 8(e) will not result in a payment in a Component in such circumstances.

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 11) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments in the relevant place of presentation;
 - (ii) a Business Day (as defined in Condition 7(b)(i)); and
 - (iii) in relation to Notes denominated or payable in ECU, a day on which payments in ECU can be settled by commercial banks and in foreign exchange markets in the city in which the relevant account for payment is located.
- (g) Interpretation of principal and interest

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

- (i) any additional amounts which may be payable with respect to principal under Condition 10;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 9(e)); and
- (vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10.

9. Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and in each case cancelled as specified below, each Note will be redeemed by the relevant Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the relevant Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Indexed Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), if the relevant Issuer satisfies the Trustee immediately before the giving of the notice referred to above that on the occasion of the next payment due under the Notes, the relevant Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 or the Guarantor (where the relevant Issuer is NWW) would be unable for reasons outside its control to procure payment by the relevant Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer or, as the case may be, the Guarantor (where the relevant Issuer is NWW) would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

Notes redeemed pursuant to this Condition 9(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the relevant Issuer

If the relevant Issuer is specified in the applicable Pricing Supplement as having an option to redeem, the relevant Issuer may, having given:

- (i) not less than 30 nor more than 90 days' notice to the Noteholders in accordance with Condition 16; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee and the Principal Paying Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Higher Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Cedel Bank, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 16 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the relevant Issuer to the Noteholders in accordance with Condition 16 at least five days prior to the Selection Date.

(d) Redemption at the option of the Noteholders

If the Noteholders are specified in the applicable Pricing Supplement as having an option to redeem, upon the holder of any Note giving to the relevant Issuer in accordance with Condition 16 not less than 15 nor more than 30 days' notice the relevant Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, in whole (but not in part), such Note on the Optional Redemption Date and at the

Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

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

(e) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 12, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

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

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or such other calculation basis as may be specified in the applicable Pricing Supplement.

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) Purchases

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

(i) Cancellation

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

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 12 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 16.

10. Taxation

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

- (i) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note, Receipt or Coupon; or
- (ii) in the United Kingdom; or
- (iii) to, or to a third party on behalf of, a holder who would not be liable to such withholding or deduction if such holder had made a declaration of non-residence or similar claim for exemption to any authority of or in the United Kingdom; or
- (iv) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day.

As used herein, the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 16.

11. Prescription

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

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8(b) or any Talon which would be void pursuant to Condition 8(b).

12. Events of Default

- (a) The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, (but, in the case of the happening of any of the events mentioned in paragraphs (ii), (iii), (v), (vi) and (vii) below in relation to the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) and (iii) to (vii) below (inclusive) in relation to a Material Subsidiary, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the relevant Issuer that the Notes are, and they shall accordingly thereupon become, immediately due and repayable at their Early Redemption Amount, together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:
- (i) if default is made by the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor for a period of 14 days or more in the payment of any principal or interest due in respect of the Notes or any of them; or
 - (ii) if default is made by the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor in the performance or observance of any material obligation, condition or provision binding upon it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof has been given by the Trustee to the relevant Issuer or, as the case may be, the Guarantor (where the relevant Issuer is NWW) requiring the same to be remedied; or
 - (iii) (1) any indebtedness for moneys borrowed (as defined below) of the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary or (2) any present or future guarantee for, or indemnity in respect of, any indebtedness for moneys borrowed of any person given by the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary where the relevant indebtedness for moneys borrowed when aggregated with all other indebtedness for moneys borrowed in respect of which one or more other events referred to in this paragraph (iii) shall have occurred exceeds whichever is the greater of £30,000,000 (or the equivalent in other currencies as determined by the Trustee) and two per cent. of the Adjusted Capital and Reserves:
 - (i) is not paid or repaid or honoured when due or within any applicable grace period; or
 - (ii) is declared to be or becomes enforceable, redeemable or repayable prior to the due date for payment thereof as a result of any actual default by the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary, as the case may be, or as a result of an event of default (howsoever described) in relation thereto, unless such default or event of default is waived or remedied (to the satisfaction of the Trustee) within thirty business days, except, in any such case, where there is a *bona fide* dispute as to payment; or
 - (iv) if an order is made or a resolution is passed for the winding up of, or an administration order is made in relation to, the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any

- Material Subsidiary (save, in the case of a Material Subsidiary, (i) with the prior consent of the Trustee or the prior sanction of an Extraordinary Resolution for the purposes of or in connection with an amalgamation or reconstruction, or (ii) a voluntary solvent winding-up where surplus assets are available for distribution); or
- (v) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the undertaking, property and assets of the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary or if a distress, execution or other process is levied or enforced upon or sued out against the whole or any substantial part of the assets of the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary and, in the case of any of the foregoing events, is not discharged within 60 days or such longer period as the Trustee may allow; or
 - (vi) if the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986; or
 - (vii) if the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any Material Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in any case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (a) not involving or arising out of the insolvency of the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or a Material Subsidiary and under which all or substantially all of its assets are transferred to the relevant Issuer (in the case of the Guarantor (where the relevant Issuer is NWW) or a Material Subsidiary) or (where the relevant Issuer is NWW) the Guarantor (in the case of NWW or a Material Subsidiary) or one or more of the relevant Issuer's or (where the relevant Issuer is NWW) the Guarantor's Subsidiaries or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Material Subsidiary or Material Subsidiaries provided that this exception (a) shall not apply where the transferor company is the relevant Issuer or (where the relevant issuer is NWW) the Guarantor unless assets comprising the major part by value of the assets owned by the relevant transferor company immediately prior to such transfer are transferred to a single transferee company and contemporaneously with such transfer (1) where the transferor company is the relevant Issuer (y) such transferee company assumes (to the satisfaction of the Trustee) all the obligations of the transferor company as principal debtor in respect of the Notes and (z) such transferor company or (where the relevant Issuer is NWW) the Guarantor unconditionally and irrevocably guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by such transferee company as the new principal debtor and (2) where the transferor company is the Guarantor, such transferee company guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by NWW as the relevant Issuer in respect of the Notes or (b) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration on an arm's length basis or (c) the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders provided that neither the relevant Issuer nor the Guarantor (where the relevant Issuer is NWW) nor any Material Subsidiary shall be deemed to have ceased to carry on the whole or substantially the whole of its business solely by reason of any forced divestiture imposed by any government or regulatory body or in consequence of the loss of the Appointment or the PES Licence; or
 - (viii) in the case of Notes issued by NWW, the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.
- (b) For the purposes of this Condition:
- "Accounts" means a consolidation of the annual statutory accounts of the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor and (in each case) its Subsidiary Undertakings as prepared, audited and reported upon by the Auditors in accordance with the historical cost convention method as modified, if applicable, by the revaluation of land and buildings and otherwise in accordance with United Kingdom generally accepted accounting practices and principles;
- "Adjusted Capital and Reserves" means at any time a sum equal to the aggregate of:
- (i) the amount paid up or credited as paid up on the issued share capital of the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor; and

- (ii) the amounts standing to the credit of the capital and revenue reserves of the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor and its Subsidiary Undertakings (including any share premium account and capital redemption reserve) after adding thereto any balance standing to the credit of the profit and loss account;

all based on the consolidated balance sheet of the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor and its Subsidiary Undertakings as contained in the then latest Accounts but after:

- (i) excluding all sums set aside for taxation (whether in respect of deferred taxation or otherwise);
- (ii) making such adjustments as may be appropriate in respect of any variation in the amount of such share capital or such reserves subsequent to the relevant balance sheet date and so that for this purpose share capital allotted shall be deemed to have been issued and if any issue or proposed issue of shares by the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) for cash has been underwritten then such shares shall be deemed to have been issued and the amount (including any premium) of the subscription moneys payable in respect thereof (not being moneys payable later than six months after the date of allotment) shall to the extent so underwritten be deemed to have been paid up on the date when the issue of such shares was underwritten (or, if such underwriting was conditional, on the date when it became unconditional in all respects);
- (iii) making such adjustments as may be appropriate in respect of any distributions declared, recommended or made by the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) or any of their Subsidiary Undertakings out of profits earned up to and including the date of such balance sheet to the extent that such distribution is not provided for in such balance sheet;
- (iv) making such adjustments as may be appropriate in respect of any variation in the interests of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) in their respective Subsidiary Undertakings (including, but without limiting the generality of the foregoing, any acquisition of a new Subsidiary Undertaking or disposal of an interest which causes an undertaking to cease to be a Subsidiary Undertaking) since the date of such balance sheet;
- (v) if the calculation is required for the purposes of or in connection with a transaction under or in connection with which any company is to become or cease to be a Subsidiary Undertaking of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW), making all such adjustments as would be appropriate if such transaction had been carried into effect;
- (vi) excluding all minority interests and other third party interests in Subsidiary Undertakings of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW);
- (vii) deducting any balance to the debit of the profit and loss account;
- (viii) deducting all amounts (if any) attributable to goodwill or any other intangible assets;
- (ix) excluding such part of the interests of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) or any of their respective Subsidiary Undertakings in an associated company (as defined in the Trust Deed), not being a Subsidiary Undertaking of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW), as is attributable to any post-acquisition undistributed profits and reserves, but including such interests at original cost or, if lower, book value;
- (x) deducting (if not otherwise excluded) such amount as the Auditors shall consider appropriate in respect of any deferred taxation liabilities on the net amount by which the fixed assets of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) and their respective Subsidiary Undertakings shall have been written up as a result of any revaluation, and for this purpose a transfer of any assets by the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) to any of their respective Subsidiary Undertakings, or by any of their respective Subsidiary Undertakings to the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) or another of their respective Subsidiary Undertakings, for a consideration in excess of the book value thereof shall be deemed to be a writing up of the book value of such asset as a result of a revaluation;

- (xi) deducting therefrom all amounts attributable (whether by way of share or loan capital or otherwise) to the interests of the relevant Issuer or the Guarantor (where the relevant Issuer is NWW) and their respective Subsidiary Undertakings (other than Excluded Subsidiaries) in Excluded Subsidiaries; and

- (xii) making such other adjustments (if any) as the Auditors may consider appropriate;

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

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

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

"Appointment" means the Instrument of Appointment dated 24 August, 1989 under Sections 11 and 14 of the Water Act 1989 (as varied from time to time) appointing North West Water Limited as a water undertaker and sewerage undertaker;

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

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

"Group" means the relevant Issuer or (where the relevant Issuer is NWW) the Guarantor and their respective Subsidiaries and "member of the Group" shall be construed accordingly;

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

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

or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"PES Licence" means the public electricity supply licence granted by the Secretary of State for Energy to NORWEB plc;

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

- (a) which is incurred by an Excluded Subsidiary; or
- (b) in respect of which the person or persons to whom any such indebtedness for moneys borrowed is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
 - (i) recourse for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset; and/or
 - (ii) recourse for the purpose only of enabling amounts to be claimed in respect of such indebtedness for moneys borrowed in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for moneys borrowed, provided that (1) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (2) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for moneys borrowed, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
 - (iii) recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation by the person against whom such recourse is available (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition);

"Subsidiary" means a subsidiary within the meaning of Section 736 of the Companies Act 1985; and

"Subsidiary Undertaking" has the meaning ascribed thereto in Section 258 of the Companies Act 1985 (but, in relation to each Issuer or (where the relevant Issuer is NWW) the Guarantor, shall exclude any Subsidiary Undertaking whose accounts are not included in the then latest Accounts, or (in the case of a Subsidiary Undertaking which has first become a Subsidiary Undertaking of a member of the Group since the date as at which such Accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

13. Replacement of Notes, Receipts, Coupons and Talons

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

14. Agents

The names of the initial Paying Agents and their initial specified offices are set out below.

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

- (i) there will at all times be a Principal Paying Agent;
- (ii) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange; and
- (iii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in continental Europe.

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

15. Exchange of Talons

On and after the Fixed Interest Date or the Interest Payment Date, as appropriate, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 11.

16. Notices

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

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

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

17. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the relevant Issuer or the Trustee and shall be convened by the relevant Issuer at the request of Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate or amount of interest payable in respect of the Notes or

altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

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

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

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except, in the case of the relevant Issuer and (where the relevant Issuer is NWW) the Guarantor, to the extent provided for in Condition 10 and/or any undertaking given in addition to, or in substitution for, Condition 10 pursuant to the Trust Deed.

Any such modification shall be binding on the Noteholders, the Receiptholders and, the Couponholders and, unless the Trustee otherwise agrees, any such modification shall be notified to the Noteholders in accordance with Condition 16 as soon as practicable thereafter.

18. Indemnification of the Trustee and its Contracting with the relevant Issuer and (where the relevant Issuer is NWW) the Guarantor

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

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

19. Further Issues

The relevant Issuer is at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes

or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides.

20. Substitution

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

- (i) of any Subsidiary of United Utilities PLC in place of United Utilities PLC as principal debtor, subject to the irrevocable and unconditional guarantee of United Utilities PLC; or
- (ii) of any Subsidiary of NORWEB plc in place of NORWEB plc as principal debtor, subject to the irrevocable and unconditional guarantee of NORWEB plc; or
- (iii) of the Guarantor in place of NWW (in which case the Guarantee of the Guarantor shall cease and determine) or any other Subsidiary of the Guarantor as principal debtor subject, in the case of any such other Subsidiary of the Guarantor, to the irrevocable and unconditional guarantee of the Guarantor.

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

21. Governing Law

The Trust Deed (including the Guarantee), the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the relevant Issuer for its general corporate purposes.

DESCRIPTION OF THE ISSUERS AND THE GUARANTOR

United Utilities PLC (the "Company") is the holding company of a multi-utility business in the UK that provides services for the benefit of approximately seven million persons primarily in North West England and participates in operating contracts to serve approximately 32 million persons outside the UK. The Company, previously called North West Water Group PLC, was incorporated and registered in England and Wales on 1 April, 1989 and provides water and wastewater services in North West England through its wholly owned subsidiary, North West Water Limited ("North West Water"). In November 1995, North West Water Group PLC acquired all the issued share capital of NORWEB plc, the distributor and supplier of electricity in North West England, to form a multi-utility group. Shortly after the acquisition of NORWEB plc, North West Water Group PLC changed its name to United Utilities PLC.

United Utilities is organised into six operating businesses: water and wastewater (North West Water), electricity distribution (Norweb Distribution), electricity and gas supply (ENERGi), telecommunications (Norweb Communications), facilities management and business operations outsourcing services (Vertex) and water, wastewater and electricity distribution and supply outside England and Wales (United Utilities International).

WATER AND WASTEWATER

The Water Industry in England and Wales

The UK government privatised the provision of water supply and wastewater services in England and Wales in 1989. At privatisation, pursuant to the Water Act 1989 (the "Water Act"), the functions of each existing water authority relating to water supply (except in areas where those functions were carried out through statutory water companies) and the provision of wastewater services were transferred on 1 September, 1989 to regional water and wastewater companies. In the case of North West England the relevant company was North West Water Limited, a wholly owned subsidiary of North West Water Group PLC (as the Company was then called). At privatisation, certain of the water authorities' other functions, including pollution control, water resource management, fisheries, flood protection and alleviation and land drainage were transferred to other government agencies and now all fall within the co-ordination of the Environment Agency, the government environmental agency in England and Wales.

The Water Industry Act 1991 (the "Water Industry Act"), which consolidated the Water Act, provides that each company engaged in water supply or wastewater services must be licensed by the Secretary of State for the Environment or by the Director General of Water Services ("DGWS"), in accordance with a general authorisation given by the Secretary of State for the Environment.

North West Water

Water services

Water supply

North West Water draws water from 143 reservoirs with storage capacities ranging from less than 30 megalitres to almost 85,000 megalitres. The total storage capacity of these reservoirs is approximately 455,000 megalitres. North West Water enjoys the advantage of having the majority of its direct reservoirs in the uplands of the Lake District, an area of North West England, where the average annual rainfall is more than twice the national average for England, and the Pennine hills on the eastern edge of North West England, whereas the major population centres in North West England are in the lowlands of Merseyside, Greater Manchester, Lancashire and Cheshire. As a result, a significant proportion of water put into supply flows freely by gravity rather than being pumped.

Water treatment and distribution

North West Water operates 147 primary water treatment works with maximum throughputs varying from less than 0.03 megalitres per day to nearly 640 megalitres per day. All water supplied receives treatment with a view to meeting the appropriate standards determined by the Drinking Water Inspectorate, the government regulator of drinking water quality in England and Wales. The type of treatment varies from disinfection only for some borehole and stream sources, to more complex processes using coagulation, clarification, and activated carbon absorption and ozonation for some lowland waters. North West Water has incorporated a number of new treatment processes including membrane microfiltration. North West Water monitors water quality through a programme in which samples are analysed regularly for both microbiological and chemical parameters.

The average 2,100 megalitres of water distributed per day by North West Water to its customers is distributed through a network of approximately 40,500 kilometres of aqueducts, trunk and distribution mains and 497 service reservoirs.

Wastewater services

Collection

Under its licence, North West Water is responsible for the collection, treatment and disposal of domestic sewage, trade effluent and surface water. Surface water, mainly from groundwater infiltration and highway drainage, forms a major part of the wastewater of which North West Water must dispose. Where practicable, separate sewers are provided for sewage and surface water. North West Water operates and maintains approximately 32,700 kilometres of sewers.

Treatment and disposal

North West Water's wastewater works provide a range of treatments which includes primary, enhanced primary, secondary activated sludge, secondary biological, tertiary activated sludge and tertiary biological. Treated liquid final effluent is discharged into rivers, estuaries or via sea outfalls. Of the total sewage sludge (the solid residue of the treatment process) remaining after the treatment of wastewater, approximately 48 per cent. is disposed of to sea, approximately 33 per cent. on agricultural land and approximately 19 per cent. in landfill. In accordance with the European Union Urban Waste Water Treatment Directive, the disposal of sludge into the sea must cease by 1 January, 1999. North West Water has commissioned the construction of a sludge processing centre at Shell Green, Widnes, which will be capable of processing, mainly by incineration, approximately 86,000 tonnes of dry solids per annum. North West Water believes that it is in material compliance with all current environmental regulatory requirements and anticipates that it will be in material compliance with the European Union Urban Waste Water Treatment Directive by 1 January, 1999.

As required by the European Union Bathing Water Directive, the Environment Agency tests 33 bathing waters in North West England. In the 1997 bathing season, 16 out of the 33 bathing waters passed the compliance tests. Capital projects have been undertaken to reduce the likelihood of failures being attributable to North West Water's operations. These projects have been included within North West Water's capital improvement programmes discussed below. A new programme of capital improvement is now underway; this programme is also discussed below.

Capital improvement programmes

At the time of privatisation in 1989, the infrastructure inherited by North West Water from the North West Water Authority was in need of substantial repair and replacement, some of the aqueducts, water mains and wastewater collection and treatment facilities, for example, being many decades old. Further improvements have been required in order to comply with applicable UK and European Union environmental regulations.

Between April 1990 and March 2000, North West Water has spent (to 31 March, 1998) and is expected to spend the following:

Water supply

Approximately £1,260 million is expected to be spent on improvements to its water distribution system, of which £970 million has been expended, and approximately £670 million is expected to be spent on improvements to its water supply and treatment facilities, of which £600 million has been expended. Major investments in the supply, treatment and distribution of clean water since privatisation have included construction of new and major improvements to existing water treatment works (£410 million), improvements to water resources and leakage control initiatives (£150 million), and an average of £100 million per year spent on renewing or refurbishing approximately 700 kilometres of old cast iron pipes each year.

Wastewater

Approximately £1,200 million is expected to be spent on improvements to its wastewater network, of which £790 million has been expended, and approximately £1,600 million is expected to be spent on improvements to its wastewater treatment and disposal facilities of which £1,280 million has been expended. Major investments in the collection, treatment and disposal of wastewater since

privatisation have included construction of new and major improvements to existing wastewater treatment works (£950 million), improvements in sludge treatment and disposal including construction of a major new sludge treatment facility (£90 million to date), and refurbishment of the sewerage infrastructure (£215 million). North West Water has completed its Sea Change programme which was commenced in 1994 and designed to reduce significantly the amount of pollution entering the Irish Sea from North West Water's wastewater system. As part of this programme, North West Water has spent around £400 million in improvements to its wastewater treatment works along the coast of North West England. In addition, the Environment Agency has recently directed that an additional programme of work (estimated at over £100 million) be undertaken to further reduce storm water discharges and to upgrade a number of wastewater treatment works to meet new, higher environmental standards. Discharges from these works had not previously been thought by the Environment Agency to have any effect on bathing waters. Subject to the approval of the Office of Water Services ("Ofwat"), this work will be undertaken in the near future with the aim of completing a substantial part by the 1999 bathing season.

The implementation of a large part of North West Water's capital investment programme is managed by an affiliate of Bechtel Group, Inc. (a large US construction company). The arrangement with Bechtel is designed to increase efficiencies in executing the capital expenditure programme as well as to minimise the Company's construction risks. The Company is also co-operating with Bechtel on water and wastewater projects outside the UK, see "International Operations."

Water and wastewater regulation

Environmental regulation

The water and wastewater industry in the UK is subject to substantial domestic and European Union regulation, including the Drinking Water Directive, the Bathing Water Directive and the Urban Waste Water Treatment Directive. These European Union directives are implemented by applicable UK laws and regulations, including the Water Act, the Water Industry Act, the Water Resources Act 1991 (as amended) (the "Water Resources Act") and the Control of Pollution Act 1974 (as amended).

The Water Industry Act provides for the appointment by the Secretary of State for the Environment of an industry regulator, the DGWS. The DGWS has overall regulatory authority over North West Water's water and wastewater operations. The DGWS holds office for renewable periods of five years and is the head of Ofwat and its staff of administrators, economists and accountants. The current DGWS was appointed as the first DGWS in 1989 and was subsequently re-appointed for a five year term which expires on 30 June, 2000.

Broadly, the Water Act (since consolidated by the Water Industry Act) established a new, more extensive and more stringent quality regime for the water and wastewater industry through the creation of the National Rivers Authority (now part of the Environment Agency) and the Drinking Water Inspectorate. At the same time, a new system of economic regulation was established through the DGWS and provision made for the appointment of licensed providers of water and wastewater services for each area, subject to certain conditions.

Under the Water Industry Act and the related Water Quality Regulations, North West Water has significant statutory obligations with regard to the quality of treated water. Compliance with the standards in the Water Quality Regulations is determined by comparing the results of sample analysis with the prescribed limit for the relevant parameter.

Whilst the nature of developments in environmental regulation and control cannot be predicted, it is anticipated that the direction of future changes will be towards further tightening of controls. In view of the age and history of many sites owned by the Company and its subsidiaries, liabilities may be incurred in respect of sites which are found to be contaminated, together with increased costs of managing or cleaning up such sites. Environmental legislation requires the polluter (or if the polluter cannot be found or has legally transferred its responsibilities, the owner or occupant) of contaminated land to clean up any contamination which causes, or is likely to cause, significant harm to the environment or any pollution of controlled waters, so that environmental compliance is consistent with the intended use of the site. Other proposals which may impose strict liability for environmental damage are also under consideration by the European Union. The Company does not believe that any liability which it may have under environmental legislation or published European Union directives will have a materially adverse impact on its results of operations, financial position and liquidity. The environmental management systems which the Company

has in place are designed to ensure compliance with European Union directives, UK legislation and company policy.

Economic regulation

Providers of water and wastewater services hold licences for specified areas of England and Wales, such as North West England in the case of North West Water. Pursuant to its licence, each provider is subject to controls over its prices. Price caps are set by the DGWS for a period of ten years, but are subject to review at intervals of five years at the option of the DGWS or the provider. Reviews are known as "periodic reviews." The DGWS has so far always exercised the option to review at five year intervals and has announced his intention to modify water companies' licences to formalise a five-year duration of price limitations. Regulation in the UK is performance based. As such, the UK regulatory system is intended to reward water service companies for efficiency and quality of service to customers and allows water service companies not only to pass through certain capital costs, but also to retain a portion of any savings attributable to efficiencies which they are able to achieve in the implementation of their capital improvement programmes.

The main instrument of economic regulation is a price limitation formula set out in each water company's licence. This formula limits increases in a basket of principal charges made by water and wastewater companies for water supply and wastewater services. This formula is " $RPI + K = X$ ", where "RPI" is the retail price index, where "K" represents an adjustment factor (which may be positive, zero or negative) which is specific to each company (and which may be a different number in different years) reflecting that company's recent improvements in efficiency and quality, and where "X" is the maximum permitted percentage increase in charges to customers.

Price limitations are determined by the DGWS after consultation with the applicable water company and other interested parties, taking into account the particular circumstances affecting the water company, including its need to finance its capital improvements, the need to provide its shareholders with an adequate return on capital, environmental considerations, the need to protect the interest of customers, in particular by controlling prices, and other relevant factors. The DGWS uses the formula to limit price increases to reflect what each company needs to charge its customers in order to finance the provision of services to its customers.

North West Water's "K" factor was last reviewed during a periodic review conducted in July 1994 and price limitations were set effective from 1 April, 1995 to 31 March, 2005. During that periodic review, the DGWS developed a structure for determining "K" factors based upon a matrix of purpose and cost categories. The purpose categories comprise base service provision (the maintenance of existing levels of service), enhanced service levels, the supply/demand balance and obligatory quality enhancements. The cost categories were divided between operational expenditures and capital maintenance (including capital expenditure). The limits on North West Water's real price changes (i.e. in addition to RPI) resulting from that periodic review are +2.5 per cent. for each year until 31 March, 2000 and 0 per cent. for each year thereafter until 31 March, 2005. However, the DGWS has announced his intention to conduct another periodic review in 1999, with the result to become effective on 1 April, 2000. The DGWS has proposed a one-time downward adjustment in the "K" factor (resulting in reduced charges to customers). The DGWS is sympathetic to the view expressed by consumer bodies that this should be followed by a yet-to-be determined period of time during which price increases generally would not rise in real terms. The Company is not able to predict the outcome of the 1999 periodic review. However, the Company anticipates continued downward pressure on prices.

The Government issued guidance to the DGWS on 23 September, 1998 regarding quality improvements to be achieved by the water industry in England and Wales 2000-2005. The programme of measures outlined in the guidance is costed at between £8-£8.5 billion. The DGWS will take account of this when setting price limits. The Government has specified that despite the programme costs it still sees scope for substantial cuts in the average water bill.

In certain circumstances, the DGWS may propose amendments to the price control formula or the terms of the licence. In cases where the provider of water and wastewater services is not willing to accept modifications to the price control formula or other licence conditions put forward by the DGWS, the DGWS would be entitled to refer the matter to the Monopolies and Mergers Commission.

Charges to customers are calculated on the basis of separate charges for water supply and for wastewater services. Water and wastewater charges relating to the provision of services to domestic premises are generally based on pre-1990 rateable values of the customer's home together with a fixed or minimum charge and not on meter readings. Most water supplied to non-domestic customers is metered.

In April 1998, the Department of the Environment, Transport and the Regions issued new proposals for water charging contained in a consultation document. The four key measures proposed are:

- those who currently pay on an unmeasured basis and use water only for essential domestic purposes should be able to continue to do so in their present home;
- the threat of disconnection should be removed from domestic customers;
- domestic customers should have the choice of a meter, free of charge, if it suits their needs; and
- targeted help should be available for customers with special needs.

Regulation review

The UK government is currently reviewing the regulation of utilities (water, gas, electricity and telecommunications). A Green Paper was published in March 1998 setting out the government's proposals, which are subject to an on-going consultation process, and which include:

- imposing a single primary duty on utility regulators to exercise their functions in the manner best calculated to protect the interests of consumers wherever possible and appropriate through promoting effective competition;
- a suggestion that where utility companies benefit from specific factors outside their control or have deliberately misled the regulator by providing incomplete or inaccurate information to the regulator when the price cap was set, those benefits should flow to customers; and
- an invitation to the regulators to carry out a joint study of the regulatory issues associated with multi-utilities.

ELECTRICITY DISTRIBUTION

The electricity industry in Great Britain

The electricity industry in Great Britain consists of:

- *generation*, the production of electricity at power stations;
- *transmission*, the bulk transfer of electricity by high voltage power lines. In England and Wales, transmission is the responsibility of the National Grid Company plc and is conducted through the National Grid (the high voltage electricity transmission network owned and operated throughout England and Wales by the National Grid Company plc);
- *distribution*, the transfer of electricity from the National Grid to customer premises by lower voltage power lines. Distribution is carried out by regional electricity companies pursuant to their public electricity supply ("PES") licences and, in the case of the Company, is the responsibility of Norweb Distribution; and
- *supply*, the purchase of electricity from the Pool (see below) and its sale to final customers. Supply is carried out principally by 14 regional electricity companies pursuant to their PES licences and by other licenced suppliers and in the case of the Company, NORWEB plc is the licensee and electricity supply is the responsibility of ENERGi from Norweb.

Pursuant to the Electricity Act 1989 (as amended) (the "Electricity Act"), the businesses of the area boards (the North Western Electricity Board in the case of North West England) were transferred to twelve regional electricity companies each serving the same regional area of England and Wales as previously served by its predecessor area board. As part of the privatisation of the UK electricity industry in 1990, the property, rights and liabilities of the North Western Electricity Board were vested in NORWEB plc.

Throughout England and Wales, electricity generation, together with transmission and distribution systems, constitute a single integrated network. Almost all electricity generated at power stations in England and

Wales is delivered through the National Grid. It is then transmitted for delivery to the local distribution networks owned and operated by PES licence holders, such as NORWEB plc, and then delivered to the final customers from these networks.

The Secretary of State for Trade and Industry and the Director General of Electricity Supply ("DGES") are the principal regulators of the industry and each is given specific responsibilities under the Electricity Act. The responsibilities of the Secretary of State for Trade and Industry include licensing and the regulation of certain matters related to the development of the physical electricity supply system, and the quality of electricity supply. The responsibilities of the DGES include economic regulation, licensing (pursuant to a general authority given by the Secretary of State for Trade and Industry) and the general supervision and enforcement of the licences. Together with the Secretary of State for Trade and Industry, the DGES has the duty to promote competition and to ensure the protection of the interests of electricity consumers. The Office of Electricity Regulation assists the DGES in carrying out his duties and functions under the regulatory regime.

Electricity distribution is currently regulated with electricity supply pursuant to the PES licences. However, in May 1998, the DGES issued a consultation paper on the separation of distribution and supply activities. The preliminary conclusions in that paper are that full separation of ownership of distribution and supply activities is desirable and that, in the interim period pending the necessary legislative changes, a range of measures should be introduced to ensure that the supply business operates at arm's length from the distribution business. The measures proposed include placing the distribution and supply activities in different subsidiaries, avoiding the sharing of facilities between the businesses, ensuring that staff have responsibilities only within the scope of one business, requiring separate management teams for the two businesses and minimising the scope of any corporate headquarters' activities.

A general overview of issues arising from the Green Paper published in March 1998 is discussed above – see "Regulation review." Specific recommendations relating to the electricity industry include:

- a proposal to replace the electricity and gas regulators with a single energy regulator, whose duties will need to acknowledge the convergence of the gas and electricity markets; and
- a proposed amendment to the Electricity Act to require the PESs' electricity distribution businesses to be licensed separately from their supply businesses.

Norweb Distribution

Norweb Distribution maintains a network in North West England of approximately 59,000 kilometres of power lines and underground cables and approximately 40,000 substations which distribute approximately 23,300 GWh of electricity annually from the National Grid and power stations to approximately 2.2 million customer premises in North West England.

NORWEB plc holds a PES licence granting it the right to distribute electricity to all current and future electricity suppliers in its franchise area (ie North West England). The income derived from the distribution business is dependent 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.

Revenues

Most of the charges for the use of the distribution system are subject to distribution price controls. The distribution charges levied by Norweb Distribution and other regional electricity companies consist of use of system charges which are price regulated and charges for certain services outside the scope of price control, including charges for connections and for electricity distributed to extra high voltage premises. Connection charges to premises must be set at a level which enables the PES to recover no more than the appropriate proportion of the costs incurred and no more than a reasonable rate of return on the capital represented by such costs. A substantial majority of Norweb Distribution's turnover consists of charges for the use of its distribution system, most of which are charges to the electricity supply business. Each regional electricity company is required not to discriminate between its own supply business and other users of its distribution system in the provision or use of its distribution system or in connecting the supplier to its system.

Most of the operating income of Norweb Distribution, like other electricity distributors in Great Britain, is controlled by a distribution price control formula which is based on the number of customers and kWh distributed. The rationale behind the use of this formula, commonly referred to as "RPI+Xd," is that companies are motivated, during the relevant period of price control, to maximise efficiencies knowing that they can retain any element of over performance for their shareholders. The "Xd" factor may be any number determined by the DGES and is used to reflect expected efficiency gains and investment requirements. The "Xd" factor for Norweb Distribution was set at +1.4 per cent. for the five financial years commenced 1 April, 1990. Since the distribution price reviews in August 1994 and following a re-opening of the review in July 1995, the DGES reset the "Xd" factors (as price reductions) to -14 per cent. for the financial year 1996, -11 per cent. for the financial year 1997 and -3 per cent. for each of the financial years 31 March, 1998 until 2000. To allow for forecasting errors, an annual correction factor is built in to allow any under-recovery or over-recovery of income to be corrected in following years, the latter with an interest penalty. A further distribution price control review is scheduled to take place in 1999 to be effective on 1 April, 2000, which the Company anticipates will result in continued downward pressure on distribution prices.

Distribution costs vary with the voltage at which customers are connected and the utilisation of the distribution system at the time units of power are distributed. Changes in the mix of units distributed at different voltage levels and between peak and off-peak periods are reflected in the calculation of the maximum average allowed charge per unit distributed by reference to a "basket" of distribution categories, which takes account of the different costs of distributing electricity at various voltages and at various times of the day.

In certain circumstances, the DGES may propose amendments to the distribution price control formula or the terms of the PES licence. In cases where a PES is not willing to accept modifications to the distribution price control formula or other licence conditions put forward by the DGES, the DGES has the power to refer the matter to the Monopolies and Mergers Commission.

On 24 February, 1998, the DGES published a consultation paper proposing modifications to licences of those PESs (including NORWEB plc) which have been subject to take-overs. The DGES's proposals include modifications:

- to require PESs to seek and maintain investment grade credit ratings;
- to prohibit PESs entering into agreements or commitments incorporating cross-default obligations; and
- to make the declaration and payment of dividends and other distributions by the PES conditional on the PES's directors certifying that they are satisfied that the PES has complied with the ring-fencing conditions in its licence.

ENERGY SUPPLY

Electricity supply – the franchise market and the competitive market

An overview of the electricity industry is provided above, see "The electricity industry in Great Britain".

Great Britain currently has two separate, but related, electricity supply markets each with a different regulatory framework: the "franchise market" and the "competitive market". The franchise market currently comprises over 25 million customer premises (mostly households and small businesses) in Great Britain each having a peak demand of less than 100 kW. To be able to supply electricity to the franchise market, a supplier must have a PES licence granted by the DGES pursuant to the Electricity Act with respect to a particular franchise area (or PES authorised area). NORWEB plc's PES licence continues until at least 2025. Customers in the franchise market are supplied with electricity in accordance with published tariffs. The holder of a PES licence must (except in certain specified circumstances), upon request, supply electricity on tariff terms to any customer within the franchise market in its franchise area. Competition will be introduced progressively starting in some areas in September 1998, and is expected to reach NORWEB plc's franchise area during the six months from December 1998. The target date for full competition is mid-1999, at which time all electricity customers in England and Wales, including the current customers in the franchise market, will have the option to choose their electricity supplier.

The competitive market currently consists of customers with a peak demand of 100 kW or more. The competitive market currently comprises over 50,000 sites representing larger users of electricity throughout Great Britain. A competitive market customer may purchase electricity from any supplier. Competitive

market customers are charged under the terms of their negotiated supply contracts, which may provide for fixed or variable prices. Variable prices normally reflect expected fluctuations in the price paid by suppliers for the purchase of electricity from the Pool.

Until March 1998, supply charges in the franchise market were regulated by an $(RPI-X)+Y$ revenue control formula, where "X" was set by the DGES and the "Y" factor enabled certain costs, including electricity purchase costs, to be passed through to customers. Since April 1998, in order to protect smaller customers during the transition to competition, maximum price restraints cover supplies by PESs to all domestic customers, as well as to non-domestic customers with annual consumption of less than 12,000 kWh. The restraint takes the form of a maximum supply price cap and is set for the two financial years 1999 and 2000, with the possibility of extension or modification beyond that period. The price cap entails reductions in prices which vary by company. In England and Wales, the proposals would result in industry wide average price reductions in tariffs for domestic and small business customers of about 9 per cent in real terms over the two year period.

The Pool

As part of the restructuring of the electricity industry in 1990, a new market was established for trading electricity between generators and suppliers, known as the "Pool". With an integrated distribution system of high and low voltage electricity, it is not practical to trace electricity from a particular generator to a particular supplier or to store electricity in large quantities. A constant matching of generation and demand for electricity is therefore necessary.

All electricity generated in England and Wales (save for that generated by small embedded generators) must be sold to the Pool. Likewise, electricity suppliers generally must buy electricity from the Pool for resale to their customers. The Pool is operated under the Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in England and Wales, including NORWEB plc, are parties. The Pooling and Settlement Agreement governs the constitution and operation of the Pool and the calculation of payments due to and from generators and suppliers of electricity. The Pool also provides centralised settlement of accounts and clearing. As a result of the variations in supply and demand, the price of electricity in the Pool can vary significantly. In order to reduce their exposure to Pool price variations, generators and suppliers enter into hedging contracts, in most cases with each other. Norweb has entered into a number of such contracts. The UK government and the DGES are currently undertaking a full review of electricity trading arrangements in England and Wales.

ENERGi from Norweb

Electricity Supply

ENERGi from Norweb markets electricity to the franchise market customers (ie those whose peak demand for electricity is less than 100 kW) within its PES authorised area and to competitive market customers (ie those whose peak demand for electricity is equal to or greater than 100 kW) throughout Great Britain. ENERGi's primary objectives are to meet the obligations of NORWEB plc under its PES licence, including future proposed amendments to that licence, whilst building customer relationships through which long term value can be maximised from energy sales.

ENERGi provides electricity to approximately 2.2 million customer premises in the franchise market in NORWEB plc's franchise area and is currently scheduled to remain the sole supplier of electricity to these customers until December 1998, after which competition for customers in all franchise areas of Great Britain is expected to be phased in over a period of time, as discussed above. The full consequences of such deregulation are unpredictable. However, the Company believes that customers in the franchise market may be less inclined to change suppliers than is the case in the current competitive market. ENERGi intends to compete in certain targeted markets following the introduction of such competition. ENERGi has entered into a national marketing partnership with Tesco, a leading grocery retailer in the United Kingdom, whereby members of Tesco ClubCard (a loyalty benefits scheme) who are supplied electricity or gas by ENERGi will earn one point, which can be redeemed in the Tesco stores, for every pound they spend on their household gas and electricity bills. It is expected that this will assist ENERGi to retain its existing customers and gain new ones.

As at 31 March, 1998, ENERGi had approximately 3,460 customer sites in the competitive market throughout Great Britain, of which approximately 2,223 were located in its franchise area. There is no price control in the competitive market.

NORWEB plc has agreed to proposals which the DGES has estimated will reduce the prices of electricity supplied by ENERGi to domestic and small business customers by approximately 6.4 per cent. in real terms over two years (3.4 per cent. in the financial year 1999 and 3.0 per cent. in the financial year 2000). Since April 1998, regional suppliers have not been able automatically to pass through their purchase costs from generators. An estimated amount in respect of these costs is incorporated into the regulated supply price cap.

Gas supply

ENERGi from Norweb, through Norweb Gas, a company directly or indirectly owned 75 per cent. by NORWEB plc and 25 per cent. by Utilicorp UK Limited, also markets gas to customers in the competitive gas market. As at 31 August, 1998, it has approximately 6 per cent. of North West England's competitive residential gas market and approximately 12 per cent. of the North West's competitive industrial and commercial gas market (ie sales to customers consuming over 2,500 therms of gas a year). As at 31 August, 1998, it supplies gas to approximately 180,000 sites throughout mainland Great Britain, of which approximately 140,000 are located in North West England.

The domestic market for gas supply has recently undergone radical change. Competition in the domestic gas market has been phased in and has resulted in lower gas charges to customers. Competition was extended to areas including North West England from 27 February, 1998. The final tranche of areas covering the remainder of Great Britain were opened to competition on 23 May, 1998. Centrica plc, formerly the supply arm of BG plc, is the dominant gas supplier in Great Britain and is expected to remain so for the foreseeable future, notwithstanding the opening of the domestic market to competition.

The gas supply activities are principally regulated by the Director General of Gas Supply under the Gas Act 1986 and the Gas Act 1995, and by the conditions of Norweb Gas's gas supply licence. Norweb Gas currently holds a gas supplier's licence to supply to premises gas which has been conveyed through pipes to those premises. The gas supply business is not subject to price regulation.

TELECOMMUNICATIONS

Norweb Communications

Norweb Communications markets and sells, and contracts with suppliers to supply, voice and data telecommunications services to the business community in England.

Norweb Communications' activities are principally regulated by the Telecommunications Act 1984 and by the conditions of NORWEB plc's public telecommunications operator ("PTO") licence. The Secretary of State for Trade and Industry and the Director General of Telecommunications are the principal regulators of the telecommunications industry in the UK.

PTO licences, including NORWEB plc's, contain a wide range of conditions designed, in particular, to ensure that all PTO licence holders provide a basic range of telecommunication services and meet the requests for interconnection with networks operated by other licences. PTO licences also contain prohibitions against showing undue preference or discrimination in the provision of telecommunication services. NORWEB plc's PTO licence does not include price controls.

In March 1998, the Company announced the formation of NØR.WEB DPL – a company jointly owned by United Utilities PLC and Nortel Inc. (an international telecommunications manufacturer). This venture will exploit the Digital PowerLine technology which uses existing electricity cables to transmit data at high speed. The technology has been developed in collaboration with Nortel and is designed to provide relatively low cost and fast access to the Internet. Norweb Communications is a lead customer of NØR.WEB DPL. Subject to feasibility and marketing trials, to be followed by commercial development, Norweb Communications hopes to market this technology to customers in North West England.

FACILITIES MANAGEMENT

Vertex

Vertex provides a wide range of business services to the Company and its subsidiaries and markets those services to external customers.

Vertex provides business services which are important to a customer's business, but are not the customer's core activities. For example, Vertex provides business services to North West Water in connection with the latter's water and wastewater operations and to Norweb Distribution, ENERGi and Norweb Communications in connection with their electricity distribution, electricity and gas supply and

telecommunications operations, thus allowing them to concentrate on their core services. Vertex currently derives virtually all its revenues from North West Water, Norweb Distribution, ENERGi and Norweb Communications. Vertex intends to build upon this experience to deliver these services to unrelated third parties.

In May 1998 Vertex announced its agreement with Littlewoods Promotions Ltd to provide a call centre service for BetDirect. On 31 July, 1998, a five year contract with Independent Energy UK Ltd was announced. Under this contract Vertex will provide an end-to-end managed service including customer contact management, billing, enabling technology, telephony and printing services.

The principal business services provided by Vertex are:

- customer services: customer call handling, postal service, correspondence handling, database management, customer billing services, printing services, debt collection and cash processing;
- operations systems: geographic information systems, work management, customer contact, field computing, and plant monitoring and control;
- IT services: software and hardware provision and support, service desk provision, consultancy and IT strategy, systems design, data centre management, application management, desktop management, service management, and network management;
- accounting services: payroll processing, pension administration, invoice payments, monthly management reporting, ledger control and bank reconciliations;
- procurement services: comparative supplier evaluation, benchmarking, contract evaluation and negotiation, transaction processing, inventory management, and logistics; and
- training services: technical training, IT training, culture change, transition training, business process re-engineering related training, organisation development, and management training.

INTERNATIONAL OPERATIONS

United Utilities International

United Utilities International seeks to exploit the Group's core multi-utility management competencies outside England and Wales. It operates through four strategic businesses: International Power, Water Services, International Water and US Water.

International Power is a business development organisation which seeks opportunities globally in selected markets to acquire interests in electricity transmission, distribution and supply businesses. Currently, International Power's geographic market focus is the Asia-Pacific region, Central and Southern America and Europe. International Power is charged with the process of identifying, evaluating and developing opportunities in these regions.

Water Services is a business development organisation which seeks to obtain operations and maintenance contracts globally in selected markets and, where appropriate, in connection with build, own, operate and transfer contracts, concessions, privatisations, finance and other contracts. The business has been active since privatisation of the UK water industry and has interests, inter alia, in Malaysia, Australia, Mexico and the Philippines.

International Water is a company indirectly owned equally by United Utilities International and Bechtel. Its principal role is to exploit water and wastewater opportunities in selected countries outside North America, to be acquired and operated through affiliated entities. This organisation is responsible for all global marketing activity (except in North America) for new water and wastewater projects. It offers, through its affiliates, a full range of service options such as: operations and maintenance; engineering, procurement and construction; project development; financing and ownership; asset management; and consultancy. International Water is structured to exploit each of the Group's and Bechtel's respective core competencies. Accordingly, upon winning contracts, United Utilities International will conduct operations and maintenance activities and Bechtel will conduct engineering, procurement and construction activities.

US Water is a company indirectly owned equally by United Utilities International and Bechtel. US Water is the principal entity through which the owners pursue water and wastewater projects in most of North America.

UNITED UTILITIES PLC

Litigation

The Company is not aware of any material litigation to which it or any of its subsidiaries (together, the "Group") is a party, or of which any of their property is the subject, or any such proceedings known to be contemplated by any third party or governmental authority. The Group is engaged in litigation in the ordinary course of its operations, such as contract disputes, disputes over easements/wayleaves and other similar property matters, bill collections, personal injury claims and workers' compensation claims. The Group does not believe that such litigation, either individually or in the aggregate, is material. The Company maintains insurance and, to the extent that the amounts in dispute may not be covered by such insurance, maintains provisions in those situations where management deems it appropriate in accordance with UK GAAP.

A dispute exists in relation to a contract for the construction of a sewage treatment works and associated sewerage network in Bangkok. On 6 March, 1998, the Bangkok Consortium terminated the contract and issued a notice of arbitration against the client. The provision in the most recent accounts reflects management's best estimate of the expected liabilities remaining in respect of this contract based on the circumstances prevailing at 31 March, 1998 (see note 20 to the accounts).

Board of Directors

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

Name	Function
Derek Green	Chief Executive
Bob Ferguson	Group Finance Director
John Beckett	Managing Director Energy and Telecommunications
Gordon Waters	Managing Director International Division
Sir Christopher Harding	Non-Executive Director; Chairman
Sir Peter Middleton	Non-Executive Director; Vice Chairman
Dr Rodney Leach	Non-Executive Director
John Seed	Non-Executive Director
Eric Clark	Non-Executive Director
Sir Richard Evans	Non-Executive Director
Jane Newell	Non-Executive Director

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

The business address of each of the directors is the Company's registered office which is Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington WA3 7WB.

Capitalisation of United Utilities PLC

The following table sets out the consolidated capitalisation of the Group at 31 March, 1998.

	£m
Short Term Debt:	
Short term debt (including overdrafts)	944.7
Current portion of long term debt	37.8
Total short term debt ^(a)	982.5
Long Term Debt:	
Long term debt, net of current portion	1,466.2
Total long term debt ^(a)	1,466.2
Shareholders' Funds: ^(b)	
Called up share capital	544.8
Share premium account	633.8
Profit and loss account	866.9
Total shareholders' funds ^(c)	2,045.5
Minority Interests	(1.2)
Total capitalisation	3,510.5

Notes:

- (a) As at 23 August, 1998, the total short term debt of the Group was approximately £703 million and the total long term debt was approximately £1,843 million.
- (b) As at 31 March, 1998 the authorised share capital of the Company was £720 million nominal comprising 720 million ordinary shares of £1 nominal each. The allotted, called up and fully paid share capital of the Company was £544,810,508 comprising 544,810,508 ordinary shares of £1 nominal each.
- (c) As at 23 August, 1998, shareholders' funds totalled approximately £2,213 million.
- (d) Save as disclosed above, there has been no material change in the consolidated capitalisation of the Group since 31 March, 1998.

NORWEB plc

NORWEB plc was registered in England and Wales on 1 April, 1989 with registered number 2366949 and acquired by North West Water Group PLC in November 1995. The company consists of three operating businesses: electricity distribution (Norweb Distribution), electricity and gas supply (ENERGi) and telecommunications (Norweb Communications). A more detailed description of the business is set out on pages 48 to 52 of the Offering Circular.

Board of Directors

The directors of NORWEB plc and their functions within the company are as follows:

Name	Function
Paul Appelbe	Director
John Beckitt	Managing Director
Martin Bradbury	Finance Director
Jeremy Deering	Director
Clive Elphick	Director
Bob Ferguson	Director
Derek Green	Director
Howard Kirkham	Director
Kevin Lee	Director

None of the directors of NORWEB plc performs activities outside the Group which are significant with respect to the Group.

The business address of each of the directors is the company's registered office which is PO Box 14, 410 Birchwood Boulevard, Birchwood, Warrington WA3 7GA.

Capitalisation of NORWEB plc

The following table sets out the consolidated capitalisation of NORWEB plc and its subsidiary undertakings at 31 March, 1998.

	£m
Short Term Debt:	
Short term debt (including overdrafts)	447.7
Current portion of long term debt	0.0
Total short term debt ^(a)	447.7
Long Term Debt:	
Long term debt, net of current portion	194.7
Total long term debt ^(a)	194.7
Shareholders' Funds: ^(b)	
Called up share capital	78.4
Share premium account	4.4
Revaluation reserve	241.3
Other reserves	8.8
Profit and loss account	184.5
Total shareholders' funds ^(c)	517.4
Minority Interests	(4.4)
Total capitalisation	707.7

Notes:

- (a) As at 23 August, 1998, the total short term debt of NORWEB plc and its subsidiary undertakings was approximately £451 million and the total long term debt was approximately £195.2 million.
- (b) As at 31 March, 1998, the authorised share capital of NORWEB plc was £125,000,001 nominal comprising 250 million 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 NORWEB plc was £78,410,670.50 comprising 156,821,341 ordinary shares of 50p nominal each.
- (c) As at 23 August, 1998, shareholders' funds totalled approximately £545 million.
- (d) Save as disclosed above, there has been no material change in the consolidated capitalisation of NORWEB plc and its subsidiary undertakings since 31 March, 1998.

NORTH WEST WATER LIMITED

The Guarantor was incorporated for an unlimited duration in England and Wales on 1 April, 1989 with registered number 2366678 and is a wholly owned subsidiary of United Utilities PLC. The Guarantor is a company limited by shares and operates under the Companies Act 1985. A detailed description of the business of the Guarantor is set out on pages 44 to 48 of the Offering Circular.

Board of Directors

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

Name	Function
Derek Green	Chairman
Harry Croft	Managing Director
Bob Armstrong	Deputy Managing Director
Martin Bradbury	Finance Director
Richard Bradbury	Commercial Director
Dr Roger Ford	Quality Director
Patrick McCloskey	Corporate Services Director
Bob Ferguson	United Utilities PLC Finance Director
Clive Elphick	Planning Director
Phillida Entwistle	Non-Executive Director
Deborah Morton	Non-Executive Director

None of the directors of the Guarantor performs activities outside the Group which are significant with respect to the Group.

The business address of each of the directors is the Guarantor's registered office which is PO Box 14, 410 Birchwood Boulevard, Birchwood, Warrington WA3 7GA.

Capitalisation of North West Water Limited

The following table sets out the capitalisation of the Guarantor at 31 March, 1998.

	£m
Short Term Debt:	
Short term debt (including overdrafts)	525.2
Current portion of long term debt	28.9
Total short term debt ^(a)	554.1
Long Term Debt:	
Long term debt, net of current portion	853.0
Total long term debt ^(a)	853.0
Shareholders' Funds:^(b)	
Equity share capital	431.9
Share premium account	647.8
Profit and loss account	991.8
Non equity share capital	56.8
Total shareholders' funds ^(c)	2,128.3
Total capitalisation	2,981.3

Notes:

- (a) As at 23 August, 1998, the total short term debt was approximately £335 million and the total long term debt was approximately £1,273 million.
- (b) As at 31 March, 1998, the authorised share capital of the Guarantor was £706,837,000 nominal comprising 650 million ordinary shares of £1 nominal each and 56,837,000 preference shares of £1 nominal each. The allotted, called up and fully paid share capital of the Guarantor was £488,767,000 comprising 431,930,000 ordinary shares of £1 nominal each and 56,837,000 preference shares of £1 nominal each.
- (c) As at 23 August, 1998, shareholders funds totalled approximately £2,277 million.
- (d) Save as disclosed above, there has been no material change in the capitalisation of the Guarantor since 31 March, 1998.

AUDITORS' REPORT ON NORTH WEST WATER LIMITED

The financial information set out on pages 59 to 73 has been extracted, without material adjustments, from the audited accounts of North West Water Limited in respect of the year ended 31 March, 1998. The report set out below is the full text of the Guarantor's auditors' report accompanying the Guarantor's financial statements for the year ended 31 March, 1998. The page references below are to those of such accounts.

"Auditors' Report to the Members of North West Water Limited

We have audited the financial statements on pages 7 to 22.

Respective responsibilities of directors and auditors

As described under "Directors' responsibilities" on page 6 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company as at 31 March, 1998 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Manchester

10 July, 1998"

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH, 1998

	Note	1998 £m	1997 £m
Turnover	1(b)	914.1	872.7
Net operating costs.....	3	(498.2)	(459.4)
Customer rebates		(18.3)	(28.3)
Operating profit		397.6	385.0
Net interest payable	7	(85.1)	(68.4)
Profit on ordinary activities before taxation		312.5	316.6
Tax on profit on ordinary activities.....	8	(51.6)	(7.0)
Profit for financial year		260.9	309.6
Dividends.....	9	(298.4)	(353.9)
Transfer from reserves	19	(37.5)	(44.3)

All of the results derive from continuing operations.

The company has no recognised gains or losses other than the profit for the year.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH, 1998

	1998 £m	1997 £m
Profit for the financial year.....	260.9	309.6
Dividends.....	(298.4)	(353.9)
Transfer from reserves.....	(37.5)	(44.3)
Issue of preference shares	18.3	38.5
Net movement in shareholders' funds for the year	(19.2)	(5.8)
Opening shareholders' funds.....	2,147.5	2,153.3
Closing shareholders' funds	2,128.3	2,147.5

BALANCE SHEET AS AT 31 MARCH, 1998

	Note	1998 £m	1997 £m
Fixed assets			
Tangible assets	10	3,983.7	3,494.0
Investments.....	11	0.3	0.5
		<u>3,984.0</u>	<u>3,494.5</u>
Current assets			
Stores		1.4	1.0
Debtors	12	279.5	269.9
Cash at bank and in hand		—	8.9
		<u>280.9</u>	<u>279.8</u>
Creditors			
Amounts falling due within one year.....	13	(1,212.7)	(849.7)
Net current liabilities		<u>(931.8)</u>	<u>(569.9)</u>
Total assets less current liabilities		3,052.2	2,924.6
Creditors:			
Amounts falling due after more than one year	14	(912.8)	(749.1)
Provisions for liabilities and charges	16	(11.1)	(28.0)
Net assets		<u>2,128.3</u>	<u>2,147.5</u>
Capital and reserves			
Equity share capital.....	18	431.9	431.9
Share premium account	18	647.8	647.8
Profit and loss account.....	19	991.8	1,029.3
Equity shareholders' funds		<u>2,071.5</u>	<u>2,109.0</u>
Non-equity share capital	18	56.8	38.5
Shareholders' funds		<u>2,128.3</u>	<u>2,147.5</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 1998

	1998 £m	1998 £m	1997 £m	1997 £m
Net cash inflow from operating activities		567.4		438.4
Returns on investments and servicing of finance				
Interest received	9.9		17.6	
Interest paid	(89.2)		(71.3)	
Interest element of finance lease repayments	(10.2)		(9.8)	
Net cash outflow from returns on investment and servicing of finance		(89.5)		(63.5)
Taxation		—		(1.2)
Capital expenditure				
Purchase of tangible fixed assets.....	(565.7)		(390.9)	
Grants and contributions received	4.1		4.0	
Disposal of tangible fixed assets.....	2.1		191.0	
Net cash outflow for capital expenditure.....		(559.5)		(195.9)
Dividends paid		(288.6)		(341.2)
Cash outflow before use of liquid resources		(370.2)		(163.4)
Financing				
Issue of preference share capital	18.3		38.5	
Increase in debt.....	334.2		135.9	
Net cash inflow from financing		352.5		174.4
(Decrease)/increase in cash		(17.7)		11.0

Notes to the cash flow statement are detailed in note 24.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

(a) Basis of preparation of accounts

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and, except for the treatment of certain grants and contributions (note (e) below), with the Companies Act 1985 (the "Act").

(b) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided and excludes VAT.

(c) Research and development

Expenditure on research and development is written off against profit in the year in which it is incurred.

(d) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, overground plant and equipment).

(i) Infrastructure assets

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions, which are included at cost after deducting related grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the company's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

(ii) Other assets

Additions are included at cost.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

Buildings.....	30-60 years
Operational structures	10-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets	22-27 years

Capitalised computer software costs are depreciated over 3-10 years. Assets in the course of construction with an estimated economic life of greater than 20 years are not depreciated until the year following commissioning.

(e) Grants and contributions

Capital contributions towards infrastructure assets are deducted from the costs of those assets. This is not in accordance with Schedule 4 to the Companies Act 1985 under which the infrastructure assets should be stated at their purchase price or production cost and the capital contributions treated as deferred income and released to profit and loss account over the useful life of the corresponding assets. The directors are of the opinion that, as infrastructure assets have no finite

economic lives (see note (d) above) and the capital contributions would therefore remain in the balance sheet in perpetuity, the treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the company's effective investment in infrastructure assets.

Grants receivable in respect of other tangible fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets.

(f) Leased assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in the balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

Operating lease rentals are charged to the profit and loss account as incurred.

(g) Fixed asset investments

Investments held as fixed assets are stated at cost less amounts written off for permanent diminution.

(h) Stores

Stores are stated at cost less any provision necessary to recognise damage and obsolescence.

(i) Pensions

Most of the company's employees belong to pension schemes which provide for defined benefits based on final pensionable pay. Pension costs are charged against profits over the estimated remaining service lives of employees.

Details of pension arrangements and funding are set out in note 20.

(j) Deferred taxation

Provision is made for deferred taxation where an asset or a liability is considered likely to arise in the foreseeable future.

(k) Financial instruments

The notional interest on interest rate swaps and forward rate agreements to manage interest rate exposures on the company's net borrowings are included with the interest flows of the underlying net borrowings. These financial instruments in the above circumstances are not revalued to their open market value, but, on realisation, gains and losses are spread over the period of the hedged position.

2. Segmental information

The company operates in the United Kingdom in one class of business.

3. Net operating costs

	1998 £m	1997 £m
Employee costs:		
Wages and salaries.....	93.9	81.3
Social security costs	6.9	7.8
Pension contributions (note 20)	8.6	10.1
	<u>109.4</u>	<u>99.2</u>
Less recharges:		
Capital schemes.....	(28.2)	(23.7)
Infrastructure renewals	(9.0)	(6.1)
	<u>72.2</u>	<u>69.4</u>
Depreciation:		
Owned fixed assets.....	66.8	52.3
Fixed assets held under finance leases	5.5	6.7
	<u>72.3</u>	<u>59.0</u>
Infrastructure renewals	<u>71.2</u>	<u>67.6</u>
Other operating costs include:		
Other operating costs.....	263.3	246.7
Raw materials and consumables	18.6	17.2
Auditors' remuneration	0.1	0.1
Research and development	2.1	2.4
Operating leases		
— hire of plant and machinery	2.0	1.8
— land and buildings	1.7	1.5
Other income (note 4)	(5.3)	(6.3)
	<u>282.5</u>	<u>263.4</u>
Total net operating costs	<u>498.2</u>	<u>459.4</u>

Managed service fees and asset charges from group undertakings are contained within other operating costs.

Fees payable to the auditor and its associates for non-audit services in 1998 were £40,000 (1997 — £37,000)

4. Other income

	1998 £m	1997 £m
Profit on disposal of fixed assets	1.0	1.2
Net rents receivable	2.2	2.0
Other.....	2.1	3.1
	<u>5.3</u>	<u>6.3</u>

5. Directors

The aggregate emoluments of directors in 1998 amounted to £926,546 (1997 — £1,068,000). Emoluments comprise salaries, fees, taxable benefits and the value of short term incentive awards. The emoluments of the highest paid director (H Croft) in 1998 amounted to £229,366 (D. Green, 1997 — £292,000).

With the exception of P G S Entwistle and D E Morton who, as non-executive directors, do not participate in pension arrangements, all directors are members of and contribute to the United Utilities Pension Scheme (UUPS), a defined benefits pension scheme which provides an entitlement on retirement at age 60 equal to between 1/30th and 1/45th of pensionable remuneration for each completed year of service but subject to an overall maximum of 20/30ths. The normal retirement age is 60 but early retirement is possible from age 50 with the agreement of the company.

As a consequence of changes made by the Finance Act 1989, the company is unable to provide pensions from the UUPS for directors who have joined the company since 1989 on the same basis as pensions for directors who joined the company before that date. In line with many other companies, the company has established separate arrangements. Accordingly, on the retirement of D. Green, the company has undertaken to pay the difference between the pension entitlement based on his relevant proportion of the final salary and the maximum amount payable under the rules of the UUPS. At the present time, this separate arrangement remains unfunded. This undertaking will not result in any greater or additional benefits for the director than would have been payable had it been possible for their pension to be provided fully within the UUPS on the same basis as for directors who had joined the company prior to 1989.

The accrued pension at 31 March, 1998 for H Croft was £83,729 per annum (1997 — £72,013 per annum).

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that company's accounts).

	1998			1997 or on appointment		
	Share options			Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	15,717	12,293	2,556	19,117	12,293	2,556
R G Bradbury	—	27,333	—	—	26,333	—
H R Croft	13,345	28,010	—	14,331	28,010	2,796
P E McCloskey	—	32,227	3,586	—	31,477	3,586
M F Bradbury	14,034	17,637	4,005	10,010	22,926	4,005
P G S Entwistle	90	—	—	90	—	—
R R Ford	—	8,871	3,059	—	8,371	2,427
C H Elphick	12,962	34,872	3,623	14,562	34,872	3,623

Details of the employee sharesave scheme and the executive share option scheme operated by United Utilities PLC are given in that company's accounts.

Details of directors' options granted for ordinary shares during the year are as follows:

	Options granted during the year	Exercise price per share	Scheme	First date exercisable	Last date exercisable
R G Bradbury	1,000	768.5p	Executive option	23 Dec 2000	23 Dec 2007
P E McCloskey	750	768.5p	Executive option	23 Dec 2000	23 Dec 2007
M F Bradbury	1,750	768.5p	Executive option	23 Dec 2000	23 Dec 2007
R R Ford	500	768.5p	Executive option	23 Dec 2000	23 Dec 2007
R R Ford	632	617.0p	Sharesave	1 Mar 2001	1 Sep 2001

Details of directors' options exercised for ordinary shares during the year are as follows:

	Options exercised during the year	Exercise price per share	Scheme	Market price when exercised	First date exercisable	Last date exercisable
M F Bradbury ..	775	479.8p	Executive	835.5p	15 Dec, 1997	15 Dec, 2004
	1,227	275.7p	Executive	835.5p	8 Jan, 1997	8 Jan, 2002
	1,162	394.2p	Executive	835.5p	6 Jan, 1998	6 Jan, 2003
	3,488	463.4p	Executive	835.5p	6 Jan, 1998	6 Jan, 2003
	387	566.9p	Executive	835.5p	20 Jan, 1997	20 Jan, 2004
H R Croft	1,304	308.3p	Sharesave	714.5p	1 Mar, 1995	30 Sep, 1997
	1,492	Lapsed				

The mid-market share price on 31 March, 1998 was 886.0p.

The range during the year was 621.5p (low) to 886.0 (high).

6. Employees

	1998	1997
Average number of persons employed	4,106	4,140

7. Net interest payable

	1998 £m	1997 £m
Interest payable:		
On bank loans, overdrafts and other loans	75.9	61.2
On finance leases	10.2	14.0
Group undertakings	8.9	11.0
Total interest payable	95.0	86.2
Interest receivable:		
Group undertakings	(7.5)	(17.1)
External	(2.4)	(0.7)
Net interest payable	85.1	68.4

8. Taxation on profit on ordinary activities

	1998 £m	1997 £m
UK Corporation Tax at 31% (1997 — 33%)	51.6	7.0
The full potential deferred tax liability is:		
Accelerated tax allowances on buildings, plant and equipment:		
Infrastructure assets	429.8	442.4
Other assets	216.3	221.1
Losses and other timing differences	(21.7)	(48.5)
	624.4	615.0

No deferred tax liability is provided in the company's accounts. A deferred tax asset of £3.2 million is included within debtors amounts falling due after more than one year representing advance corporation tax recoverable against future mainstream corporation tax liabilities.

9. Dividends

	1998 £m	1997 £m
Interim dividend of 12.79 pence per share (1997 — 11.66 pence).....	55.3	50.4
Final dividend of 26.26 pence per share recommended (1997 — 23.97 pence).....	113.4	103.5
Special dividend of 30.05 pence per share (1997 — 46.3 pence).....	129.8	200.0
Adjustment to 1996/97 final dividend payment.....	(0.1)	—
	<u>298.4</u>	<u>353.9</u>

North West Water Limited's licence requires that its dividend policy will not impair the ability of the Appointed Business to finance its functions. In accordance with this policy the total dividend payment from North West Water Limited to United Utilities PLC increased by 6 per cent. in real terms in 1997/98. This increase results from:

- a base level of growth consistent with the management of the economic risk of the business.
- a further level of growth to reward efficiency in accordance with the system of incentive regulation.

A special dividend of £129.8 million was paid to United Utilities PLC on 31 March, 1998 in respect of the first instalment of the windfall tax. The previous year's special dividend was paid as a result of ongoing performance and in line with our increased benefit sharing with customers.

These dividend payments are consistent with the company's strategy for sharing the benefits between customers and shareholders in advance of the Periodic Review.

10. Tangible fixed assets

	Land and buildings £m	Infra- structure assets £m	Operational structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in Course of construction £m	Total £m
Cost:							
At 1 April, 1997	179.8	1,592.9	1,414.3	207.7	177.4	424.0	3,996.1
Additions	5.8	50.5	52.4	12.8	—	302.5	424.0
Grants and contributions	—	(4.1)	—	—	—	—	(4.1)
Inter-group transfer ...	—	—	—	176.7	—	61.5	238.2
Transfers.....	10.2	94.0	70.0	4.7	—	(178.9)	—
Disposals.....	(2.6)	—	(0.7)	(14.2)	—	—	(17.5)
At 31 March, 1998 ..	<u>193.2</u>	<u>1,733.3</u>	<u>1,536.0</u>	<u>387.7</u>	<u>177.4</u>	<u>609.1</u>	<u>4,636.7</u>
Depreciation:							
At 1 April, 1997	29.0	—	231.6	114.1	127.4	—	502.1
Charge for the year...	5.8	—	44.2	16.5	5.8	—	72.3
Inter-group transfer ...	—	—	—	95.0	—	—	95.0
Disposals.....	(2.3)	—	(0.6)	(13.5)	—	—	(16.4)
At 31 March, 1998 ..	<u>32.5</u>	<u>—</u>	<u>275.2</u>	<u>212.1</u>	<u>133.2</u>	<u>—</u>	<u>653.0</u>
Net book value:							
At 31 March, 1998 ..	<u>160.7</u>	<u>1,733.3</u>	<u>1,260.8</u>	<u>175.6</u>	<u>44.2</u>	<u>609.1</u>	<u>3,983.7</u>
At 31 March, 1997....	<u>150.8</u>	<u>1,592.9</u>	<u>1,182.7</u>	<u>93.6</u>	<u>50.0</u>	<u>424.0</u>	<u>3,494.0</u>

Inter-group transfers include the transfer of assets from Vertex Data Science Limited under the terms of a finance lease.

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £77.4 million (1997 — £73.3 million) lower than it would have been had this treatment not been adopted.

Within tangible fixed assets are assets held under finance leases at the following amounts:

	1998 £m	1997 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	183.6	9.3
Assets in course of construction.....	61.5	—
	<u>495.9</u>	<u>260.1</u>
At 31 March.....		
Accumulated depreciation:		
Operational structures	(57.7)	(53.6)
Fixtures, fittings, tools and equipment	(100.5)	(8.0)
	<u>(158.2)</u>	<u>(61.6)</u>
At 31 March.....		
Net book value:		
Operational structures	193.1	197.2
Fixtures, fittings, tools and equipment	83.1	1.3
Assets in course of construction.....	61.5	—
	<u>337.7</u>	<u>198.5</u>
At 31 March.....		

The depreciation charge for the year for assets held under finance leases is £5.5 million (1997 — £6.7 million).

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March, 1998. Pre-1974 assets comprise a pool of assets which was transferred to the company from North West Water Authority, which it acquired in 1974 from its predecessors. No analysis by asset category is available. The directors consider that the provision of the above information would incur expense out of proportion to the benefit it would provide to shareholders.

	1998 £m	1997 £m
Capital commitments:		
Contracted but not provided for	307.4	283.9
	<u>307.4</u>	<u>283.9</u>

11. Fixed asset investments

	Total £m
Cost:	
At 1 April, 1997	0.5
Transfers.....	(0.2)
	<u>0.3</u>
At 31 March, 1998.....	<u>0.3</u>

Details of associated undertakings, all of which are unlisted and registered in England and Wales, are:

Associated undertakings	Description of holding	Proportion held	Nature of business
WRC plc.....	'A' Ordinary shares of £1 each 8% convertible unsecured loan stock 2014	11.25% 26.25%	Water and wastewater research
Utilities Consortium Limited.....	Ordinary shares of 1 pence each 15% unsecured loan notes 2006	1.23%	Cash collection service

12. Debtors

	1998 £m	1997 £m
Amounts falling due within one year:		
Trade debtors.....	109.4	94.4
Amounts owed by group undertakings.....	35.5	48.1
Other debtors.....	24.4	5.0
Prepayments and accrued income.....	78.4	79.2
Infrastructure renewals prepayment.....	5.5	21.7
	<u>253.2</u>	<u>248.4</u>
Amounts falling due after more than one year:		
Other debtors.....	3.1	6.2
Deferred tax.....	3.2	15.3
Infrastructure renewals prepayment.....	20.0	—
	<u>26.3</u>	<u>21.5</u>
Total debtors.....	<u>279.5</u>	<u>269.9</u>

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings.

13. Creditors: amounts falling due within one year

	1998 £m	1997 £m
Loans.....	24.9	21.4
Bank overdrafts and temporary borrowings.....	348.8	325.0
Obligations under finance leases — external.....	4.0	5.8
Obligations under finance leases — group undertakings.....	143.5	—
Trade creditors.....	19.2	19.2
Amounts owed to group undertakings.....	251.8	84.6
Dividends.....	113.4	103.5
Other creditors.....	2.6	2.0
Taxation and social security.....	23.7	19.3
Accruals and deferred income.....	280.8	268.9
	<u>1,212.7</u>	<u>849.7</u>

Amounts owed to group undertakings totals £395.3 million (1997 — £84.6 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

14. Creditors: amounts falling due after more than one year

	1998	1997
	£m	£m
Loans	651.4	476.3
Obligations under finance leases	201.6	204.8
Amounts owed to group undertakings.....	3.2	15.3
Other creditors	5.8	7.0
Deferred grants and contributions (note 15)	50.8	45.7
	<u>912.8</u>	<u>749.1</u>

Amounts owed to group undertakings represents amounts owed to parent and fellow subsidiary undertakings.

15. Deferred grants and contributions

	£m
At 1 April, 1997	45.7
Received in the year.....	7.0
Profit and loss account.....	(1.9)
	<u>50.8</u>
At 31 March, 1998	<u>50.8</u>

16. Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 April, 1997	19.8	8.2	28.0
Utilised	(4.2)	(5.7)	(9.9)
Profit and loss account.....	(7.0)	—	(7.0)
	<u>8.6</u>	<u>2.5</u>	<u>11.1</u>
At 31 March, 1998	<u>8.6</u>	<u>2.5</u>	<u>11.1</u>

17. Borrowings

	Loans and overdrafts £m	Finance leases £m	1998 Total £m	1997 Total £m
Within one year	373.7	147.5	521.2	352.2
Between one and two years	100.2	1.5	101.7	28.1
Between two and five years	92.2	0.4	92.6	167.0
After more than five years.....	459.0	199.7	658.7	486.0
	<u>1,025.1</u>	<u>349.1</u>	<u>1,374.2</u>	<u>1,033.3</u>

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2005 and 2053.

Interest rates range from 6.55 per cent. to 14.83 per cent. on £977.6 million and are at floating rates on £396.6 million.

18. Called up share capital and share premium accounts

	1998 £m	1997 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
56,837,000 preference shares of £1 each	56.8	38.5
	<hr/>	<hr/>
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
56,837,000 preference shares of £1 each	56.8	38.5
	<hr/>	<hr/>
Share premium account	647.8	647.8
	<hr/>	<hr/>

During the year, 18,300,000 non-voting non-redeemable preference shares were allotted for cash at nominal value in order to reduce overall borrowings. The preference shares have no entitlement to any dividends paid by the company. Preference shareholders are not entitled to receive notice of, attend or vote at any general meeting of the company. However, preference shareholders receive priority to other classes of shareholders on a winding up, liquidation or other return of capital to shareholders of the company.

19. Profit and loss account

	£m
At 1 April, 1997	1,029.3
Retained loss for the year	(37.5)
	<hr/>
At 31 March, 1998	991.8
	<hr/>

20. Pensions

The company participates in two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS). The assets of these schemes are held in trust funds independent of Group finances.

The employer's contributions and the pension cost under the accounting standard SSAP24 have been assessed in accordance with the advice of a firm of actuaries, William M Mercer Limited, using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose, the main actuarial assumptions adopted are based upon investment growth of 9 per cent. per annum, pay growth of 7 per cent. per annum and increases to pensions in payment and deferred pensions of 5 per cent. per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March, 1996. The combined market value of the Group's share of the assets of these two schemes at the valuation date was £521.2 million. The combined actuarial value of the assets represented 107 per cent. of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

The company also operates a series of unfunded unapproved retirement benefit schemes. The cost of the unfunded unapproved retirement benefit schemes is included in the total pension cost on a basis consistent with SSAP24 and the assumptions used for WPS.

The total pension cost for the year was £8.6 million (1997 — £10.1 million).

From 1 April 1998, United Utilities PLC introduced a new pension scheme, the United Utilities Pension Scheme (UUPS). United Utilities' share of WMIS and WPS will be merged into the UUPS.

The 1997 Budget removed the ability of pension schemes to reclaim tax deducted from UK equity dividends. This will not cause a substantial change in the pension cost but the effect will be taken into account in the review of assumptions appropriate for the actuarial valuation to be carried out in 1998 for UUPS.

21. Operating leases

The company is committed to making the following payments during the year:

	Land and buildings £m 1998	Plant and machinery £m 1998	Land and buildings £m 1997	Plant and machinery £m 1997
Leases which expire:				
Within one year	0.2	0.1	0.3	0.5
Between two and five years	0.7	0.8	0.3	49.7
After five years.....	1.7	—	2.0	—
	<u>2.6</u>	<u>0.9</u>	<u>2.6</u>	<u>50.2</u>

22. Related party transactions

In accordance with the exemption set out in Financial Reporting Standard 8 (FRS8), the company has not disclosed transactions with its ultimate holding company or any subsidiaries within the group. United Utilities PLC is the company's ultimate controlling party as defined by FRS8.

23. Ultimate parent undertaking

The accounts of the company are consolidated in the Group accounts of the ultimate parent undertaking, United Utilities PLC, a company registered in England and Wales.

Copies of the accounts of United Utilities PLC may be obtained from the Company Secretary, United Utilities PLC, P.O. Box 14, Birchwood Boulevard, Warrington WA3 7WB.

24. Notes to the cash flow statement

	1998 £m	1997 £m
For the year ended 31 March, 1998		
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	397.6	385.0
Depreciation	72.3	59.0
Profit on disposal of tangible fixed assets	(1.0)	(1.2)
Stocks increase	(0.4)	—
Debtors increase	(21.7)	(38.8)
Creditors increase	120.6	34.4
Net cash inflow from operating activities.....	<u>567.4</u>	<u>438.4</u>
For the year ended 31 March, 1997		
Reconciliation of net cash flow to movement in net debt		
Increase/(Decrease) in cash in the year	(17.7)	11.0
Cash inflow from increase in debt and lease financing	(334.2)	(135.9)
Movement in net debt in the year	(351.9)	(124.9)
Net debt at 1 April, 1997	(1,055.2)	(930.3)
Net debt at 31 March, 1998.....	<u>(1,407.1)</u>	<u>(1,055.2)</u>

Analysis of cash flows for headings netted in the cash flow statement

Financing

	1998 £m	1998 £m	1997 £m	1997 £m
Issue of preference share capital		18.3		38.5
Debt due within a year:				
— repayment of short term external loans	—		(16.4)	
— new/(repayment of) short term group loans	2.1		18.4	
— new short term bank loans	15.0		143.0	
Debt due beyond a year:				
— new loans	200.0		—	
— repayment of long-term external loans	(21.4)		—	
Capital element of finance lease repayments	(5.0)		(9.1)	
New finance leases — inter-group	143.5		—	
		<u>334.2</u>		<u>135.9</u>
Net cash inflow from financing		<u>352.5</u>		<u>174.4</u>

Analysis of changes in net debt

	At 1 April, 1997 £m	Cashflow £m	Non-cash movements £m	At 31 March, 1998 £m
Long term loans	(497.7)	(178.6)	—	(676.3)
Finance leases	(210.6)	(138.5)	—	(349.1)
Short term loans	(325.0)	(15.0)	—	(340.0)
Overdrafts	—	(8.8)	—	(8.8)
Borrowings	<u>(1,033.3)</u>	<u>(340.9)</u>	<u>—</u>	<u>(1,374.2)</u>
Cash in hand	8.9	(8.9)	—	—
Parent undertaking loan	(30.8)	(2.1)	—	(32.9)
Net debt	<u>(1,055.2)</u>	<u>(351.9)</u>	<u>—</u>	<u>(1,407.1)</u>

NORTH WEST WATER FINANCE PLC

North West Water Finance PLC was incorporated for an unlimited duration in England and Wales on 14 October, 1996 with registered number 3263102 and is a wholly owned subsidiary of North West Water Limited. The purpose of the company is to raise finance for the activities of North West Water Limited. North West Water Finance PLC is a company limited by shares and operates under the Companies Act 1985.

Board of Directors

The directors of North West Water Finance PLC and their functions within the company are as follows:

Name	Function
Derek Green	Director
Bob Ferguson	Director
Martin Bradbury	Director

None of the directors of North West Water Finance PLC performs activities outside the Group which are significant with respect to the Group.

The business address of each of the directors is the company's registered office which is PO Box 14, 410 Birchwood Boulevard, Birchwood, Warrington WA3 7GA.

Capitalisation of North West Water Finance PLC

The following table sets out the capitalisation of North West Water Finance PLC, at 31 March, 1998.

	£
Short Term Debt:	
Short term debt (including overdrafts)	0.0
Current portion of long term debt	0.0
Total short term debt ^(a)	0.0
Long Term Debt:	
Long term debt, net of current portion	0.0
Total long term debt ^(a)	0.0
Shareholders' Funds: ^(b)	
Called up share capital	50,000
Profit and loss account	0.0
Total shareholders' funds	50,000
Total capitalisation	50,000

Notes:

- (a) As at 23 August, 1998, the total short term debt was approximately £55 million and the total long term debt was approximately £0 million.
- (b) As at 31 March, 1998, the authorised share capital of North West Water Finance PLC was £100,000 nominal comprising 100,000 ordinary shares of £1 nominal each. The allotted, called up and fully paid share capital of North West Water Finance PLC was £50,000 comprising 50,000 ordinary shares of £1 nominal each.
- (c) Save as disclosed above, there has been no material change in the capitalisation of North West Water Finance PLC since 31 March, 1998.

ACCOUNTANT'S REPORT ON NORTH WEST WATER FINANCE PLC

The Directors
North West Water Finance PLC
P.O. Box 14
410 Birchwood Boulevard
Birchwood
Warrington WA3 7GA

13 October, 1998

Dear Sirs

North West Water Finance PLC

We report on the financial information set out in paragraphs 1 and 2 below.

Basis of preparation

The financial information set out in paragraphs 1 and 2 is based on the financial statements of North West Water Finance PLC (the "Company") from incorporation to 31 March, 1998, prepared on the basis described in sub-paragraph 2.2, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Offering Circular dated 13 October, 1998 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company at 31 March, 1998.

1. Balance sheet as at 31 March, 1998

	1998 £
Current Assets	
Amounts owed by parent company	50,000
Net assets	50,000
Capital and reserves	
Equity share capital.....	50,000
Shareholders' funds	50,000

2. Notes

2.1 Incorporation of the Company

The Company was incorporated on 14 October, 1996. The Company commenced business on 10 June, 1998, no statutory audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation.

2.2 Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

2.3 Called up share capital

Authorised share capital	100,000 ordinary shares of £1 each
Allotted share capital	50,000 ordinary shares of £1 each

2.4 Directors emoluments

None of the directors received emoluments for their services.

2.5 Ultimate parent undertaking

The accounts of the Company are consolidated in the group accounts of the ultimate parent undertaking, United Utilities PLC, a company registered in England and Wales.

Yours faithfully

KPMG Audit Plc
St. James' Square
Manchester M2 6DS

TAXATION

The following is a summary of the Issuer's understanding of certain aspects of current law and practice in the United Kingdom relating to the taxation of the Notes. Some parts of the summary may not apply to certain classes of person (such as dealers). Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their particular tax position should seek their own professional advice.

Withholding tax

1. The Notes will constitute "quoted Eurobonds" within the meaning of section 124 of the Income and Corporation Taxes Act 1988 (the "Act") as long as they continue to be in bearer form and listed on a "recognised stock exchange" within the meaning of section 841 of the Act. The London Stock Exchange is currently recognised for these purposes. Payments of interest on Notes which constitute quoted Eurobonds ("Eurobond Notes") may be made without withholding on account of United Kingdom income tax where:

- (a) payment is made through a paying agent at its office outside the United Kingdom; or
- (b) the beneficial owner of the Notes and the interest thereon is not resident in the United Kingdom; or
- (c) the Notes are held in a "recognised clearing system" (and Euroclear and Cedel Bank are each a recognised clearing system for this purpose);

and, in the case of (b) and (c), certain other administrative conditions imposed by regulations made under the Act have been satisfied.

In all other cases an amount must be withheld from payments of interest on the Notes on account of 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.

2. Where a person in the United Kingdom acting in the course of a trade or profession, other than by means solely of clearing a cheque or arranging for the clearing of a cheque either:

- (a) acts as custodian of a Eurobond Note and receives interest on the Eurobond Note, directs that interest on the Eurobond Note be paid to another person or consents to such payment; or
- (b) collects, receives or secures payment of interest on a Eurobond Note for a Noteholder or a Couponholder whether by means of Coupons or otherwise,

that person (a "collecting agent") will be entitled to withhold sums on account of income tax at the lower rate unless:

- (i) the Eurobond Note is held in a recognised clearing system and the collecting agent either:
 - (A) pays or accounts for the interest directly or indirectly to the recognised clearing system; or
 - (B) is acting as depositary for the recognised clearing system; or
- (ii) the person beneficially entitled to the interest is not resident for tax purposes in the United Kingdom and beneficially owns the Eurobond Note; or
- (iii) the interest arises to trustees not resident for tax purposes in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, none of the beneficiaries of the trust is resident in the United Kingdom); or
- (iv) the person beneficially entitled to the interest is eligible for one of a number of specified reliefs from tax in respect of the interest; or
- (v) the interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organisation; or

- (vi) the Eurobond Note and the interest are beneficially owned by a person falling into one of certain specified categories, or one of certain other circumstances applies, in each case as prescribed by regulations made under the Act; this would apply, for example, to Eurobond Notes held under a personal equity plan, in a pension funds pooling scheme or a superannuation fund.

In the case of each of the above exceptions (except (i)(B)), further administrative conditions imposed by the regulations referred to above may have to be satisfied for the relevant exception to be available.

3. Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted under an appropriate provision in an applicable double taxation treaty.
4. Payments of interest on amounts of principal which are expressed and intended to be outstanding for less than twelve months may in all circumstances be made without withholding or deduction for or on account of United Kingdom income tax.

Tax by direct assessment

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

However, interest with a United Kingdom source will not be chargeable to United Kingdom tax or, if tax has been withheld or deducted, to further United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

SUBSCRIPTION AND SALE

The Dealers have in a programme agreement (the "Programme Agreement") dated 13 October, 1998, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". In the Programme Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Notes (i) as part of their distribution at any time or (ii) otherwise until 41 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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

Each issuance of Indexed Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

United Kingdom

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

- (i) in relation to Notes which have a maturity of one year or more and which are to be listed on the London Stock Exchange, it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of such Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") 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 or the FSA;
- (ii) in relation to Notes which have a maturity of one year or more and which are not to be listed on the London Stock Exchange, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom 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;

- (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of any Notes, other than, in relation to any Notes to be listed on the London Stock Exchange, any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on; and
- (iv) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except in compliance with the Securities and Exchange Law and any other applicable laws and regulations of Japan.

Germany

In connection with the initial placement of any Notes in Germany, each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will offer and sell Notes (i) unless otherwise provided in the relevant subscription agreement or the applicable Pricing Supplement in the case of an issue made on a syndicated basis, only for an aggregate purchase price per purchaser of at least DM 80,000 (or the foreign currency equivalent) or such other amount as may be stipulated from time to time by applicable German law or (ii) as may otherwise be permitted in accordance with applicable German law.

General

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

Neither the relevant Issuer, the Guarantor (where the relevant Issuer is NWW) nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

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

- (i) a resolution of the Board of Directors of United Utilities PLC, dated 26 May, 1998 and by a resolution of the Financing Committee of United Utilities PLC, dated 5 October, 1998;
- (ii) a resolution of the Board of Directors of NORWEB plc, dated 24 June, 1998 and by a resolution of the Financing Committee of NORWEB plc, dated 5 October, 1998; and
- (iii) a resolution of the Board of Directors of NWW, dated 5 October, 1998.

The granting of the Guarantee has been duly authorised by the Board of Directors of the Guarantor dated 17 June, 1998 and by a resolution of the Financing Committee of the Guarantor, dated 5 October, 1998.

Listing of Notes on the London Stock Exchange

The listing of Notes on the London Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List of the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. The listing of the Programme in respect of Notes is expected to be granted on or before 14 October, 1998.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of each Issuer and the Guarantor and from the specified office of the Paying Agent for the time being in London:

- (i) the Memorandum and Articles of Association of each of the Issuers and the Guarantor;
- (ii) the consolidated statutory annual audited financial statements of United Utilities PLC and NORWEB plc, the non-consolidated statutory annual audited financial statements of the Guarantor in respect of the financial years ended 31 March, 1997 and 31 March, 1998 and the non-consolidated statutory annual financial statements of NWW in respect of the financial year ended 31 March, 1998;
- (iii) the most recently published audited annual financial statements of each of the Issuers and the Guarantor and the most recently published unaudited interim financial statements (if any) of each of the Issuers and the Guarantor;
- (iv) the Programme Agreement, the Agency Agreement, the Trust Deed and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Offering Circular;
- (vi) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part part of which is extracted or referred to in this Offering Circular;
- (vii) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (viii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Cedel Bank. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Cedel Bank will be specified in the applicable Pricing Supplement. The relevant ISIN and common code will be specified in the

applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of each of the Issuers or the Guarantor since 31 March, 1998 and there has been no material adverse change in the financial position or prospects of each of the Issuers or the Guarantor since 31 March, 1998.

Litigation

Save as disclosed on page 54 of this Offering Circular none of the Issuers or the Guarantor is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which any of the Issuers or the Guarantor is aware) which may have or have had in the 12 months preceding the date of this document a significant effect in the financial position of each of the Issuers or the Guarantor.

Auditors

The auditors of each of the Issuers and the Guarantor are KPMG Audit Plc, chartered accountants and registered auditor. KPMG Audit Plc has audited the accounts of United Utilities PLC, NORWEB plc and North West Water Limited, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the three years ended 31 March, 1998. North West Water Finance PLC has not yet made up statutory audited financial statements.

KPMG Audit Plc has given and not withdrawn its consent to the issue of this document with the inclusion of references to its reports in the form and context in which they appear and has authorised the contents of that part of the Listing Particulars for the purposes of section 152(1)(e) of the Financial Services Act 1986.

ECU

Under Article 109g of the Treaty, the currency composition of the ECU may not be changed. The Treaty contemplates that European economic and monetary union will occur in three stages, the second of which began on 1 January, 1994 with the entry into force of the Treaty. The Treaty provides that the third stage of European economic and monetary union will start on 1 January, 1999 and on that date the value of the ECU as against the currencies of the member states participating in the third stage will be irrevocably fixed and the ECU will become a currency in its own right. On 17 June, 1997, the Council of the European Union adopted Council Regulation (EC) No 1103/97, which recites that the name of that currency will be the euro and that, in accordance with the Treaty, references to the ECU will be replaced by references to the euro at the rate of one euro for one ECU. From the start of the third stage of European economic and monetary union, all payments in respect of Notes denominated or payable in ECU will be payable in euro at the rate of one euro for one ECU.

Banking Act 1987 (Exempt Transactions) Regulations 1997

Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom and which are issued pursuant to an exempt transaction under regulation 13(1) or (3) of the Banking Act 1987 (Exempt Transactions) Regulations 1997 (the "Regulations") will constitute commercial paper, shorter term debt securities or longer term debt securities (in each case as defined in the Regulations), as specified in the applicable Pricing Supplement, in each case issued in accordance with regulations made under section 4 of the Banking Act 1987. None of the Issuers is an authorised institution or a European authorised institution (as such terms are defined in the Regulations) and (in the case of Notes issued by NWW) repayment of the principal and payment of any interest or premium in connection with such Notes will be guaranteed by the Guarantor, which is not an authorised institution or a European authorised institution.

In relation to any Notes which are issued pursuant to an exempt transaction under regulation 13(3) of the Regulations where such Notes would fall within regulation 13(4)(a) of the Regulations, each of the Issuers confirms that:

- (a) as at the date hereof, it has complied with its obligations under the relevant rules (as defined in the Regulations) in relation to the admission to and continuing listing of the Programme and of any previous issues made under it and listed on the same exchange as the Programme;

- (b) it will have complied with its obligations under the relevant rules in relation to the admission to listing of such Notes by the time when such Notes are so admitted; and
- (c) as at the date hereof, it has not, since the last publication, if any, in compliance with the relevant rules of information about the Programme, any previous issues made under it and listed on the same exchange as the Programme, or any Notes falling within regulation 13(4)(a) of the Regulations, having made all reasonable enquiries, become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations as issuer in respect of such Notes as they fall due.

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