

OFFERING CIRCULAR

SEVERN TRENT WATER UTILITIES FINANCE Plc

(Incorporated in England and Wales with limited liability under registered number 2914860)

£125,000,000

6.25 per cent. Guaranteed Bonds due 2029
unconditionally and irrevocably guaranteed by

SEVERN TRENT WATER LIMITED

(Incorporated in England and Wales with limited liability under registered number 2366686)

(to be consolidated and to form a single series, and to be fungible, with the

£300,000,000 6.25 per cent. Guaranteed Bonds due 2029 issued on 7th June 1999)

Issue price 95.073 per cent.

(plus accrued interest from (and including) 7th June, 2001 to (but excluding) 27th July, 2001)

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986 (the "UK Listing Authority") for the £125,000,000 6.25 per cent. Guaranteed Bonds due 2029 (the "Bonds") of Severn Trent Water Utilities Finance Plc ("STWL" or the "Issuer"), unconditionally and irrevocably guaranteed by Severn Trent Water Limited ("STWL" or the "Guarantor"), to be admitted to the Official List maintained by the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Bonds to be admitted to trading on the London Stock Exchange's market for listed securities (which together, under the Listing Rules of the UK Listing Authority, will constitute official listing on the London Stock Exchange). A copy of this document, which comprises listing particulars prepared in compliance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered for registration to the Registrar of Companies in England and Wales as required by section 149 of that Act.

Interest on the Bonds is payable annually in arrear on 7th June in each year at the rate of 6.25 per cent. per annum, the first payment to be made on 7th June, 2002, as described under "Terms and Conditions of the Bonds — Interest". Payments of principal of, and interest and premium (if any) on, the Bonds will be made without withholding or deduction on account of United Kingdom taxes, to the extent described under "Terms and Conditions of the Bonds — Taxation".

The Bonds mature on 7th June, 2029. The Bonds are subject to redemption at the option of the Issuer (i) in whole but not in part at their outstanding principal amount, together with accrued interest, in the event of certain changes affecting taxes of the United Kingdom or (ii) at any time in whole or in part at an amount determined in accordance with Condition 5(b), as described under "Terms and Conditions of the Bonds — Redemption and Purchase". Upon the occurrence of certain events, as described under "Terms and Conditions of the Bonds — Redemption at the Option of Bondholders on a Put Event", the holders of the Bonds may require the Issuer to redeem the Bonds at their principal amount (plus accrued interest, if any).

The Bonds will, when and to the extent that they are exchanged for interests in the Permanent Global Bond (as defined below), be consolidated and form a single series, and be fungible, with the £300,000,000 6.25 per cent. Guaranteed Bonds due 2029 of the Issuer issued on 7th June, 1999 described in an offering circular dated 2nd June, 1999 (the "Original Bonds") and listed on the Official List.

The Bonds will initially be represented by a temporary global bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 27th July, 2001 (the "Closing Date"). The Temporary Global Bond will be exchangeable for interests in a permanent global bond (the "Permanent Global Bond" and, together with the Temporary Global Bond, the "Global Bonds"), without interest coupons, on or after a date which is expected to be 5th September, 2001 upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable for definitive Bonds in bearer form in denominations of £1,000, £10,000 and £100,000 each, with interest coupons and, if applicable, one talon for further interest coupons attached, only in the limited circumstances set out under "Summary of Provisions relating to the Bonds while represented by the Global Bonds".

Morgan Stanley

25th July, 2001



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In connection with this issue, Morgan Stanley & Co. International Limited may over-allot or effect transactions which stabilise or maintain the market price of the Bonds and/or the Original Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds substantially in the form in which they will appear on the reverse of each Bond in definitive form (if issued).

The £125,000,000 6.25 per cent. Guaranteed Bonds due 2029 (the “**Bonds**”, which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 16 and forming a single series therewith) are constituted by a Second Supplemental Trust Deed (the “**Second Supplemental Trust Deed**”) dated 27th July, 2001 made between Severn Trent Water Utilities Finance Plc (the “**Issuer**”), Severn Trent Water Limited (the “**Guarantor**”) and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed (as defined below)) as trustee for the holders of the Bonds (the “**Bondholders**”) and the holders of the interest coupons appertaining to the Bonds (the “**Couponholders**” and the “**Coupons**” respectively which latter expression shall, unless the context otherwise requires, include the talons for further interest coupons (the “**Talons**”)) which is supplemental to a Trust Deed dated 26th February, 1999 (the “**Principal Trust Deed**”) and a First Supplemental Trust Deed dated 7th June, 1999 (together with the Principal Trust Deed and the Second Supplemental Trust Deed, the “**Trust Deed**”) each made between the same parties. The Bonds are consolidated and form a single series with the £300,000,000 6.25 per cent. Guaranteed Bonds due 2029 of the Issuer issued on 7th June, 1999. The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 12th July, 2001 and by resolutions of a duly authorised committee of the Board of Directors of the Issuer dated 12th July, 2001 and 25th July, 2001. The giving of the Guarantee (as defined below) in respect of the Bonds was authorised by a resolution of the Board of Directors of the Guarantor passed on 12th July, 2001 and by resolutions of a duly authorised committee of the Board of Directors of the Guarantor dated 12th July, 2001 and 25th July, 2001. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Bonds have the benefit of a First Supplemental Paying Agency Agreement (the “**First Supplemental Paying Agency Agreement**”) dated 27th July, 2001 supplemental to the Paying Agency Agreement dated 7th June, 1999 (the “**Principal Paying Agency Agreement**” and, together with the First Supplemental Paying Agency Agreement, the “**Paying Agency Agreement**”) each made between the Issuer, the Guarantor, the Trustee and the principal paying agent (the “**Principal Paying Agent**”) and the other paying agents named therein (the “**Paying Agents**”, which expression shall, where the context permits, include the Principal Paying Agent). Copies of the Trust Deed and the Paying Agency Agreement are available for inspection at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents for the time being. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

1. Form, Denomination and Title

- (a) The Bonds are issued in bearer form in denominations of £1,000, £10,000 and £100,000 each, are serially numbered and are issued with Coupons and, if applicable, one Talon attached. Title to the Bonds and the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.
- (b) The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond and the holder of any Coupon as the absolute owner of such Bond or Coupon for all purposes (whether or not such Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing thereon or any notice of previous loss or theft thereof or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of the bearer.

2. Guarantee and Status

- (a) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Bonds and the Coupons. Its obligations in that respect (the “**Guarantee**”) are contained in the Trust Deed.

- (b) The Bonds and the Coupons and the obligations of the Guarantor under the Guarantee constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and the Guarantor, respectively, and rank (subject as aforesaid and to laws relating to creditors' rights and to any applicable statutory exceptions) *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively.

3. Negative Pledge

- (a) So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist any mortgage, charge, lien (other than a lien arising solely by operation of law) or other encumbrance (each a "Security Interest") upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time according to the Bonds, to the satisfaction of the Trustee, substantially 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 Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.
- (b) So long as any of the Bonds remains outstanding, the Guarantor will not create or permit to subsist any Security Interest upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time according to its obligations under the Guarantee, to the satisfaction of the Trustee, substantially 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 Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

4. Interest

- (a) The Bonds bear interest from and including 7th June, 2001 at the rate of 6.25 per cent. per annum, payable annually in arrear on 7th June in each year (each an "Interest Payment Date") the first payment (representing a full year's interest) to be made on 7th June, 2002.
- (b) Interest due on or before maturity of the Bonds will be paid against presentation and surrender of the relevant Coupons in accordance with and subject to Condition 6. Interest shall cease to accrue on any Bond as from the due date for redemption thereof unless, upon due presentation, payment of principal is improperly withheld or refused whereupon interest shall continue to accrue as provided in the Trust Deed. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. Redemption and Purchase

(a) On Maturity

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 7th June, 2029.

(b) Redemption at the option of the Issuer

The Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), redeem the Bonds in whole or in part (but, if in part, in a minimum principal amount of £10,000,000 or, if greater, an integral multiple of £5,000,000) at the price (the "Redemption Price") which shall be the higher of the following, together with interest accrued up to, but excluding, the date of redemption:

- (i) par; and

- (ii) that price, expressed as a percentage (rounded, if necessary, to three decimal places, 0.0005 being rounded down), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the date of publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of 6.00 per cent. Treasury Stock 2028 or, if such stock is no longer in issue, of such other United Kingdom government stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, shall determine to be appropriate (the "**Reference Stock**") on the basis of the middle market price of the Reference Stock prevailing at 11.00 a.m. on such dealing day as determined by Barclays Bank PLC (or such other person as the Trustee may approve).

Upon the expiry of such notice, the Issuer shall be bound to redeem the Bonds accordingly.

References in the Trust Deed and in these Terms and Conditions to principal shall, unless the context otherwise requires, be deemed to include a reference to the Redemption Price.

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

(c) Redemption for Taxation Reasons

The Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 5(b) or in respect of which a Bondholder shall have given a Put Event Notice in accordance with Condition 5(d), in each case prior to any notice being given under this Condition 5(c)) may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 days' nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), at the principal amount thereof, together with interest accrued up to, but excluding, the date fixed for redemption, if (i) the Issuer or, as the case may be, the Guarantor satisfies the Trustee immediately prior to the giving of such notice that, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision thereof or any authority thereof or therein having power to tax, or any change in the application or judicial or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 2nd June, 1999, on the occasion of the next payment due in respect of the Bonds either the Issuer would be obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be obliged to pay such additional amounts; and (ii) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (aa) a certificate signed by two Directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and (bb) an opinion of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such change or amendment has occurred and the Trustee shall be entitled to accept such certificate and legal opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above in which event they shall be conclusive and binding on the Bondholders and the Couponholders.

(d) Redemption at the Option of the Bondholders on a Put Event

If, at any time while any of the Bonds remains outstanding, a Put Event (as defined below) occurs, then, unless at any time the Issuer shall have given a notice under Condition 5(b) or (c) in respect of his Bond, in each case expiring prior to the Put Date (as defined below), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option to require

the Issuer to redeem the Bond on the Put Date at its principal amount, together with interest accrued up to, but excluding, the Put Date. For the avoidance of doubt, the occurrence of an event which is a Put Event shall not constitute an Event of Default.

A **"Put Event"** occurs if: (i) the appointment of the Guarantor as in effect on 2nd June, 1999 (the **"Appointment"**) as the water undertaker and sewerage undertaker for the areas described in the Instrument of Appointment dated August 1989 made by the Secretary of State under sections 11 and 14 of the Water Act 1989 (now section 6 of the Water Industry Act 1991) is terminated other than in respect of such part of its area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act 1991; or (ii) a Restructuring Event occurs and, within the Restructuring Period, either (a) if at the time the relevant Restructuring Event occurs there are Rated Securities, a Rating Downgrading in respect of that Restructuring Event also occurs or (b) if at such time there are no Rated Securities, the Issuer or the Guarantor fails to obtain (whether by failing to seek a rating or otherwise) a rating of the Bonds or any other unsecured and unsubordinated debt of the Guarantor (or of the Issuer or of any other Subsidiary of the Guarantor which, in any case, is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more, from a Rating Agency of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being) (a **"Negative Rating Event"**), and, in the case of either (a) or (b), such Restructuring Event is, not later than 14 days after the expiry of the Restructuring Period, certified in writing by an independent financial adviser appointed by the Trustee (after consultation with the Issuer as to the identity of such independent financial adviser) as being in its opinion materially prejudicial to the interests of the Bondholders (a **"Negative Certification"**) (that Restructuring Event and the relevant Rating Downgrading or, as the case may be, Negative Rating Event and, in each case, the Negative Certification together constituting the Put Event). Any certification by an independent financial adviser as aforesaid as to whether or not any Restructuring Event is materially prejudicial to the interests of the Bondholders shall, in the absence of manifest error, be conclusive and binding on all concerned. For the avoidance of doubt, the service by the Secretary of State of a notice under Condition O of the Appointment shall not of itself constitute a Put Event.

Promptly upon becoming aware that a Put Event has occurred, and in any event not later than 21 days after the occurrence of the Put Event, the Issuer or, as the case may be, the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one quarter in principal amount of the Bonds then outstanding shall, give notice (a **"Put Event Notice"**) to the Bondholders in accordance with Condition 13, specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 5(d).

To exercise the option to require the Issuer to redeem a Bond under this Condition 5(d), the Bondholder must deliver such Bond at the specified office of any Paying Agent, on any day which is a day on which banks are open for business in London and in the place of the specified office of such Paying Agent falling within the period (the **"Put Period"**) of 45 days after the date on which a Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **"Put Notice"**). The Bond must be delivered to the Paying Agent together with all Coupons appertaining thereto (which expression, for the avoidance of doubt, shall include unmatured Coupons falling to be issued on exchange of matured Talons) maturing after the date (the **"Put Date"**) being the seventh day after the date of expiry of the Put Period, failing which deduction in respect of such missing unmatured Coupons shall be made in accordance with Condition 6(e). The Paying Agent to which such Bond and Put Notice are delivered will issue to the Bondholder concerned a non-transferable receipt (a **"Receipt"**) in respect of the Bond so delivered. Payment by the Issuer in respect of any Bond so delivered shall be made, if the Bondholder duly specified in the Put Notice a bank account to which payment is to be made, by transfer to that bank account on the Put Date, and in every other case, on or after the Put Date against presentation and surrender of such Receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1(b), 9, 10, 11, 12 and 14, Receipts issued pursuant to this Condition 5(d) shall be treated as if they were Bonds.

(e) *Drawings*

A redemption of some only of the Bonds under Condition 5(b) shall be on the basis of selection by drawings in a place and manner chosen by the Issuer and approved by the Trustee and a notice containing a list of the serial numbers and denominations of the Bonds so selected, the redemption price of such Bonds and the date of redemption in respect thereof will be given by the Issuer to the Bondholders not less than 30 nor more than 60 days before such date in accordance with Condition 13.

(f) *Purchase*

The Issuer, the Guarantor or any Subsidiary of the Guarantor may at any time purchase Bonds (provided that all unmatured Coupons (which expression, for the avoidance of doubt, shall include unmatured Coupons falling to be issued on exchange of matured Talons) appertaining thereto are surrendered therewith) in any manner at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.

(g) *Cancellation*

All Bonds which are (i) redeemed or (ii) purchased by or on behalf of the Issuer or any Subsidiary of the Issuer will forthwith be cancelled, together with all unmatured Coupons (which expression, for the avoidance of doubt, shall include unmatured Coupons falling to be issued on exchange of matured Talons) attached thereto or surrendered therewith, and accordingly may not be reissued or re-sold.

6. Payments and Exchange of Talons

- (a) Payments of principal and interest will be made against surrender (or, in the case of part payment only, endorsement) of Bonds or Coupons, as the case may be, at any specified office of any Paying Agent by a cheque denominated in pounds sterling drawn on a branch of, or, at the option of the holder, transfer to an account denominated in pounds sterling maintained by the payee with, a bank in London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment but without prejudice to the provisions contained in Condition 8. If the due date for redemption of any Bond is not 7th June in any year, accrued interest will be paid only against presentation and surrender of the relevant Bond.
- (b) If the due date for payment of any amount on any Bond or Coupon is not a business day, then the holder thereof will not be entitled to payment of such amount until the next following business day and will not be entitled to any further interest or other payment in respect of such postponement. In this paragraph, "**business day**" means any day on which banks are open for business in London and in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment.
- (c) The Initial Principal Paying Agent is The Bank of New York and the initial other Paying Agents and their respective initial specified offices appear below.
- (d) The Issuer may at any time (with the previous approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in London and a Paying Agent having a specified office in a city approved by the Trustee in a country in continental Europe. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given to the Bondholders in accordance with Condition 13.
- (e) Each Bond must be presented for redemption together with all unmatured Coupons relating to it (which expression, for the avoidance of doubt, shall include unmatured Coupons falling to be issued on exchange of matured Talons), failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than

10 years after the Relevant Date for the relevant payment (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which the Coupon would have become due, but not otherwise. Upon any of the Bonds becoming due and repayable prior to 7th June, 2014, the unmatured Talons appertaining thereto will become void for all purposes and no further Coupons will be issued in respect thereof.

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

7. Redenomination

Without prejudice to Condition 14 and the provisions of the Bonds, the Coupons and the Trust Deed, the Trustee may, without the consent of the Bondholders or Couponholders, on or after the date (if any) on which the United Kingdom becomes one of the countries participating in the third stage of European economic and monetary union pursuant to the Treaty or otherwise participates in European economic and monetary union in a manner with similar effect to such third stage, agree to such modifications to the Bonds, the Coupons and the Trust Deed in order to facilitate payment of interest in euro and redemption of the Bonds at the euro equivalent of the sterling principal amount of the Bonds then outstanding and associated reconventioning, renominalisation and related matters as may be requested by the Issuer (and confirmed by an independent financial institution approved in writing by the Trustee to be in conformity with the then applicable market conventions).

8. Taxation

All payments of principal and interest shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in the receipt by the Bondholders and the Couponholders of such net amounts as would have been received by them had no such withholding or deduction been required, provided that no such additional amounts will be payable in respect of Bonds or Coupons presented for payment:

- (i) by or on behalf of a Bondholder or Couponholder who is liable for such taxes, duties, assessments or governmental charges by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (ii) in the United Kingdom; or
- (iii) more than 30 days after the Relevant Date except to the extent that a Bondholder or Couponholder would have been entitled to payment of such additional amounts if he had presented his Bond or Coupon for payment on the thirtieth day after the Relevant Date, assuming, whether or not such is in fact the case, such last day to be a business day (as defined in Condition 6(b)); or
- (iv) by or on behalf of a Bondholder or Couponholder in respect of whom such withholding or deduction would not have been required had such holder made a declaration of non-residence or other similar claim for exemption to the relevant tax authority or taken any other relevant procedural steps required in any of those cases in sufficient time prior to the Relevant Date to enable an exemption from withholding or deduction to be available in respect of the relevant payment of principal or interest (as the case may be).

In these Terms and Conditions references to principal or interest shall be deemed also to refer to any additional amounts which may be payable as described above or under any obligation undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Prescription

Bonds will become void unless presented for payment within 10 years and (subject to Condition 6) Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within 5 years from their respective Relevant Dates. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to the provisions of this Condition or Condition 6.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified to its satisfaction), (but, in the case of the happening of any of the events mentioned in sub-paragraph (ii) below and, in relation to any Material Subsidiary, (iii) to (viii) below inclusive, only if the Trustee shall have first certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Bondholders) give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount plus accrued interest as provided in the Trust Deed, if any of the following events (each an "Event of Default") shall occur:

- (i) if default is made for a period of 15 days or more in the payment of principal on, or any interest in respect of, any of the Bonds after the due date thereof; or
- (ii) if the Issuer or the Guarantor fails to perform or observe any obligation or provision binding on it under the Bonds or the Trust Deed (other than any obligation for payment of any principal or interest in respect of the Bonds) and, except where, in the opinion of the Trustee, such default is not capable of remedy (in which case the Bonds will become due and repayable subject to, and immediately upon, the Trustee certifying and giving notice as aforesaid), such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof by the Trustee to the Issuer or, as the case may be, the Guarantor specifying such failure and requiring the same to be remedied; or
- (iii) if (a) an order is made or any effective resolution is passed for the appointment of an administrator or for the winding-up of the Issuer, the Guarantor or any Material Subsidiary (except, in the case of a Material Subsidiary, a winding-up for the purposes of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee, or a voluntary solvent winding-up in connection with the transfer of all or the major part of the business, undertaking and assets of such Material Subsidiary to the Issuer, the Guarantor or another Subsidiary of the Guarantor (not being an Excluded Subsidiary)); or (b) an order is made in respect of the Guarantor pursuant to section 24 of the Water Industry Act 1991; or
- (iv) if the Issuer, the Guarantor or any Material Subsidiary stops or threatens to stop payment generally or ceases or threatens to cease to carry on its business or a substantial part of its business (except, in the case of a Material Subsidiary, a cessation or threatened cessation for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee, or in connection with the transfer of all or the major part of the business, undertaking and assets of such Material Subsidiary to the Guarantor, the Issuer or another Subsidiary of the Guarantor (not being an Excluded Subsidiary) or which is not material in the context of the Group as a whole); or
- (v) if an encumbrancer takes possession or an administrative or other receiver or manager is appointed of the whole or any material part of the undertaking or assets of the Issuer, the Guarantor or any Material Subsidiary (where, in the case of a Material Subsidiary, such undertaking or assets or part thereof is or are material in the context of the Group as a whole) or if a distress, execution or any similar proceeding is levied or enforced upon or sued out against the whole or any material part of the property of the Issuer, the Guarantor or any Material Subsidiary (where, in the case of a Material Subsidiary, such property or part thereof is material in the context of the Group as a whole) and in any such case is not removed, paid out or discharged within 21 days (or such longer period as the Trustee may approve); or

- (vi) if the Issuer, the Guarantor or any Material Subsidiary is deemed for the purpose of any law to be unable to pay its debts, or the value of the assets of the Issuer, the Guarantor or any Material Subsidiary falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or the Issuer, the Guarantor or any Material Subsidiary otherwise becomes, or is determined by any competent court or other authority to be, insolvent, or suspends making payments (whether of principal or interest) in respect of any class of its debts or announces an intention to do so or a moratorium is declared in respect of any of its indebtedness; or
- (vii) if any kind of composition, scheme of arrangement, compromise or other similar arrangement involving the Issuer, the Guarantor or any Material Subsidiary and its creditors generally (or any class of such creditors) is entered into or made (except a composition, scheme of arrangement, compromise or other similar arrangement for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee); or
- (viii) if any indebtedness for Moneys Borrowed of the Issuer, the Guarantor or any Material Subsidiary is validly declared to be due and payable prior to the date on which the same would otherwise become due and payable by reason of the occurrence of an event of default (however described) in relation thereto or if the Issuer, the Guarantor or any Material Subsidiary defaults in the repayment of any indebtedness for Moneys Borrowed at the maturity thereof or at the expiry of any originally applicable grace period, or if any guarantee or indemnity or other like obligation in respect of any indebtedness for Moneys Borrowed given by the Issuer, the Guarantor or any Material Subsidiary shall not be paid when due and called upon or at the expiry of any originally applicable grace period save in any such case where there is a *bona fide* dispute as to whether payment or repayment is due, provided that no such event as aforesaid shall constitute an event of default unless the Moneys Borrowed or other liability relative thereto either alone or when aggregated with other Moneys Borrowed and/or other liabilities relative to all (if any) other such events which shall have occurred shall amount to at least £10,000,000 (or its equivalent in any other currency or currencies at the date the same become due and payable or such default occurs or such payment is not made, as the case may be); or
- (ix) if the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

11. Enforcement

At any time after the Bonds shall have become immediately due and repayable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the obligations of the Issuer and/or the Guarantor under the Bonds or the Trust Deed, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one quarter in principal amount of the Bonds then outstanding and (ii) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder may proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound to proceed as aforesaid, fails to do so and such failure is continuing.

12. Replacement of Bonds and Coupons

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

13. Notices

All notices to Bondholders shall be deemed to have been duly given if published in a leading daily newspaper of general circulation in London or, if this is not possible, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. It is expected that notices will be published in the *Financial Times*. If

publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

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

14. Meetings of Bondholders; Modifications; Waiver; Substitution

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including proposals to modify by Extraordinary Resolution any of these Terms and Conditions or any of the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain material terms and conditions of the Bonds and provisions of the Trust Deed (as set out therein, including the maturity date of the Bonds and the dates for payment of interest thereon, the status of the Bonds, the principal amount of, and interest payable on, the Bonds, the currency of payment of the Bonds and the quorum requirements for meetings of Bondholders), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than one-quarter, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.
- (b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any provision of the Trust Deed and may determine, without any such consent as aforesaid, that an Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such if, in the opinion of the Trustee in any such case aforesaid, such modification, breach, proposed breach, Event of Default or Potential Event of Default is not materially prejudicial to the interests of the Bondholders. The Trustee may also agree, without the consent of the Bondholders or Couponholders, to any modification of any of these Terms and Conditions or any provision of the Trust Deed which, in the opinion of the Trustee, is of a formal, minor or technical nature or made to correct a manifest error.
- (c) The Trustee may agree, without the consent of the Bondholders or Couponholders, to the substitution at any time or times of the Guarantor or any successor company (as defined in the Trust Deed) of the Issuer or the Guarantor or of any other Subsidiary of the Guarantor or any such successor company or of any holding company of the Guarantor or any such successor company as the principal debtor under the Trust Deed and the Bonds. Such agreement shall also be subject to the relevant provisions of the Trust Deed, including (except where a successor company of the Issuer is the new principal debtor) the irrevocable and unconditional guarantee in respect of the Bonds by the Issuer and (except where the Guarantor or, as the case may be, any such successor company of the Guarantor is the new principal debtor) the irrevocable and unconditional guarantee in respect of the Bonds by the Guarantor or, as the case may be, any such successor company of the Guarantor. In the case of any proposed substitution, the Trustee may agree, without the consent of the Bondholders or the Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Bondholders.

The Trustee may also agree, without the consent of the Bondholders or Couponholders, to the substitution at any time or times of (i) a successor company of the Guarantor or (ii) a Subsidiary of the Guarantor acceptable to the Trustee as the guarantor under the Trust Deed and of the Bonds, in each case in place of the Guarantor. Such agreement shall be subject to the relevant provisions of the Trust Deed, including the Trustee being satisfied that the interests of the

Bondholders will not be materially prejudiced thereby and such successor company or Subsidiary having the benefit of the Appointment held by the Guarantor.

- (d) In connection with the exercise of its powers, trusts, authorities and discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation, determination, substitution or change of law as aforesaid), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders 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 or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- (e) Any such modification, waiver, authorisation, determination, substitution or change of law shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Bondholders in accordance with Condition 13 as soon as practicable thereafter.

15. Indemnification of the Trustee

- (a) The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction.
- (b) The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders 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.

16. Further Issues

The Issuer may from time to time, without the consent of the Bondholders or Couponholders, create and issue further bonds, notes or debentures (whether in bearer or registered form) either having the same terms and conditions in all respects as the outstanding bonds, notes or debentures of any series (including the Bonds) (or in all respects except for the first payment of interest on them) and so that such further bonds, notes or debentures shall be consolidated and form a single series with the outstanding bonds, notes or debentures of any series (including the Bonds), or upon such terms as to interest, conversion, redemption and otherwise as the Issuer may determine at the time of their issue. Any such further bonds, notes or debentures forming a single series with the outstanding bonds, notes or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other further bonds, notes or debentures may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bearer or registered bonds, notes or debentures of other series in certain circumstances where the Trustee so decides.

17. Definitions

For the purposes of these Terms and Conditions the following terms shall bear the meanings ascribed thereto below:

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

"Excluded Subsidiary" means any Subsidiary of the Guarantor (not being the Issuer or any of its Subsidiaries): (a) which is a single purpose company whose principal assets and business are constituted by a project, (b) none of whose liabilities in respect of the financing of such project are directly or indirectly the subject of security or a guarantee, indemnity or any other form of assurance, undertaking or support from any member of the Group other than such Subsidiary or another Excluded Subsidiary and (c) which has been designated as such by the Issuer by written notice to the Trustee; provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

"Group" means the Guarantor and its Subsidiary Undertakings and **"member of the Group"** shall be construed accordingly.

"K" has the meaning ascribed to it in the Appointment (as defined in Condition 5(d)).

"Material Subsidiary" means any Subsidiary of the Guarantor (not being the Issuer or an Excluded Subsidiary):

- (a) whose profits on ordinary activities before tax or whose net assets (in each case consolidated in respect of a Subsidiary which itself has Subsidiaries, and in each case attributable to the Guarantor) all as shown in the latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary represent 10 per cent. or more of:
 - (i) the profits on ordinary activities before tax or, as the case may be, net assets of the Guarantor all as shown in the latest audited accounts of the Guarantor (as adjusted); or
 - (ii) (if audited consolidated accounts for the Guarantor and its Subsidiaries are prepared) the consolidated profits on ordinary activities before tax or, as the case may be, consolidated net assets (in each case attributable to the shareholders of the Guarantor) of the Guarantor and its Subsidiaries (other than Excluded Subsidiaries) all as shown in the latest audited consolidated accounts of the Guarantor (as adjusted); or
- (b) 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 but shall cease to be a Material Subsidiary under this sub-paragraph (b) (but without prejudice to the provisions of sub-paragraph (a) above) upon publication of its next audited accounts. A report by the Auditors (as defined in the Trust Deed) 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.

"Moneys Borrowed" means: (a) borrowed moneys; (b) liabilities under any bond, note, bill, debenture, loan stock or other security not for the time being beneficially owned by any member of the Group, in each case issued (i) as consideration for assets or services (but excluding such liabilities incurred in relation to the acquisition of assets or services in the ordinary course of trading) or (ii) for cash; and (c) liabilities under acceptance credit facilities, but shall not in the case of (a), (b) and (c) include Project Finance Indebtedness.

"Project Finance Indebtedness" means any present or future indebtedness incurred 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 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 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, provided that (A) the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement, and (B) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness, to commence proceedings for the winding up or dissolution of any member of the Group (other than an Excluded Subsidiary) or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of any member of the Group (other than an Excluded Subsidiary) or any of its assets (save for the assets the subject of such encumbrance); and/or
- (iii) recourse under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with financial ratios or other tests of financial condition).

“Rated Securities” means the Bonds, if at any time and for so long as they shall have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Guarantor (or of the Issuer or of any other Subsidiary of the Guarantor which, in any case, is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more which is rated by a Rating Agency.

“Rating Agency” means Standard & Poor’s International Ratings Ltd. or Moody’s Investors Service Limited or any of their respective Subsidiaries and their successors or any rating agency substituted for either of them (or any permitted substitute of either of them) by the Issuer and/or the Guarantor from time to time with the prior written approval of the Trustee (not to be unreasonably withheld or delayed) or any other rating agency approved in writing by the Trustee from time to time.

A **“Rating Downgrading”** shall be deemed to have occurred in respect of a Restructuring Event if the current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer and/or the Guarantor or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse), or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating is withdrawn or lowered one full rating category.

“Relevant Date” means, in respect of any payment, (a) the date on which such payment first becomes due or (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the date on which, the full amount of such money having been so received, notice to that effect shall have been duly published in accordance with Condition 13.

“Relevant Indebtedness” means any indebtedness (other than Project Finance Indebtedness), which is in the form of, or represented or evidenced by, bonds, notes, loan stock or other securities which are quoted, listed, dealt in or traded on a stock exchange, or over the counter or other recognised securities market but shall exclude any such securities having a maturity date falling no earlier than 7th June, 2029 and which are secured stock evidenced or ultimately to be evidenced by certificates in registered form, listed on the London Stock Exchange, denominated or payable in sterling and distributed primarily to investors in the United Kingdom.

“Restructuring Event” means either (a) the modification of any material rights, benefits or obligations of the Guarantor as a water undertaker or sewerage undertaker arising under the Appointment, or (b) any material modification being made to the Appointment regardless, in the case of both paragraphs (a) and (b), of whether or not such modification is made with the consent of the Guarantor and whether pursuant to the Water Industry Act 1991 or otherwise but excluding, in the case of both paragraphs (a) and (b), an adjustment in K (including for this purpose, for the avoidance of doubt, any adjustment to the basis or formula for pricing which arises as part of a periodic review under the terms of the Appointment) or a modification in respect of, or which removes, such part of its area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act 1991. For the avoidance of doubt, the service by the Secretary of State of a notice under Condition O of the Appointment shall not of itself constitute a Restructuring Event.

“Restructuring Period” means, whether or not there are Rated Securities at the time a Restructuring Event occurs, the period of 45 days starting from and including the day on which that Restructuring Event occurs.

“Subsidiary” means a subsidiary within the meaning of section 736 of the Companies Act 1985.

“Subsidiary Undertaking” means a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

“Treaty” means the Treaty establishing the European Community as amended by the Treaty on European Union.

18. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. Governing Law

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

USE OF PROCEEDS

The net proceeds of the issue are estimated to amount to approximately £119,145,000 and will be made available by the Issuer to the Guarantor for the Guarantor’s general corporate purposes.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Bonds and in the Global Bonds which will apply to, and in some cases modify, the Terms and Conditions of the Bonds while the Bonds are represented by the Global Bonds.

1. Exchange

The Temporary Global Bond is exchangeable in whole or in part (free of charge to the holder) for interests in the Permanent Global Bond on or after a date which is expected to be 5th September, 2001 upon certification as to non-U.S. beneficial ownership in the form set out in the Trust Deed. The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds only (i) upon the happening of any of the events defined in the Trust Deed as "Events of Default", (ii) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available, or (iii) if the Issuer (or, as the case may be, the Guarantor) would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Directors of the Issuer (or, as the case may be, the Guarantor) is given to the Trustee. Thereupon (in the case of (i) and (ii) above) the holder of the Permanent Global Bond (acting on the instructions of one or more Accountholders (as defined below)) or the Trustee may give notice to the Trustee and the Issuer or the Trustee may give notice to the Issuer, and (in the case of (iii) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond may or, in the case of (iii) above, shall surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond and, if applicable, Talons), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

"Exchange Date" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (ii) above, in the city in which the relevant clearing system is located.

2. Payments

On and after 5th September, 2001 no payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of interest on the Temporary Global Bond (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may

be) for communication to the relative Accountholders rather than by publication as required by Condition 13 provided that, so long as the Bonds are admitted to the Official List and to trading on the London Stock Exchange's market for listed securities, the UK Listing Authority so agrees. Any such notice shall be deemed to have been given to the Bondholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as any of the Bonds is represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such Bonds, the right to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

5. Prescription

Claims against the Issuer and the Guarantor in respect of principal and interest on the Bonds represented by a Global Bond will become void after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 17).

6. Cancellation

Cancellation of any Bond represented by a Global Bond and required by the Terms and Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Bond on the relevant schedule thereto.

7. Put Option

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Bondholders provided for in Condition 5(d) may be exercised by the Accountholders giving a duly completed redemption notice in the form obtainable from any of the Paying Agents to the Principal Paying Agent of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition. Whilst the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, redemption notices shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg.

8. Call Option

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, no drawing of Bonds will be required under Condition 5(e) in the event that the Issuer exercises its call option pursuant to Condition 5(b) in respect of less than the aggregate principal amount of the Bonds outstanding at such time. In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Bond(s) are to be subject to such option.

9. Euroclear and Clearstream, Luxembourg

References to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system previously approved in writing by the Trustee.

SEVERN TRENT WATER UTILITIES FINANCE PLC

STWUF was incorporated as a public limited company with limited liability in England and Wales on 25th March, 1994 under the Companies Act 1985 with registered number 2914860. STWUF is a wholly owned subsidiary of STWL. The ultimate holding company of both STWUF and STWL is Severn Trent Plc.

As at the date of this Offering Circular, the authorised share capital of STWUF is £50,000 divided into 50,000 ordinary shares of £1, each of which has been issued and fully paid.

STWUF was incorporated for the purpose of arranging finance for STWL and its subsidiaries by the issuing of bonds and on-lending the proceeds of any such issue to STWL and its subsidiaries. STWUF has no subsidiaries.

Directors of STWUF

The Directors of STWUF, their functions within STWUF and the Group and their principal activities outside the Group where these are significant with respect to the Group are as follows:

<i>Name</i>	<i>Function within STWUF</i>	<i>Other functions within the Group and principal activities outside the Group</i>
Robert Walker	Chairman	Group Chief Executive, Severn Trent Plc Non-executive Director, Wolseley Plc Chairman, Severn Trent Water Ltd
Alan Costin	Finance Director	Group Finance Director, Severn Trent Plc
Tom Jack	Group Treasurer	

The business address of each of the above is 2297 Coventry Road, Birmingham B26 3PU (the registered and head office of STWUF).

CAPITALISATION AND INDEBTEDNESS OF SEVERN TRENT WATER UTILITIES FINANCE PLC

The following is a summary statement of the audited capitalisation and of the audited indebtedness of STWUF as at 31st March, 2001.

	<i>£'000s</i>
Capitalisation	
Authorised:	
50,000 ordinary shares of £1 each	50.0
	<u>50.0</u>
Issued, allotted and fully paid:	
50,000 ordinary shares of £1 each	50.0
Profit and loss account	128.3
Total Capitalisation	<u><u>178.3</u></u>
	<i>£ millions</i>
Indebtedness	
Unsecured — amounts falling due within one year	50.0
amounts falling due after more than one year ⁽¹⁾	606.7
Secured — amounts falling due within one year	0
amounts falling due after more than one year	0
Total Indebtedness⁽¹⁾	<u><u>656.7</u></u>
Total Capitalisation and Indebtedness	<u><u>656.9</u></u>

Notes:

1. The £606.7 million unsecured indebtedness falling due after more than one year consists of £606.7 million of Bonds issued by STWUF at a discount. The outstanding bonds issued by STWUF consist of £300,000,000 6½ per cent. bonds due 2024, £300,000,000 6¼ per cent. bonds due 2029, £50,000,000 floating rate notes due 2002 and £15,000,000 floating rate notes due 2006, all guaranteed by STWL.
2. As at 31st March, 2001 STWUF had no contingent liabilities or guarantees.
3. Save as disclosed above, STWUF does not have any term loans or other borrowings or indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase or finance commitments.
4. Since 31st March, 2001 STWUF has issued £257.1 million in Euro Medium Term Notes under its Euro Medium Term Note Programme. The Euro Medium Term Notes are unsecured and guaranteed by STWL. The proceeds of issue of the Notes has been on-lent to STWL through a series of inter-company loans.
5. Save as disclosed above in Note 4, there has been no material change in the capitalisation, indebtedness, contingent liabilities and guarantees of STWUF since 31st March, 2001.

SEVERN TRENT WATER LIMITED

Introduction

STWL was incorporated on 1st April, 1989 with limited liability in England and Wales under the Companies Act 1985 with registered number 2366686. It was established for the purpose of assuming, together with Severn Trent Plc ("Severn Trent"), the business carried on by the Severn Trent Water Authority prior to the privatisation of the water industry in England and Wales. Its principal business is the provision of water supply and sewerage services. STWL is regulated under the Water Industry Act 1991. STWL is the wholly-owned principal operating subsidiary of Severn Trent and is the holding company of a number of companies which, together with STWL, constitute the UK water and waste water business of Severn Trent Plc and its subsidiaries. STWUF is also a wholly owned subsidiary of STWL.

Region

STWL is one of the larger U.K. water and sewerage companies in terms of area and turnover. Its appointed region broadly covers the catchment areas for the Rivers Severn and Trent and their tributaries and stretches from the Bristol Channel to the Humber estuary and from mid-Wales to the East Midlands. This region includes the cities of Birmingham, Coventry, Derby, Leicester, Nottingham, Stoke-on-Trent, Worcester and Gloucester and covers some 21,600 square kilometres. STWL provides wastewater services to over eight million people and water services to over seven million people. In the year ended 31st March, 2001, STWL supplied an average of 1.6 billion litres of water per day to 3.1 million properties. South Staffordshire Water Plc supplies the rest of the region's water requirements.

Investment Programme

The water business is a capital-intensive industry and, in common with other water and sewerage companies (each a "WASC"), STWL will undertake a substantial investment programme for the period 2000-2005. Since privatisation in 1989 to the end of the financial year ended 31st March, 2001, STWL invested approximately £5.3 billion to meet EU Directives, the requirements of the Office of Water Services ("OFWAT"), the Drinking Water Inspectorate and the Environment Agency ("EA"), all of which require STWL to maintain and improve the security and quality of its water and sewerage services.

Regulatory Environment

STWL holds an appointment (the "Appointment") granted by the Secretary of State for the Environment as a water and sewerage undertaker pursuant to the Water Act 1989 (now the Water Industry Act 1991). Appointed undertakers must hold a licence and STWL's licence runs for a minimum of 25 years from 1st September, 1989 (although it may be terminated or transferred prior to the end of such period in certain circumstances which are specified in the Water Industry Act 1991 or in the Appointment).

The Secretary of State for Environment, Food & Rural Affairs (the "Secretary of State"), the Director General of Water Services ("DGWS") and the EA (which was previously the National Rivers Authority) constitute the principal regulators of the industry. The Water Industry Act 1991 requires the DGWS and the Secretary of State to exercise and perform their statutory powers and duties in a manner each considers best calculated to secure, *inter alia*, that undertakers can finance the proper carrying out of their functions and that, at the same time but subject thereto, to ensure that the interests of customers are protected as regards the fixing and recovery by undertakers of water and drainage charges. Pollution control, water resources management, fisheries management, flood protection and alleviation, and land drainage all fall within the scope of the EA's statutory responsibility.

As a water undertaker, STWL is required to comply with drinking water standards specified in regulations issued by the Secretary of State in respect of a number of substances. STWL believes that in all instances where non-compliance by STWL with such regulations has been material, the Secretary of State has accepted undertakings by STWL to secure or facilitate compliance with such regulations.

As a sewerage undertaker, STWL is required to obtain consents from the EA for discharges of polluting substances into controlled waters from various sources (such as sewage treatment works).

Economic Regulation

STWL is currently allowed to increase the average of its principal charges by the percentage change in the Retail Prices Index plus an adjustment factor ("K") which is currently set for the five year period beginning 1st April, 2000 and ending 31st March, 2005 at the levels set out below:

2000/2001.....	-14.1%
2001/2002.....	-1.0%
2002/2003.....	-1.0%
2003/2004.....	0%
2004/2005.....	+1.0%

On 7th January, 1999 STWL's licence was amended to remove large industrial water users from the basket of charges on which STWL's price limits apply. Large users are those customers using not less than 100 million litres of water per year. As a result of this amendment, STWL is unable to recover from all its other customers any revenue it loses from reducing its charges to large users.

STWL estimates that, during the current financial year, some 93 per cent. of STWL's turnover will be within the K price limitation formula and some 7 per cent. will, or could in certain circumstances, be otherwise regulated. The adjustment factor K may be reviewed or adjusted by the DGWS. Under the terms of the Appointment, the DGWS is required to review STWL's price limits every five years. The price limits will be reviewed and reset during 2004. The reset limits will then take effect from 1st April, 2005. The DGWS can also adjust price limits between periodic reviews in specific circumstances. As part of the 1999 review of price limits, STWL is required to deliver a programme of water quality and environmental improvements and to maintain or improve services to customers. The 1999 review assumed a capital programme of £2.1 billion over the five year period ending 31st March, 2005 although STWL is not obliged to spend this amount, providing required outputs are delivered, including:

- meeting certain water quality improvements required by the Drinking Water Inspectorate;
- meeting certain environmental improvements required by the EA;
- maintaining certain service standards; and
- reducing the numbers of properties subject to flooding from sewers.

The Water Industry Act 1999 requires free installation for all customers requesting a meter and an end to disconnection for non-payment of water bills for homes, schools and hospitals. Since 1996 STWL has, however, had a scheme in place for free meter installation and, prior to the ending of disconnection, the number of disconnections by STWL was, in any event, low. For example, in 1998/99, STWL disconnected only 47 customers (i.e. a rate of less than 2 per 100,000 customers). In addition, with effect from 31st March, 2000, the Water Industry Act 1999 removed restrictions previously in place on the use of rateable value as a basis of water charging.

Special Administrative Regime

The Water Industry Act 1991 contains provisions enabling the Secretary of State or the DGWS to secure the general continuity of water supply and sewerage services in England and Wales through the appointment of a special administrator, who would have extensive functions similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. The person appointed as a special administrator would be appointed only for the purposes of transferring as a going concern to one or more different water undertakers or, as the case may be, sewerage undertakers so much of the business of the WASC as was necessary for the proper carrying out of its functions. If a special administration order were made in respect of STWL, it would be for the special administrator to agree the terms of the transfer of all or any of the business of STWL on behalf of STWL, subject to the provisions of the Water Industry Act 1991. Until another company has been appointed as an undertaker in its place and its appointment as a water undertaker or sewerage undertaker is terminated, a WASC may not be wound-up, nor may an administrator under the Insolvency Act 1986 be appointed in respect of it.

During the period of a special administration order, a WASC is managed in such a way as to achieve the purposes of such order and in a manner which protects the respective interests of members and creditors

of the WASC. However, the effect of other provisions of the Water Industry Act 1991 is ultimately to subordinate members' and creditors' rights in favour of the purposes of the special administration order.

Directors of the Guarantor

The Directors of STWL, their functions within STWL and the Group and their principal activities outside the Group where these are significant with respect to the Group are as follows:

<i>Name</i>	<i>Function within STWL</i>	<i>Other functions within the Group and principal activities outside the Group</i>
Brian Duckworth	Managing Director	Director, Severn Trent Plc
John Banyard	Asset Management Director	Director, Severn Trent Plc Director, UK Water Industry Research Limited
David Arculus	Non-executive Director	Chairman, Severn Trent Plc Non-executive Director, Barclays Bank PLC Chairman, IPC Group Ltd
Ian Elliott	Director of Engineering	
Anthony Hill	Director	Managing Director, Severn Trent Water International Ltd
Jonathan Bailey	Customer Relations Director	
Robert Walker	Chairman	Group Chief Executive, Severn Trent Plc Non-executive Director, Wolseley Plc Chairman, Severn Trent Water Utilities Finance Plc
Derek Osborn	Non-executive Director	Non-executive Director, Severn Trent Plc Member, UK Round Table on Sustainable Development Chairman, International Institute for Environment and Development
Mark Wilson	Finance, Regulation and Planning Director	Director, Severn Trent Water Services Plc
Dr. Gerald Noone	Marketing, Sales and Communications Director	

The business address of each of the above is 2297 Coventry Road, Birmingham B26 3PU (the registered and head office of the Guarantor).

CAPITALISATION AND INDEBTEDNESS OF SEVERN TRENT WATER LIMITED

The following is a summary statement of the audited consolidated capitalisation and of the audited consolidated indebtedness of STWL including its subsidiary undertakings as at 31st March, 2001:

	<i>£ millions</i>
Capitalisation	
Authorised:	
1,000,000,000 ordinary shares of £1 each.....	1,000.0
	<u>1,000.0</u>
Issued, allotted and fully paid:	
1,000,000,000 ordinary shares of £1 each.....	1,000.0
Profit and loss account	1,200.7
Total Capitalisation	<u><u>2,200.7</u></u>
Indebtedness	
Unsecured — amounts falling due within one year ⁽¹⁾	417.4
— amounts falling due after more than one year ⁽²⁾⁽³⁾	1,618.3
Secured — amounts falling due within one year	0
— amounts falling due after more than one year	0
Total Indebtedness	<u><u>2,035.7</u></u>
Total Capitalisation and Indebtedness	<u><u>4,236.4</u></u>

Notes:

1. The £417.4 million unsecured indebtedness falling due within one year consists of other borrowings and indebtedness (including bank loans and overdrafts).
2. The £1,618.3 million unsecured indebtedness falling due after more than one year consists of £606.7 million of bonds issued by STWUF at a discount and £1,011.6 million of other borrowings and indebtedness (including bank loans and overdrafts). The outstanding bonds issued by STWUF consists of £300,000,000 6½ per cent. bonds due 2024, £300,000,000 6½ per cent. bonds due 2029, £50,000,000 floating rate notes due 2002 and £15,000,000 floating rate notes due 2006, all guaranteed by STWL.
3. Guarantees have been issued by STWL in respect of the 2024 and 2029 bonds and the 2002 and 2006 floating rate notes issued by STWUF in an aggregate amount of £665 million (and referred to in (2) above). STWL has no other material contingent liabilities.
4. Since 31st March, 2001, STWL has borrowed a total of £257.1 million from STWUF through inter-company loans.
5. All of STWL's indebtedness is unguaranteed.
6. Save as disclosed above in Note 4, there has been no material change in the consolidated capitalisation, or indebtedness, contingent liabilities or guarantees of STWL since 31st March, 2001.

UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on the Issuer's understanding of current United Kingdom taxation law and practice. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of the Bonds and Coupons. Any Bondholders who are in doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

A. Interest on the Bonds

1. *Payment of interest on the Bonds*

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 1st 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 ("ICTA") (the London Stock Exchange is such a recognised exchange). Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax. As mentioned on page 28, it is expected that listing of the Bonds will be granted on 27th July, 2001, subject only to the issue of the Temporary Global Bond.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid to a person who belongs in the United Kingdom and the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest at the time the payment is made, provided that the Inland Revenue has not given a direction that it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

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

Bondholders 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. Such information may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

2. *Proposed EC Savings Directive*

The European Union is currently considering proposals for a new 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 their jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States (not including the United Kingdom) to opt instead for a withholding system for a seven year transitional period in relation to such payments and subject to the proposals not being required to be applied in the transitional period to tranches of bonds issued before 1st March, 2002 and fungible with bonds issued before 1st March, 2001 or with bonds whose original prospectus was certified before that date. The proposals are not yet final, and they may be subject to further amendment and/or clarification.

3. *Further United Kingdom Income Tax Issues*

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

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a

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

B. United Kingdom Corporation Tax Payers

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

C. Other United Kingdom Tax Payers

5. *Taxation of Chargeable Gains*

The Bonds may not be treated by the United Kingdom Inland Revenue as constituting qualifying corporate bonds within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992 because there is a provision for the Bonds to be redenominated in euros. Accordingly, a chargeable gain or an allowable loss may arise for the purposes of United Kingdom taxation of chargeable gains on a disposal (which includes a redemption) of Bonds by a Bondholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Bond is attributable and who is not subject to United Kingdom corporation tax.

6. *Accrued Income Scheme*

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Chapter II of Part XVII of ICTA, if that Bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

7. *Taxation of discount*

The Bonds should not be treated as constituting "relevant discounted securities" for the purposes of the Finance Act 1996.

D. Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

8. No United Kingdom stamp duty or SDRT is payable on a transfer by delivery of the Bonds.

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International Limited (the "Manager") has, pursuant to a Subscription Agreement dated 25th July, 2001 (the "Subscription Agreement"), agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe for the Bonds at the issue price of 95.073 per cent. of their principal amount, plus accrued interest for the period from (and including) 7th June, 2001 to (but excluding) 27th July, 2001. The Issuer has agreed to pay to the Manager a combined management and underwriting commission of 0.625 per cent. of such principal amount. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Manager against certain liabilities in connection with the issue of the Bonds.

The Bonds 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 accordance with Regulation S under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

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

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Manager has represented and agreed that: (1) it has not offered or sold and will not offer or sell any of the Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA; (2) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and (3) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than this Offering Circular or any other document which consists of, or any part of, listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise be lawfully issued or passed on.

GENERAL INFORMATION

Listing

The listing of the Bonds on the Official List of the UK Listing Authority and their admission to trading on the London Stock Exchange's market for listed securities will be expressed as a percentage of their principal amount, exclusive of accrued interest. Transactions will normally be effected for settlement in sterling and for delivery on the third business day in London after the date of the transaction. It is expected that listing of the Bonds will be granted on 27th July, 2001, subject only to the issue of the Temporary Global Bond. Prior to official listing, however, dealings in the Bonds will be permitted by the London Stock Exchange in accordance with its rules.

Legend

Bonds and Coupons will bear the following legend "Any United States person (as defined in the United States Internal Revenue Code) 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".

Clearing systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg which have stated that the Bonds will be fungible for trading purposes with the Original Bonds when and to the extent that the Temporary Global Bond is exchangeable for interests in the Permanent Global Bond upon certification as to non-US beneficial ownership. Until such exchange, the Bonds have been accorded temporary Common Code number: 13286841 and a temporary International Securities Identification Number (ISIN): XS0132868414. Following such exchange and certification, the Bonds will be accorded the same Common Code number as the Original Bonds, namely 977725 and the same ISIN, namely XS009777253.

Approvals and authorisations

The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Bonds and the Guarantee.

The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 12th July, 2001, and by resolutions of a duly authorised committee of the Board of Directors of the Issuer dated 12th July, 2001 and 25th July, 2001. The giving of the Guarantee in respect of the Bonds was authorised by a resolution of the Board of Directors of the Guarantor passed on 12th July, 2001 and by resolutions of a duly authorised committee of the Board of Directors of the Guarantor dated 12th July, 2001 and 25th July, 2001.

Accounts

The statutory accounts of the Issuer, of the Guarantor and of the Group for the three years ended 31st March, 2001 have been delivered to the Registrar of Companies in England and Wales and have been reported on by PricewaterhouseCoopers, Chartered Accountants, the Issuer's and the Guarantor's auditors, under section 235 of the Act. The reports of PricewaterhouseCoopers were not qualified (within the meaning of section 262 of the Act) and did not contain a statement made under section 237(2) or section 237(3) of the Act. The address of PricewaterhouseCoopers is Cornwall Court, 19 Cornwall Street, Birmingham B3 2DJ.

No significant or material change

Save as disclosed herein, since 31st March, 2001 (being the date of the most recent audited financial statements of the Issuer, the Guarantor and the Group) there has been no significant change in the financial or trading position of the Issuer, the Guarantor or the Group and, since 31st March, 2001 (being the date of the most recent published annual accounts of the Issuer, the Guarantor and the Group), there has been no material adverse change in the financial position or prospects of the Issuer, the Guarantor or the Group.

Litigation

There are no legal or arbitration proceedings, including any which are pending or threatened, of which the Issuer or the Guarantor is aware which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position of the Issuer, the Guarantor or the Group

Documents available for Inspection

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

- (i) the Memorandum and Articles of Association of the Issuer and the Guarantor;
- (ii) the audited annual reports and accounts of the Issuer and the Guarantor and the Group for the two years ended 31st March, 2001 and 31st March, 2000;
- (iii) the Subscription Agreement, the Principal Paying Agency Agreement, the Principal Trust Deed and the First Supplemental Trust Deed; and
- (iv) drafts (subject to modification) of the Second Supplemental Trust Deed (incorporating the forms of the Temporary Global Bond, the Permanent Global Bond, the definitive Bonds, the Coupons and the Talons) and of the First Supplemental Paying Agency Agreement.

REGISTERED OFFICE OF THE ISSUER AND THE GUARANTOR

2297 Coventry Road
Birmingham
West Midlands B26 3PU

AUDITORS

PricewaterhouseCoopers
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX

PRINCIPAL PAYING AGENT

The Bank of New York
One Canada Square
London E14 5AL

PAYING AGENTS

Credit Suisse First Boston
Uetlibergstrasse 231
8045 Zurich
Switzerland

Dexia Banque Internationale à Luxembourg S.A.
69 route d'Esch
L-2953 Luxembourg

LEGAL ADVISERS

To the Managers and the Trustee:

Allen & Overy
One New Change
London EC4M 9QQ

To the Issuer and the Guarantor:

Slaughter and May
35 Basinghall Street
London EC2V 5DB

LISTING AGENT

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA