

OFFERING CIRCULAR



**United
Utilities**



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UNITED UTILITIES PLC

(incorporated with limited liability in England)

UNITED UTILITIES ELECTRICITY PLC ✓

(incorporated with limited liability in England)

UNITED UTILITIES WATER PLC

(incorporated with limited liability in England)

€4,000,000,000

Euro Medium Term Note Programme

On 13 October, 1998, United Utilities PLC, United Utilities Electricity PLC (then known as NORWEB plc) and North West Water Finance PLC established a U.S.\$2,000,000,000 Euro Medium Term Note Programme (the "Programme"). On 5 October, 1999 the maximum aggregate nominal amount of Notes which may be outstanding under the Programme was increased from U.S.\$2,000,000,000 to U.S.\$3,000,000,000. On 4 October, 2001, the maximum aggregate nominal amount of Notes which may be outstanding under the Programme was changed from U.S.\$3,000,000,000 to €4,000,000,000. This Offering Circular supersedes any previous Offering Circulars issued in respect of the Programme. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes already in issue.

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

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €4,000,000,000 (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 by the Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority" or "UKLA") for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on 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 and admitted to trading by the London Stock Exchange, will be delivered to the UK Listing Authority and 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 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 Euronext Paris S.A. ("Euronext Paris") an offering document incorporating this Offering Circular (a "Document de Base") should be approved by the COB and a registration number should be granted with respect thereto.

Unless otherwise specified in the applicable Pricing Supplement, Notes to be issued under the Programme by United Utilities PLC with an initial maturity of one year or less will be rated P-2 by Moody's Investors Service Limited ("Moody's") and BBB+ 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 A3 by Moody's and BBB+ by Standard & Poor's. Unless otherwise specified in the applicable Pricing Supplement, Notes to be issued under the Programme by UUE and UUEW with an initial maturity of one year or less will be rated P-1 by Moody's and A-2 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 issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating assigned to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

The relevant issuer and the Trustee (as defined below) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes admitted to the Official List 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
JPMorgan
Tokyo-Mitsubishi International plc**

**Deutsche Bank
The Royal Bank of Scotland
UBS Warburg**

The date of this Offering Circular is 4 October, 2002.

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

Any reference in this Offering Circular to Listing Particulars means this Offering Circular excluding all information incorporated by reference. Each of the Issuers has confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the Listing Particulars to satisfy the requirements of the Financial Services and Markets Act 2000, as amended, or the listing rules of the UK Listing Authority. Each of the Issuers believes that none of the information incorporated in this Offering Circular by reference conflicts in any material respect with the information included in the Listing Particulars.

Copies of this Offering Circular, which comprises the listing particulars approved by the UK Listing Authority as required by the Financial Services and Markets Act 2000, as amended (the "Listing Particulars") in relation to Notes admitted to the Official List and admitted to trading 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 83 of that Act. Copies of each Pricing Supplement (in the case of Notes to be admitted to the Official List) 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). 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 in connection with the Programme.

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

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see "Subscription and Sale" below).

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Dealers or the Trustee (save for the approval of this Offering Circular as listing particulars by the UK Listing Authority 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 Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations 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 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 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 United States dollars, to "Sterling" and "£" refer to pounds sterling and to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

In 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 with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

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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
- (b) all supplements or amendments to this Offering Circular circulated by the Issuers 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 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 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 for Notes admitted to the Official List.

The Issuers have undertaken to the Dealers in the Programme Agreement (as defined in "Subscription and Sale") to comply with sections 81 and 83 of the Financial Services and Markets Act 2000, as amended.

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 United Utilities Electricity PLC United Utilities Water PLC
Description:	Euro Medium Term Note Programme
Arranger:	Deutsche Bank AG London
Dealers:	ABN AMRO Bank N.V. Deutsche Bank AG London J.P. Morgan Securities Ltd. The Royal Bank of Scotland plc Tokyo-Mitsubishi International plc UBS AG, acting through its business group UBS Warburg and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	<p>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.</p> <p>Swiss Francs</p> <p>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.</p> <p>Notes having a maturity of less than one year</p> <p>Notes having a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "Subscription and Sale".</p>
Trustee:	The Law Debenture Trust Corporation p.l.c.
Issuing and Principal Paying Agent:	Citibank, N.A.

Programme Size:	Up to €4,000,000,000 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.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
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 and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (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 2000 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. <p>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.</p>
Index Linked Notes:	<p>Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked 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.</p> <p>Index Linked Notes which are issued as an <i>appel public à l'épargne</i> in France must be issued in compliance with the <i>Principes Généraux</i> from time to time set by the COB and the <i>Conseil des Bourses de Valeurs</i> or any successor body thereto.</p>
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

	Interest on Floating Rate Notes and Index Linked 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:	<p>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.</p> <p>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.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "Certain Restrictions: Notes with a maturity of less than one year" above.</p>
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.
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 8. In the event that any such deduction is made, the relevant Issuer will, save in certain limited circumstances provided in Condition 8, 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 3.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
Rating:	Unless otherwise specified in the applicable Pricing Supplement, Notes to be issued under the Programme by United Utilities PLC with an initial maturity of one year or less will be rated P-2 by Moody's and

BBB+ by Standard & Poor's and Notes with an initial maturity of more than one year will be rated A3 by Moody's and BBB+ by Standard & Poor's. Unless otherwise specified in the applicable Pricing Supplement, Notes to be issued under the Programme by UUE and U UW with an initial maturity of one year or less will be rated P-1 by Moody's and A-2 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 issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating assigned to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

Listing:

Application has been made for Notes issued under the Programme to be admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities. 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. It is strongly recommended by the French Ministry of the Economy, Finance and Industry that Notes denominated in euro should be listed on Euronext Paris particularly, but not exclusively, where such Notes are to be offered publicly in France. Paris Listed Notes will be issued subject to the requirements of the COB and Euronext Paris.

Unlisted Notes may also be issued.

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

On and after the date (the "Exchange Date") which, in respect of each Tranche in respect of which a Temporary Global Note is issued, is 40 days after the Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, 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 Clearstream, Luxembourg 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 Clearstream, Luxembourg (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 (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 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 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

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 Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes") the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, 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 Distribution Compliance Period applicable to the Notes of such Tranche.

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

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the relevant Issuer, the Principal Paying Agent and the Trustee.

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

FORM OF 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] [UNITED UTILITIES ELECTRICITY PLC] [UNITED UTILITIES WATER PLC]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the €4,000,000,000 Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 4 October, 2002. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs.]

1. Issuer: [United Utilities PLC/United Utilities Electricity PLC/
United Utilities Water PLC]
2. [(i)] Series Number: []
[(ii)] Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
— Series: []
— Tranche: []
5. [(i)] Issue Price: [] per cent. of the Aggregate Nominal Amount
[plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
[(ii)] Net proceeds: [] (Required only for listed issues)
6. Specified Denominations: []
[]
7. [(i)] Issue Date: []
[(ii)] Interest Commencement Date: []
[]
8. Maturity Date: [Fixed rate – specify date/Floating rate – Interest
Payment Date falling in or nearest to [specify
month]]
9. Interest Basis: [[] per cent. Fixed Rate] [[LIBOR/EURIBOR
[+/-] [] per cent. Floating Rate] [Zero Coupon]
[Index Linked Interest] [Dual Currency Interest]
[specify other] (further particulars specified below)]
10. Redemption/Payment Basis: [Redemption at par] [Index Linked Redemption]
[Dual Currency Redemption] [Partly Paid]
[Instalment] [specify other]

11. Change of Interest Basis or Redemption/ Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis]
12. Put/Call Options: [Investor Put] [Issuer Call] [(further particulars specified below)]
13. Status of the Notes: [Senior]
14. Listing: [London/Luxembourg/specify other/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Rate[(s)] of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition 5)
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other] (NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount
- (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
- (v) Day Count Fraction: [Actual/Actual (ISMA) or 30/360 or specify other]
- (vi) Determination Date(s): [] in each year *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon] (N.B. This will need to be amended in the case of regular interest payment dates, which are not of equal duration and it is only relevant where day count fraction is Actual/Actual (ISMA))*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]

17. Floating Rate Note Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ specify other]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination/ specify other]

- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): ☐
- (vi) Screen Rate Determination:
- Reference Rate: ☐
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)
 - Interest Determination Date(s): ☐
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling LIBOR, EURIBOR or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: ☐
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: ☐
 - Designated Maturity: ☐
 - Reset Date: ☐
- (viii) Margin(s): ☐ +/- ☐ per cent. per annum
- (ix) Minimum Rate of Interest: ☐ per cent. per annum
- (x) Maximum Rate of Interest: ☐ per cent. per annum
- (xi) Day Count Fraction: ☐ [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition 6 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: ☐

18. Zero Coupon Note Provisions

☐ [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Accrual Yield: ☐ per cent. per annum
- (ii) Reference Price: ☐
- (iii) Any other formula/basis of determining amount payable: ☐
(Consider applicable day count fraction if not U.S. dollar denominated)

- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7(e)(iii) and 7(j) apply/specify other]

19. Index Linked Interest Note Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: []
- (iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Specified Period(s)/Specified Interest Payment Dates: []
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Centre(s): []
- (vii) Minimum Rate of Interest: [] per cent. per annum
- (viii) Maximum Rate of Interest: [] per cent. per annum
- (ix) Day Count Fraction: []

20. Dual Currency Note Provisions

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

21. Issuer Call:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): []

- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: []
 - (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
- 22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): []
 - (iii) Notice period (if other than as set out in the Conditions): []
- 23. Final Redemption Amount of each Note: [Nominal Amount/specify other/see Appendix]
- 24. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date.]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- 26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate)
- 27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
- 28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. (A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues)]
- 29. Details relating to Instalment Notes:
 - (i) Instalment Amount(s) [Not Applicable/give details]
 - (ii) Instalment Date(s) [Not Applicable/give details]

30. Redenomination applicable: Redenomination [not] applicable [(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
31. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
 (ii) Stabilising Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: []
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment
38. Additional Paying Agent(s) (if any): []

ISIN: []

Common Code: []

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the €4,000,000,000 Euro Medium Term Note Programme established by United Utilities PLC, United Utilities Electricity PLC and United Utilities Water PLC.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:
 Duly authorised]

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 1,4,5,6,7 (except Condition 7(b)), 11, 13, 14 (insofar as such Notes are not listed or admitted to trading on any stock exchange) or 17, 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 or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable 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, United Utilities Electricity PLC ("UUE") or United Utilities Water PLC ("UUEW") (each an "Issuer" and, together, the "Issuers") constituted by an Amended and Restated Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the "Trust Deed") dated 4 October, 2002 made between the Issuers and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include any successor as trustee).

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

- (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 Amended and Restated Agency Agreement (such Agency Agreement, as amended and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 4 October, 2002 and made between the Issuers, 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 4 October, 2002 at Fifth Floor, 100 Wood Street, London EC2V 7EX) 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 Index Linked Interest Note, an Index Linked Redemption 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 and/or Redemption/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, 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 Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

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

alternative clearing system specified in the applicable Pricing Supplement or otherwise 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 3) unsecured obligations of the relevant Issuer and rank *pari passu* among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3. Negative Pledge

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

"Relevant Indebtedness" means any present or future indebtedness (whether being principal, premium or interest) for borrowed money (other than indebtedness for borrowed money with an initial maturity falling 20 years or more after the issue 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 10) or indebtedness for borrowed money which has a stated maturity not exceeding one year) which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash and which, with the agreement of the relevant Issuer, are quoted, listed, dealt in or traded on a stock exchange or over the counter or other recognised securities market (whether or not distributed by way of private placement).

4. Redenomination

(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 Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, 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 14, the stock exchange or other relevant authority (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 as shall be notified to the Noteholders in accordance with Condition 14;
- (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 Notes, Receipts and/or Coupons 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) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 5(a)), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 5(a)) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention; and
- (vii) if the Notes are Floating Rate Notes the applicable Pricing Supplement specifies any relevant changes to the provisions relating to interest.

(b) Definitions

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

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

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

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

participates in European economic and monetary union in a manner with similar effect to such third stage; and

"Treaty" means the Treaty establishing the European Community, as amended.

5. Interest

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

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date ending on such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment 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 ending other than on an Interest Payment Date, such interest 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.

In these Terms and Conditions:

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

(i) if "Actual/Actual (ISMA)" is specified in the applicable Pricing Supplement:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and

(ii) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

"Determination Period" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing

on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

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

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked 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 Specified Interest Payment Date(s) (each an "Interest Payment Date") in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified 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 in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(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 occurred; 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 and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; and

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

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked 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 sub-paragraph (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 2000 ISDA Definitions and the Annex to the 2000 ISDA Definitions, each as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the "ISDA Definitions") and under which:

- (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") or on the Euro-zone inter-bank offered rate ("EURIBOR") 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), (i) "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions; and (ii) "Euro-zone" means the region comprised of Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty.

(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, in the case of LIBOR, or Brussels time, in the case of EURIBOR) 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 offered 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 or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) Minimum Rate of Interest 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 Index Linked 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 Index Linked 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 Index Linked 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/365 (Sterling)" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) 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
- (vi) 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 the final Interest Period, 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 or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(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 Rate of Interest 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 5(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 Trustee, 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 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.

6. Payments

(a) Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or 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 euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(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 Index Linked 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 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) 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 Index Linked 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 an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

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

Notwithstanding the provisions of paragraph (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, adverse tax consequences to the relevant Issuer.

(e) 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 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) any Additional Financial Centre specified in the applicable Pricing Supplement; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) Interpretation of principal and interest

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

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (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 7(e)(iii)); and
- (vii) any premium and any other amounts which may be payable by the relevant Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. 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 the Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if the Note is either a Floating Rate Note or an Index Linked 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 14, 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 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

Notes redeemed pursuant to this Condition 7(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 (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the relevant Issuer may, having given:

- (i) not less than 30 nor more than 90 days' notice to the Noteholders in accordance with Condition 15; 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 the Maximum 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 Clearstream, Luxembourg, 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 14 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 14 at least five days prior to the Selection Date.

(d) Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the relevant Issuer in accordance with Condition 14 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 10, the Notes will be redeemed at their 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 of the first tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes become due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (1) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360-day year consisting of 12 months of 30 days each and (2) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365) or (in either case) on 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 or any Subsidiary (as defined in the Trust Deed) of the relevant Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured 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 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 10 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 Note has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the relevant Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the relevant Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, 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:

- (i) presented for payment 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) presented for payment in the United Kingdom; or
- (iii) presented for payment to, or to a third party on behalf of, a holder who would not be liable to such withholding or deduction if such holder had made a declaration of non-residence or similar claim for exemption to any authority of or in the United Kingdom; or
- (iv) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26-27 November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

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 14.

9. 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 8) 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 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. 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 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 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 in the performance or observance of any material obligation, condition or provision binding upon it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof has been given by the Trustee to the relevant Issuer requiring the same to be remedied; or
- (iii) (1) any indebtedness for moneys borrowed (as defined below) of the relevant Issuer or any Material Subsidiary or (2) any present or future guarantee for, or indemnity in respect of, any indebtedness for moneys borrowed of any person given by the relevant Issuer or any Material Subsidiary where the relevant indebtedness for moneys borrowed when aggregated with all other indebtedness for moneys borrowed in respect of which one or more other events referred to in this paragraph (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 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 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 or any Material Subsidiary or if a distress, execution or other process is levied or enforced upon or sued out against the whole or any substantial part of the assets of the relevant Issuer or any Material Subsidiary and, in the case of any of the foregoing events, is not discharged within 60 days or such longer period as the Trustee may allow; or
- (vi) if the relevant Issuer or any Material Subsidiary is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986; or
- (vii) if the relevant Issuer or any Material Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in any case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (a) not involving or arising out of the insolvency of the relevant Issuer or a Material Subsidiary and under which all or substantially all of its assets are transferred to the relevant Issuer or a Material Subsidiary or one or more of the relevant Issuer's other Subsidiaries or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Material Subsidiary or Material Subsidiaries provided that this exception (a) shall not apply where the transferor company is the relevant Issuer unless assets comprising the major part

by value of the assets owned by the relevant transferor company immediately prior to such transfer are transferred to a single transferee company and contemporaneously with such transfer where the transferor company is the relevant Issuer (y) such transferee company assumes (to the satisfaction of the Trustee) all the obligations of the transferor company as principal debtor in respect of the Notes and (z) such transferor company unconditionally and irrevocably guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by such transferee company as the new principal debtor or (b) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration on an arm's length basis or (c) the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders provided that in no event shall the relevant Issuer or any Material Subsidiary be deemed to have ceased to carry on the whole or substantially the whole of its business solely by reason of any forced divestiture imposed by any government or regulatory body or by reason of the loss of the Appointment or the Licence.

(b) For the purposes of this Condition:

"Accounts" means a consolidation of the annual statutory accounts of the relevant Issuer 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; and
- (ii) the amounts standing to the credit of the capital and revenue reserves of the relevant Issuer and its Subsidiary Undertakings (including any share premium account and capital redemption reserve) after adding thereto any balance standing to the credit of the profit and loss account;

all based on the consolidated balance sheet of the relevant Issuer and its Subsidiary Undertakings as contained in the then latest Accounts but after:

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

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

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

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

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

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

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

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

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

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

"Licence" means either the distribution licence granted to the relevant Issuer under Section 6(1)(c) of the Electricity Act 1989 as amended by Section 30 of the Utilities Act 2000 or the licence of the relevant Issuer having effect (in accordance with a scheme made by the Secretary of State for Trade and Industry under Section 13(2)(a) of Schedule 7 of the Utilities Act 2000 which took effect on 1 October 2001) as if it were a distribution licence granted under Section 6(1)(c) of the Electricity Act 1989 as amended by Section 30 of the Utilities Act 2000, as appropriate;

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

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

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

"Subsidiary" means a subsidiary within the meaning of Section 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 shall exclude any Subsidiary Undertaking whose accounts are not included in the then latest Accounts, or (in the case of a Subsidiary Undertaking which has first become a Subsidiary Undertaking of a member of the Group since the date as at which such Accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

11. 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.

12. 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 or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (iii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in continental Europe; and
- (iv) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union (other than the United Kingdom) that will not be obliged to withhold or deduct tax pursuant to any such Directive.

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

13. 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 9.

14. Notices

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

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

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

15. 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 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 to the extent provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 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 14 as soon as practicable thereafter.

16. Indemnification of the Trustee and its Contracting with the relevant Issuer

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

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the relevant Issuer and to act as trustee for the holders of any other securities issued by, or relating to, the relevant Issuer; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, 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.

17. 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.

18. 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 UUE in place of UUE as principal debtor, subject to the irrevocable and unconditional guarantee of UUE; or
- (iii) of any Subsidiary of U UW in place of U UW as principal debtor, subject to the irrevocable and unconditional guarantee of U UW.

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.

19. Governing Law

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

20. Contracts (Rights of Third Parties) Act 1999

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

USE OF PROCEEDS

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

DESCRIPTION OF THE ISSUERS

UNITED UTILITIES WATER PLC

United Utilities Water PLC ("Uuw") is a wholly owned subsidiary of United Utilities PLC ("UU"). Uuw derives virtually all its income from licensed regulated monopoly activities. It owns, operates and manages the group's licensed wastewater and water network assets in North West England, comprising primarily:-

Assets involved in wastewater, collection, treatment and disposal operations

- 39,910km of sewers;
- 1,735 pumping stations;
- 200 storage tanks;
- 3,255 combined sewer overflows;
- 611 wastewater treatment works; and
- 78 sludge treatment facilities.

Assets involved in water supply operations, treatment and distribution

- 204 impounding reservoirs;
- 1,203km of raw water aqueducts;
- 113 water treatment works;
- 1,133km of treated water aqueducts;
- 493 service reservoirs and water towers;
- 568 pumping stations; and
- 39,320km of trunk and distribution mains.

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

Uuw has in the order of £34 billion (at current replacement value) of assets to serve its customer base of approximately 7 million people in North West England. It would be uneconomic for competitors to replicate the network assets owned by Uuw with the inevitable consequence that Uuw is an asset owning monopoly and as such is subject to price regulation.

Uuw removes and treats wastewater from, and treats and distributes around 2,000 million litres of water a day to, nearly 3 million homes and businesses.

At the time of water and wastewater privatisation in 1989, the infrastructure inherited by Uuw was in need of substantial repair and replacement. Further improvements have been required in order to comply with applicable UK and European Union environmental regulations.

In order to extract the synergy benefits of managing three utility networks comprising wastewater, water and electricity distribution in the same geographical region, running largely under the same streets and serving the same customer premises, Uuw's asset management resources are combined with those of United Utilities Electricity PLC ("UUE") under a common management structure, United Utilities Service Delivery, ("UUSD"), headed by Mr Les Dawson who was recruited in 2000 from Transco, the UK's nationwide gas distribution network business.

The regulators' last price reviews assumed that for the five-year period to 31 March 2005 Uuw would achieve efficiencies totalling £300m and UUE would achieve efficiencies totalling £100m. By combining multi-utility asset management and operations within UUSD, the group's target for cost savings over the five-year period to 31 March 2005 was raised from £400 million to £450 million and subsequently to £480 million.

Capital Investment Programmes

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

AMP 1	5 years to 31 March 1995	£1.8bn
AMP 2	5 years to 31 March 2000	£2.5bn
AMP 3	5 years to 31 March 2005	£3.0bn

The company's price regulator takes account of these investment programmes when setting price limits as described under "Price Control". The Director General of Water Services' (the "DGWS") primary duties include a requirement that regulated water and sewage companies are able to finance their functions.

Capital investment in the financial year ending 31 March 2002 was £401.7 million, of which, 44.8 per cent was on the wastewater network (including sludge treatment and disposal), 45.6 per cent was on the water network and 9.6 per cent related to quality and efficiency.

The implementation of a large part of UUW's £3.0 billion capital programme has been contracted to Montgomery Watson Programme Management Limited, the engineering services provider, for the five years from 1 April 2000. The arrangement is designed to increase efficiencies in executing the capital programme.

Wastewater collection, treatment and disposal operations

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

UUW's wastewater works provide a range of treatments, which include 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.

The business has continued to make progress in satisfying the Urban Wastewater Treatment Directive for works serving populations greater than 15,000. This directive, which was enacted into UK law by the Urban Wastewater Treatment Regulations, requires improvements in the treatment of wastewater discharges. Pursuant to the European Union Bathing Water Directive, the Environment Agency tests certain designated bathing waters around the UK coasts for the presence or absence of various bacteria. The programme of wastewater network and treatment projects to improve the quality of, and meet the required quality standards for, bathing waters in North West England continues. Bathing quality results in the region for 2001 were the best on record. Despite our efforts certain bathing waters continue to fail the European Union mandatory standards. UUW is assisting the Environment Agency in its investigation to trace the reasons for the continuing failures.

Water supply operations, treatment and distribution

UUW obtains water from various sources including reservoirs, rivers and aquifers. It enjoys the advantage of having the majority of its direct reservoirs in the uplands of the Lake District, an area of North West England, which enjoys a higher than average annual rainfall for England, and the Pennine hills on the eastern edge of North West England, whereas the major population centres in North West England (Merseyside, Greater Manchester, Lancashire and Cheshire) are in the lowlands. Consequently, a significant proportion of the water supplied flows freely by gravity and does not need to be pumped.

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. UUW also employs a number of new treatment processes including membrane microfiltration. UUW monitors water quality by analysing samples regularly for both microbiological and chemical parameters. The treated water is delivered to the end customer through a network of aqueducts, trunk and distribution mains, service reservoirs and water towers. In 2002, the business continued to improve water quality in the region with 99.8% of drinking water samples meeting the quality standards at customers' taps.

Water and wastewater regulation

The Water Industry Act 1991 requires companies engaged in water supply or wastewater services in England and Wales to be licensed. Regulation pursuant to these licences is the responsibility of the DGWS, assisted by the Office of Water Services (Ofwat). The DGWS also exercises powers under competition legislation, most significantly the Competition Act 1998.

Licence period

The Secretary of State awarded water and wastewater licences in 1989 in perpetuity. A licence can be withdrawn in certain circumstances including, for example, for failure to comply with an enforcement order made by the DGWS. Currently the UK government must give 10 years' notice if it intends to terminate the licence, the earliest date for notification being the fifteenth anniversary of privatisation. In July 2002, the DGWS announced his intention to provide for 25 years' notice instead of 10. This change is supported by government and appointed companies.

Competition

Under the current regime limited competition for customers is permitted. As from August 2000, the relevant threshold was lowered from customers with annual consumption of not less than 250 megalitres to customers with annual consumption of not less than 100 megalitres. The government now proposes to reduce this to 50 megalitres. These thresholds exclude household customers.

In April 2001, the UK government announced proposals to increase competition in the water industry in England and Wales. These include the licensing of new entrants into the markets for production (water abstraction and treatment) and retail activities and provision (known as common carriage) for competitors to share the current networks operated by the incumbent water companies. While Ofwat welcomes a strategy for competition in the water industry, they have concerns that with only a few customers eligible to choose their supplier, this could in itself create tension between promoting competition and regulating monopoly companies in the interests of customers. The November 2000 consultation draft Water Bill included provisions to amend the statutory duties of the DGWS, to add to his primary duties an obligation to protect consumers' interests including, wherever appropriate, by promoting effective competition. It also provided for the introduction of financial penalties for bad practice or poor performance. The government has subsequently confirmed the proposed legislative changes and the Water Bill may be introduced in the 2002-2003 session of parliament.

Ring Fence

UUW's licence restricts its conduct in a number of ways. These include prohibitions on discrimination between customers and on cross-subsidies between UUW and associated companies and restrictions on the declaration and payment of dividends. Licence conditions can be modified by the DGWS either with the agreement of the licensee or following an investigation by the UK Competition Commission.

Price control

The DGWS regulates water and wastewater charges by capping the average increase in charges which a company can impose in any year by reference to inflation as measured by the Retail Price Index in the UK ("RPI"). Unlike "rate of return" economic regulation, such as exists in many states of the United States, "price limitation" regulation in the UK is performance based. The DGWS reviews price limits every five years. If UUW does not accept the DGWS's proposals, it can require the DGWS to refer the matter to the Competition Commission for determination. In addition, UUW can request a re-setting of its price limit during the five-year period in certain specified circumstances.

New price limits took effect in April 2000. Average changes in UUW's charges for the remainder of the period must, in real terms, remain within the following levels:

2002/03	2003/04	2004/05
0.0%	+4.0%	+4.5%

The Water Industry Act 1999 prohibits disconnecting water supply for non-payment, and limiting supply with the intention of enforcing payment, for certain premises including private dwellings and incorporates other rights and protections for household water customers.

Dividend

Before UUW pays any dividend, a certificate confirming that there are adequate financial resources to make the payment, accompanied by an auditor's statement, must be signed by the directors each year in accordance with the licence.

When UUW holds the meeting to declare the dividend any director of UUW who is also a director of UU will not participate in the meeting.

UNITED UTILITIES ELECTRICITY PLC

United Utilities Electricity PLC ("UUE") is a wholly-owned subsidiary of UU. UUE derives virtually all its income from licensed regulated monopoly activities. It owns, operates and manages the group's licensed electricity network assets in North West England, comprising primarily:

Assets involved in distribution of electricity

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

Note: The circumference of the earth is approximately 40,000km

UUE distributes approximately 25,500 gigawatt hours of electricity annually to approximately 2.3 million homes and businesses in North West England. UUE does not generate or trade electricity.

Between 1 April 2001 and 31 March 2005 UUE plans to invest £0.5bn in the electricity distribution network. Capital investment in the last financial year was over £100 million, of which 28 per cent was load related, 58 per cent was non-load related and 14 per cent was non-operational.

The management and operations of the network assets owned by UUE and UUE have been brought together under a single management team in UUSD (see above).

Electricity Distribution

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

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

Electricity Regulation

The electricity industry in Great Britain is regulated under the Electricity Act 1989 and the Utilities Act 2000. The latter established a single regulator for the gas and electricity sectors, the Gas and Electricity Markets Authority (the "Authority") in place of the two posts of Director General of Electricity Supply and Director General of Gas Supply. The Authority governs and acts through Ofgem. In addition to its regulatory powers, Ofgem exercises powers under UK competition legislation, including the Competition Act 1998.

Licence

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

The licence can also be revoked in certain circumstances, including where the licensee fails to comply with an enforcement order made by Ofgem. The licence contains various conditions regulating the conduct of the business. In particular, the disposal of any part of the distribution system is restricted; distribution businesses and suppliers which Ofgem deems to be in a dominant position must provide services on non-discriminatory terms; cross-subsidies to or from UUE's licensed businesses are prohibited; and the directors must provide a certificate of compliance before declaring dividends or making distributions. Distribution licences contain provisions to maintain and ring-fence the financial and management resources of the licensed businesses. Ofgem can modify licence conditions either with the agreement of the licensee or following an investigation by the Competition Commission.

Price control

UUE'S distribution activities are subject to price control, which caps the maximum increases in prices charged by reference to RPI. A new price control for UUE came into effect on 1 April 2000 and required a one-off reduction in real terms of 27 per cent in average regulated revenue in 2000/1. Average revenue in

the next four years must not increase faster than RPI -3 per cent. Ofgem introduced additional incentive mechanisms from the beginning of 2002/3.

Utilities Act 2000

New legislation affecting the electricity sector, the Utilities Act 2000, was enacted by the UK Parliament in July 2000. The changes that the Utilities Act has introduced include an additional principal objective of the Authority to protect the interest of consumers, wherever appropriate by promoting competition. It has also given the authority the power to impose financial penalties for bad practice or poor performance. New collective licence modification procedures enable the regulator to modify standard licence conditions without a Competition Commission reference even if some licencees disagree.

The relevant provision of the Utilities Act means that it is no longer possible for the same legal entity to hold supply and distribution licences. On 1 October 2001 the public electricity supply licence was split into 2, producing separate distribution and supply licences. The electricity supply licence has now been transferred to TXU Energy following the sale of Norweb Energy in August 2000. The Norweb brand was sold to TXU Energy as part of this sale. UUE's distribution business is now conducted under a distribution licence.

UNITED UTILITIES PLC

With a market capitalisation of approximately £3.3 billion (as at 30 September 2002) the shares of United Utilities PLC ("UU") are listed on the London Stock Exchange. The shares are widely held and no individual shareholder controls more than 6 per cent. UU is the holding company of UUE and UUE, regulated monopoly companies that own and operate the networks and associated infrastructure assets used to:

- collect and treat sewage;
- purify and distribute water; and
- distribute electricity

for homes and businesses in Manchester and north west England, a region with a population of some 7 million people. It derives more than 95 per cent of its operating profit from these regulated monopoly activities.

UU's strategy is to reduce costs in regulated monopoly businesses, by exploiting multi-utility advantages, and to increase revenue in its growth businesses by leveraging asset and customer management skills.

The group reports its results through four business segments:

- **licensed multi-utility operations** – the licensed activities of UUE and UUE;
- **asset management services** – United Utilities Contract Solutions, which contains three businesses - operations management, green energy and network services;
- **customer management outsourcing** – Vertex Data Science Limited ("Vertex"); and
- **telecommunications** – Your Communications Limited ("Your Communications").

Licensed multi-utility operations

UUE and UUE (see above for company descriptions) own, operate and manage the group's wastewater, water and electricity network infrastructure assets in North West England.

Asset management services

United Utilities Contract Solutions has three businesses:

Operations management – develops and operates contracts in selected markets based on the group's core asset management skills. The business operates and manages utility activities serving over 15 million people in the UK and overseas. It has a focused approach to pursuing opportunities, with the objective of securing long-term investment and operational sources of income while limiting financial exposure. The business secured a four year £450 million contract in March 2001 to operate and maintain Welsh Water's

water treatment plants, wastewater treatment works and water mains. This contract, together with its own utility business, makes United Utilities the largest manager of wastewater and water assets in the UK.

Green energy – develops and operates renewable energy generation projects. The UK government is committed to increasing the use of renewable energy from current levels of 3 per cent to 10 per cent of total energy usage by 2010. UU acquired Hyder Group Plc's renewable green energy business in December 2000. With 10 per cent of the green energy capacity in England and Wales the business is well positioned to benefit from the UK government's commitment to increasing renewable generation. Around three quarters of the existing operational schemes fall within the government's NFFO (Non-Fossil Fuel Obligation) arrangements under which the company is awarded a contract to generate electricity at a fixed price (index-linked) for each kWh generated. The company therefore is protected from electricity price risk in relation to these contracts. Not all new schemes will necessarily be covered under the NFFO arrangements.

Network services – provides gas, water and electricity connections and metering services to domestic, commercial and industrial developers. This business was created by merging the group's pre-existing multi-utility metering and connections operations with Hyder Private Networks Limited and Hyder Gas Networks Limited, which were acquired in January 2001. Network services is the UK's largest provider of multi-utility connections services. One significant contract which has contributed to that success is the 5 year £225m contract recently signed with British Gas Trading (part of Centrica plc). This together with a contract for Welsh Water means the company is now responsible for managing around 8 million electricity, water and gas meters across the UK.

Customer management outsourcing

Vertex provides customer management and other business process outsourcing services to utilities, private enterprise and the public sector.

Vertex is the UK's leading customer management service supplier and the largest provider in the UK of outsourced business process operations to the utility sector. Of Vertex's current £1.6bn order book, 80 per cent has been sourced from outside the group demonstrating that it is now a major player in the customer management outsourcing market.

Sales growth in the last financial year was 34 per cent. Revenue from outside the group now stands at 67 per cent. The operating margin increased from 4.5 per cent to 5.3 per cent reflecting the maturity of the external contract portfolio. Capital expenditure in the year ended 31 March 2002 was £31.5 million compared with £34.6 million in year ended 31 March 2001.

In March 2001 UU announced a strategic partnership with Cap Gemini Ernst & Young UK (CGEY). Vertex delivers customer management outsourcing services to the clients of CGEY; the IT infrastructure of Vertex is managed by CGEY. The arrangement therefore allows both parties to play to their strengths. As part of the arrangement CGEY holds a 14.4 per cent equity stake in Vertex.

Telecommunications

Your Communications offers a range of integrated communications services – voice, data, mobile and internet – to businesses and specialist sectors around the UK.

During the year, Your Communications continued to invest in broadening its product range and network. Capital expenditure for the financial year 2002 was £55.8 million compared to £64.7 million in the financial year 2001. In November 2000, it acquired four broadband wireless access licences covering North West England, West Midlands, Yorkshire and Northern England, for £9 million. Broadband technology allows the provision of high speed broadband services.

The focus is firmly on growth in value-added sales and progress towards profitability. Managing a telecommunications business does not fit with the group's strategy, and the objective remains to maximise the value realised for shareholders from this business.

UNITED UTILITIES PLC

Litigation

United Utilities PLC 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. United Utilities PLC 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.

Board of Directors

The directors of United Utilities PLC and their functions within the Group are as follows:

Name	Function
John Roberts	Chief Executive
Simon Batey	Group Finance Director
Gordon Waters	Managing Director, United Utilities Contract Solutions
Les Dawson	Managing Director, United Utilities Service Delivery
Sir Richard Evans	Non-Executive Director; Chairman
Sir Peter Middleton	Non-Executive Director; Deputy Chairman
Norman Broadhurst	Non-Executive Director
John Seed	Non-Executive Director
Jane Newell	Non-Executive Director
Andrew Pinder	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 United Utilities PLC's registered office which is Dawson House, Great Sankey, Warrington WA5 3LW.

Capitalisation and Indebtedness of United Utilities PLC

The following table, which has been extracted from the audited financial statements for the year ended 31 March, 2002, sets out the consolidated capitalisation and indebtedness of the Group at 31 March, 2002.

	£m
Short Term Debt:	
Short term debt (including overdrafts)	164.9
Current portion of long term debt	71.0
Total short term debt ^(a)	235.9
Long Term Debt:	
Long term debt, net of current portion	3,212.6
Total long term debt ^(a)	3,212.6
Shareholders' Funds: ^(b)	
Called up share capital	555.9
Share premium account	671.6
Profit and loss account	1,308.8
Total shareholders' funds ^(c)	2,536.3
Total capitalisation ^{(d) (e)}	5,748.9

Notes:

- (a) As at 25 August, 2002, the total short term debt of the Group was approximately £228 million and the total long term debt was approximately £3,367 million.
- (b) As at 31 March, 2002 the authorised share capital of United Utilities PLC was £800 million nominal comprising 800 million ordinary shares of £1 nominal each. The allotted, called up and fully paid share capital of United Utilities PLC was £555,942,338 comprising 555,942,338 ordinary shares of £1 nominal each.
- (c) As at 25 August, 2002, shareholders' funds totalled approximately £2,557 million.
- (d) As at 25 August 2002, United Utilities PLC guaranteed certain loans of group undertakings (included in the statement of consolidated capitalisation and indebtedness) up to a maximum amount of £650 million. As at 25 August 2002 there were no other material contingent liabilities or guarantees and there was no secured indebtedness.
- (e) Save as disclosed above, there has been no material change in the consolidated capitalisation, indebtedness, contingent liabilities or guarantees of the Group since 31 March, 2002.

UNITED UTILITIES ELECTRICITY PLC

United Utilities Electricity 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. A more detailed description of the business is set out on pages 44 to 46 of the Offering Circular.

Board of Directors

The directors of United Utilities Electricity PLC and their functions within the company are as follows:

Name	Function
Simon Batey	Director
Martin Bradbury	Operations and Maintenance Director
Michael Boxall	Head of Electricity Regulation
John Roberts	Chairman
Steven Beaumont	Finance Director, Service Delivery
Les Dawson	Managing Director, Service Delivery
Keith Budinger	Support Services Director, Service Delivery

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

The business address of each of the directors is United Utilities Electricity PLC's registered office which is Dawson House, Great Sankey, Warrington WA5 3LW.

Capitalisation and Indebtedness of United Utilities Electricity PLC

The following table, which has been extracted from the audited financial statements for the year ended 31 March, 2002, sets out the consolidated capitalisation and indebtedness of United Utilities Electricity PLC at 31 March, 2002.

	£m
Short Term Debt:	
Short term debt (including overdrafts)	45.1
Current portion of long term debt	4.4
Total short term debt ^(a)	49.5
Long Term Debt:	
Long term debt, net of current portion	547.4
Total long term debt ^(a)	547.4
Shareholders' Funds^(b)	
Revaluation reserve	200.8
Called up share capital	78.4
Share premium account	4.4
Profit and loss account	183.6
Other reserves	8.6
Total shareholders' funds ^(c)	475.8
Total capitalisation^{(d) (e) (f)}	1,023.2

Notes:

- (a) As at 25 August, 2002, the total short term debt of United Utilities Electricity PLC and its subsidiaries was approximately £28 million and the total long term debt was approximately £547 million.
- (b) As at 31 March, 2002, the authorised share capital of United Utilities Electricity PLC was £125,000,001 comprising 249,999,996 ordinary shares of 50p nominal each, 4 'A' ordinary shares of 50p nominal each and one special rights redeemable preference share of £1. The allotted, called up and fully paid share capital of United Utilities Electricity PLC was £78,410,673 comprising 156,821,341 ordinary shares of 50p nominal each and 4 'A' ordinary shares of 50p each.
- (c) As at 25 August, 2002, shareholders' funds totalled approximately £498 million.
- (d) As at 31 March, 2002, there were no material contingent liabilities or guarantees, none of the indebtedness of United Utilities Electricity PLC was guaranteed and there was no secured indebtedness.
- (e) United Utilities Electricity PLC's obligations under certain agreements have been transferred to TXU following the sale of the electricity supply business described on page 46.
- (f) Save as disclosed above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of United Utilities Electricity PLC since 31 March, 2002.

UNITED UTILITIES WATER PLC

United Utilities Water PLC 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. United Utilities Water PLC is a company limited by shares and operates under the Companies Act 1985. A detailed description of the business of United Utilities Water PLC is set out on pages 42 to 44 of the Offering Circular.

Board of Directors

The directors of United Utilities Water PLC and their functions within United Utilities Water PLC are as follows:

Name	Function
Bob Armstrong	Managing Director, Customer Sales and Deputy Managing Director
Martin Bradbury	Operations and Maintenance Director
Steven Beaumont	Finance Director, Service Delivery
Clive Elphick	Director
Phillida Entwistle	Non-Executive Director
Deborah Morton	Non-Executive Director
John Roberts	Chairman
John Barnes	Licence to Operate Director, Service Delivery
Simon Batey	Director
Les Dawson	Managing Director, Service Delivery

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

The business address of each of the directors is United Utilities Water PLC's registered office which is Dawson House, Great Sankey, Warrington WA5 3LW.

Capitalisation and Indebtedness of United Utilities Water PLC

The following table, which has been extracted from the audited financial statements for the year ended 31 March, 2002, sets out the consolidated capitalisation and indebtedness of United Utilities Water PLC at 31 March, 2002.

	£m
Short Term Debt:	
Short term debt (including overdrafts)	29.8
Current portion of long term debt	66.6
Total short term debt ^(a)	96.4
Long Term Debt:	
Long term debt, net of current portion	2,365.2
Total long term debt ^(a)	2,365.2
Shareholders' Funds^(b)	
Equity share capital	431.9
Share premium account	647.8
Profit and loss account	886.2
Other reserves	223.4
Total shareholders' funds ^(c)	2,189.3
Total capitalisation^{(d) (e) (f)}	4,554.5

Notes:

- (a) As at 25 August, 2002, the total short term debt of United Utilities Water PLC was approximately £82 million and the total long term debt was approximately £2,499 million.
- (b) As at 31 March, 2002, the authorised share capital of United Utilities Water PLC was £873,437,000 nominal comprising 650,000,000 ordinary shares of £1 nominal each and 223,437,000 preference shares of £1 nominal each. The allotted, called up and fully paid share capital of United Utilities Water PLC was £655,367,000 comprising 431,930,000 ordinary shares of £1 nominal each and 223,437,000 preference shares of £1 nominal each.
- (c) As at 25 August, 2002, shareholders funds totalled approximately £2,264 million.
- (d) As at 25 August, 2002, on a consolidated basis, approximately £650 million of United Utilities Water PLC's debt was guaranteed by United Utilities PLC. As at 25 August 2002 there were no material contingent liabilities or guarantees and there was no secured indebtedness.
- (e) Save as disclosed above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of United Utilities Water PLC since 31 March, 2002.

TAXATION

The following is a summary of the Issuers' understanding of certain aspects of United Kingdom current law and Inland Revenue practice 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 are unsure as to their particular tax position should seek their own professional advice.

Withholding tax:

United Kingdom withholding tax (including such withholding or deduction for or on account of tax by issuers, paying agents and collecting agents) was abolished in relation to interest payments made (or, in the case of collecting agents, received) on or after 1 April, 2001 in respect of securities listed on a "recognised stock exchange", as defined in section 841 of the Income and Corporation Taxes Act 1988 (the "Act") (the London Stock Exchange plc is such a recognised exchange). Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where, at the time the interest on the Notes is paid, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that either:

- (a) the person beneficially entitled to the payment of interest on the Notes is a company resident in the United Kingdom, or a partnership each member of which is a company resident in the United Kingdom; or,
- (b) the person beneficially entitled to the income in respect of which the payment is made is a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a branch or agency and the payment falls to be brought into account in computing the chargeable profits of that company,

provided that the Inland Revenue has not given a direction that it has reasonable grounds to believe that it is likely that neither condition (a) nor (b) above will be satisfied in relation to the payment at the time the payment is made.

In all other cases, an amount must be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

Noteholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual, or who, after 5 April, 2002, either pays amounts payable on the redemption of Notes to or receives such amounts for the benefit of an individual. Such information may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

Withholding tax: general

- 1. 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.
- 2. 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).

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to UK corporation tax will be charged to tax on all returns, profits or gains on, and fluctuations in value of, the Notes broadly in accordance with their statutory accounting treatment. Such Noteholders will generally be charged to tax in each accounting period by reference to interest (and discount) accrued in that period. Such Noteholders will also be obliged to bring into account as income profits and losses caused by movements in the currency in which the Notes are denominated against the currency in which, in accordance with "normal accounting practice", the Noteholder accounts for the Notes.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

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

Accrued Income Scheme

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

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

Taxation of discount and premium

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount will not be made subject to any withholding or deduction on account of United Kingdom income tax as long as they do not constitute payments in respect of interest. Such Notes may, however, constitute "relevant discounted securities" for the purpose of Schedule 13 of the Finance Act 1996, depending on the level of the discount. Where Notes constitute "relevant discounted securities", a holder of such Notes who is within the scope of United Kingdom income tax may be liable to United Kingdom income tax on any profit made on the sale or other disposal (including redemption) of such Notes.

Where Notes are issued with a redemption premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest and, if so, the provisions described above in relation to withholding tax and tax by direct assessment will apply. If the premium does not constitute a payment of interest then such notes may in any event constitute "relevant discounted securities" (as mentioned above).

Proposed EC Directive

On 13 December, 2001, the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Austria, Belgium and Luxembourg will instead operate a withholding system for a transitional period in relation to such payments. The terms of the draft directive will not apply, for a limited period of seven years from 1 January, 2004, to:

- (i) negotiable debt securities issued before 12 March, 2001;
- (ii) negotiable debt securities issued after 1 March, 2001 but before 1 March, 2002, which are fungible with securities within (i) above; or
- (iii) negotiable debt securities issued before 1 March, 2002 where the original prospectus was approved by the relevant competent authority (or by the responsible authority if approved in a non-EU Member State) before 1 March, 2001.

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

SUBSCRIPTION AND SALE

The Dealers have in a programme agreement dated 4 October, 2001 (as supplemented and amended from time to time) (the "Programme Agreement"), agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". In the Programme Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Selling Restrictions

United States

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

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

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 distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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 Index Linked 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 admitted to the Official List, 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 VI of the Financial Services and Markets Act 2000, as amended (the "FSMA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the FSMA;
- (ii) in relation to Notes which have a maturity of one year or more and which are not to be admitted to the Official List, 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, as amended;

- (iii) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the relevant Issuer;
- (iv) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and
- (v) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

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

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the German Securities Selling Prospectus Act (Wertpapier-Verkaufsprospektgesetz) of 13 December, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

General

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

Neither the relevant Issuer 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 by the relevant Issuer 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 United Utilities Electricity PLC, dated 24 June, 1998 and by a resolution of the Financing Committee of United Utilities Electricity PLC, dated 5 October, 1998; and
- (iii) a resolution of the Board of Directors of North West Water Finance PLC, dated 5 October, 1998.

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

This update of the Programme was duly authorised by:

- (i) a resolution of the Board of Directors of United Utilities PLC dated 24 September, 2002;
- (ii) a resolution of the Board of Directors of United Utilities Electricity PLC, dated 25 September, 2002; and
- (iii) a resolution of the Board of Directors of United Utilities Water PLC, dated 12 September, 2002.

Listing of Notes by the UK Listing Authority

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and admitted to trading on the London Stock Exchange 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 around 8 October, 2002.

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 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;
- (ii) the consolidated statutory annual audited financial statements of United Utilities PLC, United Utilities Electricity PLC and United Utilities Water PLC in respect of the financial years ended 31 March, 2001 and 31 March, 2002;
- (iii) the most recently published audited annual financial statements of each of the Issuers and the most recently published unaudited interim financial statements (if any) of each of the Issuers;
- (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) 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
- (vii) 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 Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream,

Luxembourg 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 since 31 March, 2002 and there has been no material adverse change in the financial position or prospects of each of the Issuers since 31 March, 2002.

Litigation

None of the Issuers is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which any of the Issuers are aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of each of the Issuers.

Auditors

KPMG Audit Plc audited the accounts of United Utilities PLC, United Utilities Electricity PLC and United Utilities Water PLC, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the three years ended 31 March, 2002 and issued unqualified reports thereon.

On 9 September, 2002, United Utilities PLC announced that the Issuers had appointed Deloitte and Touche as auditors. This decision followed a formal audit tender process to ensure that the Issuers received the best value for their audit services. Accordingly Deloitte and Touche have now been appointed as auditors to United Utilities PLC and will be appointed as auditors to United Utilities Electricity PLC and United Utilities Water PLC following completion of certain regulatory returns for the year ended 31 March, 2002. On 9 September, 2002, KPMG Audit Plc issued to United Utilities PLC a statement in accordance with section 394 of the Companies Act 1985 confirming that there were no circumstances connected with their ceasing to hold office which they considered should be brought to the attention of United Utilities PLC's members or auditors.

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

European Monetary Union

The third stage of European economic and monetary union commenced on 1 January, 1999 when the value of the euro as against the currencies of the member states participating in the third stage was irrevocably fixed and the euro became a currency in its own right. Each euro is denominated into 100 cents and, for a transitional period of three years, was exchangeable into participating member currencies at fixed exchange rates. With effect from 1 January, 2002 the participating member currencies ceased to exist.

Contracts (Rights of Third Parties) Act 1999

The Contracts (Rights of Third Parties) Act 1999 (the "Act") was enacted on 11 November, 1999 and provides, *inter alia*, that persons who are not parties to a contract governed by the laws of England and Wales may be given enforceable rights under such contract. Unless specifically provided in the applicable Pricing Supplement to the contrary, this Programme expressly excludes the application of the Act to any issue of Notes under the Programme.

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