

OFFERING CIRCULAR DATED 17 AUGUST 2009



PENNON GROUP PLC

(incorporated in England and Wales with limited liability under registration number 2366640)

£125,000,000 4.625% Convertible Bonds due 2014

convertible into Ordinary Shares of PENNON GROUP PLC

Issue price: 100%

The £125,000,000 4.625% Convertible Bonds due 2014 (the **Bonds**) of Pennon Group Plc (the **Issuer**) will be convertible (subject as provided herein) for fully paid ordinary shares (the **Ordinary Shares**) of the Issuer, having at the Closing Date (as defined below) a nominal value of 40.7 pence each, at the then applicable Conversion Price (as defined herein), at any time on or after 30 September 2009 (41st day after Closing Date) and up to the close of business on the date falling seven calendar days prior to the Final Maturity Date (as defined herein) (both dates inclusive) or, if such Bond is to be redeemed prior to the Final Maturity Date, then up to (and including) the close of business on the seventh calendar day before the date fixed for redemption (subject as further described in "Terms and Conditions of the Bonds"). The initial Conversion Price will be 597.81 pence per Ordinary Share and will be subject to adjustment in certain circumstances as described in "Terms and Conditions of the Bonds – Conversion of Bonds".

The Bonds will bear interest from and including 20 August 2009 (the **Closing Date**) at the rate of 4.625% per annum. Interest on the Bonds will be payable semi-annually in arrear in equal instalments on 20 February and 20 August of each year (each an **Interest Payment Date**), commencing on 20 February 2010.

Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed at 100 per cent. of their principal amount on 20 August 2014 (the **Final Maturity Date**). The Bonds are subject to early redemption in whole, but not in part, at their principal amount, together with accrued interest (i) at the option of the Issuer, in the event of certain changes affecting taxes of the United Kingdom; (ii) at the option of the Issuer, if Conversion Rights (as defined herein) have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued (which for this purpose shall include Further Bonds); or (iii) at the option of Bondholders, on the 10th London business day after the expiry of the Change of Control Period if a Change of Control Event (each as defined herein) shall have occurred. See "Terms and Conditions of the Bonds - Redemption and Purchase".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (**FSMA**) (the **UK Listing Authority**) for the Bonds to be admitted to the Official List of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **LSE**) for the Bonds to be admitted to trading on the Professional Securities Market (the **Professional Securities Market**) of the LSE. References in this Offering Circular to the Bonds being "listed" (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Professional Securities Market. The LSE's Professional Securities Market is not a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). The Issuer's Ordinary Shares are listed on the Official List and trade on the LSE's market for listed securities under the symbol "PNN".

None of the Bonds nor the Ordinary Shares to be delivered upon conversion of the Bonds have been or will be registered under the U.S. Securities Act of 1933 (the **Securities Act**), and such Bonds and Ordinary Shares may not be offered or sold or delivered within the United States, absent registration or an applicable exemption from registration under the Securities Act. In addition, the Bonds are subject to U.S. tax law requirements and may not be sold to U.S. persons. For a description of certain further restrictions on the offering and sale of Bonds and on the distribution of this document see "Subscription and Sale".

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on or about the Closing Date with a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), without interest coupons, on or after 30 September 2009 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Global Bond will be exchangeable for definitive Bonds in bearer form in the denomination of £100,000 only in certain limited circumstances – see "Summary of Provisions relating to the Bonds while represented by the Global Bonds".

An investment in the Bonds involves certain risks. Prospective investors should read this Offering Circular and, in particular, have regard to the factors described under the heading "Risk Factors" on page 7.

Joint Bookrunners and Joint Lead Managers

BofA Merrill Lynch

Credit Suisse

Co- Managers

Barclays Capital

HSBC

RBS Hoare Govett

This offering circular (the **Offering Circular**) comprises listing particulars given in compliance with the listing rules made under Section 73A of the FSMA by the UK Listing Authority for the purpose of giving information with regard to Pennon Group Plc, the Issuer Group (as defined in the Conditions) and the Bonds.

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

Each of the Managers (as defined in "Subscription and Sale") is acting for the Issuer exclusively and no one else in connection with the offering and will not regard any other person (whether or not as a recipient of this document) as its client in relation to the offering and will not be responsible to anyone other than the Issuer for providing the protections afforded to clients of the Managers, or for providing advice in relation to the offering, the contents of this Offering Circular or any transaction or arrangement or other matter referred to in this Offering Circular.

This Offering Circular is to be read and construed in conjunction with any documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference"). This Offering Circular should be read and construed on the basis that such documents are incorporated in and form part of the Offering Circular.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or the Trustee as to the accuracy, completeness or verification of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Bonds or their distribution, and nothing contained in this Offering Circular is, or shall be relied upon as a promise or representation in this respect, whether as to the past or the future. The Managers assume no responsibility for its accuracy, completeness or verification and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement.

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

The investors acknowledge that: (i) they have not relied on the Managers or any person affiliated with the Managers in connection with any investigation of the accuracy of any information contained in this Offering Circular or their investment decision; and (ii) they have relied only on the information contained in this Offering Circular, and that no person has been authorised to give any information or to make any representation concerning the Issuer, the Issuer Group or the Bonds or the Ordinary Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer or the Managers.

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

an offer or invitation by or on behalf of the Issuer, any of the Managers or the Trustee to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Issuer and the terms of the offering of the Bonds, including the merits and risks involved.

The Bonds are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters. This Offering Circular has been prepared on the basis that any purchaser of Bonds is a person or entity having sufficient knowledge and experience of financial matters as to be capable of evaluating the merits and risks of the purchase. Before making any investment decision with respect to the Bonds, prospective investors should consult their own counsel, accountants or other advisers and carefully review and consider their investment decision in the light of the foregoing and the following.

An investment in the Bonds is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may result therefrom.

None of the Bonds nor the Ordinary Shares to be delivered upon conversion of the Bonds have been or will be registered under the U.S. Securities Act of 1933, and such Bonds and Ordinary Shares may not be offered or sold or delivered within the United States, absent registration or an applicable exemption from registration under the Securities Act. In addition, the Bonds are subject to U.S. tax law requirements and may not be sold to U.S. persons. For a description of certain further restrictions on the offering and sale of Bonds and on the distribution of this document see "Subscription and Sale".

None of the Issuer, the Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the Bonds by such offeree or purchaser under the laws applicable to such offeree or purchaser.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Bonds may be restricted by law in certain jurisdictions. None of the Issuer, the Managers or the Trustee represent that this Offering Circular may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers or the Trustee which is intended to permit a public offering of the Bonds or the possession or distribution of this Offering Circular (or any other offering or publicity materials or application form(s) relating to the Bonds) (a) in the United Kingdom, other than to (i) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Order**), (ii) high net worth entities and other persons to whom it may otherwise be lawfully communicated falling within Article 49(1) of the Order or (iii) persons to whom it may otherwise lawfully be communicated or (b) in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with

any applicable laws and regulations. Persons into whose possession this Offering Circular or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Bonds in the United States and the United Kingdom (see "Subscription and Sale"). Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. For further information on the manner of distribution of the Bonds, and the transfer restrictions to which they are subject, see "Subscription and Sale".

The Bonds are subject to restrictions on resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

IN CONNECTION WITH THE ISSUE OF THE BONDS, MERRILL LYNCH INTERNATIONAL AS STABILISING MANAGER (THE STABILISING MANAGER) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to **Sterling** and **£** are to the lawful currency of the United Kingdom. All references to **U.S. Dollar**, **U.S.\$** and **\$** refer to United States dollars.

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DOCUMENTS INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with the audited consolidated annual financial statements of the Issuer as at, and for the financial years ended 31 March 2008 and 31 March 2009, together, in each case, with the audit report thereon which have been previously published and which have been filed with the Financial Services Authority.

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

For the avoidance of doubt, any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained (without charge) from the registered office of the Issuer.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and other information contained in this Offering Circular prior to making any investment decision with respect to the Bonds. The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds and/or the value of the Bonds and/or the Ordinary Shares. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate and any of these risks could have the effects set forth above. The Issuer does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. The Issuer has described only those risks relating to its operations that it considers to be material.

Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Bonds are complex financial instruments, the purchase of which involves substantial risks and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Bonds. Before making an investment decision, prospective purchasers of Bonds should ensure that they understand the nature of the Bonds and the extent of their exposure to risks and that they consider carefully, in the light of their own financial circumstances, financial condition and investment objectives, all the information set forth in this Offering Circular and in particular in this "Risk Factors" section.

Factors that may affect the Issuer's ability to fulfil its obligations under the Bonds

The Issuer's ability to fulfil its obligations under the Bonds may be affected by certain factors as set out below which may affect the Issuer and its subsidiaries South West Water¹ and Viridor².

South West Water

Price controls applicable to South West Water's regulated business could adversely affect profitability

Every five years, Ofwat³ sets limits on the prices that water and sewerage companies in England and Wales can charge their customers by issuing price determinations. On 23 July 2009, Ofwat published its draft proposals for the limits on prices chargeable between 2010 and 2015 (the **Draft Determination**), having taken into account business plans submitted by the various water and sewerage companies in England and Wales.

The Draft Determination provides for the average household water and sewerage bills to be reduced by around four per cent. (or £14) to £330 by 2015 (excluding inflation) as against an average rise to £375 that the water companies had proposed in their business plans. With respect to South West Water more

¹ **South West Water** means South West Water Limited.

² **Viridor** means Viridor Limited or, depending on the nature of the activity referred to, its operating subsidiary, Viridor Waste Management Limited.

³ **Ofwat** means the Water Services Regulatory Authority.

specifically, the proposal is a reduction in annual household water and sewerage bills of around 6 per cent. from 2009/10 to 2014/15 (i.e. from £488 to £458). This contrasts with the business plan submitted by South West Water which specified an increase in water bills to £517 per annum. The Draft Determination provides for a cost of capital for the industry of 4.5 per cent. (on an after tax basis), contrasting with the estimated cost of capital for the industry of 4.76 per cent. in South West Water's business plan.

Although the Draft Determination is not yet final and is subject to a period of consultation until November 2009, to the extent that the final price determination for 2010-2015 (the **Final Determination**) does not differ greatly from the Draft Determination, and to the extent that parameters and assumptions underlying the methodology used by Ofwat in reaching their Final Determination prove unrealistic, the price limits included in that document may adversely affect South West Water. In particular, unrealistic parameters and assumptions underlying the price limits may cause the value of those price limits to be such that it could hinder the Issuer's ability to efficiently fund its business, operations and future capital investment program. These limitations may consequently adversely affect the Issuer Group's cash flows and profitability.

Failure to deliver the capital investment programme could adversely affect profitability

South West Water requires significant capital for additions to and replacement of plant and equipment for its operations. The price limits set by Ofwat for the K5⁴ period (in the Draft Determination) take into account Ofwat's assumed level of expected capital expenditure and associated funding costs. In the event of significant under-performance by South West Water against regulatory targets, Ofwat could, in the future, intervene to lower the maximum permitted charges to customers stipulated in the Final Determination, by undertaking an Interim Determination⁵, which could adversely affect the Issuer's profitability.

The Final Determination may not reflect the Draft Determination

The Final Determination is due to be released by Ofwat in November 2009 following a period during which water and sewerage companies in England and Wales are being given an opportunity to comment on the Draft Determination published in July 2009. There is no guarantee that the Final Determination will contain more advantageous price determinations for South West Water than those issued in the Draft Determination or that, to the extent that South West Water has any other concerns with the Draft Determination, that those will be addressed in the Final Determination.

Failure to obtain an Interim Determination could adversely affect profitability

In the event of South West Water being materially affected by additional costs or lower revenues, regulatory mechanisms allow for South West Water to apply to Ofwat for price limits to be re-set through an Interim Determination, either as a result of specific relevant changes in circumstances, such as a new legal obligation requiring additional capital investment, or through the 'Substantial Effect Clause', where the total adverse impact on South West Water amounts to at least 20 per cent. of its turnover. These processes are however subject to a degree of interpretation and challenge by Ofwat, such that the mechanisms cannot be regarded as offering certainty in providing additional revenues.

South West Water may be unable to raise sufficient funds to finance its functions

Historically, the Issuer Group has financed expenditure from cash flows from operations and debt financing. In setting price limits, Ofwat has a duty to ensure that a company can finance the proper carrying out of its functions. There can be no assurance that cash flows from operations will not decline or that additional debt financing or other sources of capital will be available to finance South West Water, in order that it can carry out its functions.

⁴ **K5** means the Periodic Review period 2010-2015 for South West Water and **Periodic Review** means the process of determining the water industry's price limits and expenditure plans for five-year regulatory periods undertaken by Ofwat.

⁵ **Interim Determination** means a re-setting of price limits ("K" factors) during the relevant Periodic Review period.

If South West Water were unable to secure the anticipated capital efficiencies associated with its capital investment programme, or if the programme were to fall behind schedule for other reasons, banks and other lenders may become less willing to lend to the Issuer Group and it may be unable to raise sufficient funds to finance its functions, may incur increased costs as a result of delays and, as a result, profitability of the Issuer Group may suffer.

Failure to deliver the operating cost savings assumed by Ofwat in determining Price Determinations could adversely affect profitability

Operating cost savings are set by Ofwat for each Periodic Review period. Should operating cost savings not be achieved, the Issuer Group's profitability could suffer. A significant proportion of South West Water's operating costs, including energy, bad debts, pensions and abstraction charges, are subject to fluctuation from external factors. This could result in South West Water having to achieve a greater level of operating efficiencies in other areas, which may not be achievable without impacting on regulatory targets and service levels.

Environmental regulations and quality standards could increase South West Water's costs and adversely affect profitability

Various environmental, consumer protection and health and safety laws and regulations govern South West Water's waste water and water distribution businesses. These laws and regulations establish, amongst other things, quality standards for drinking water, effluent treatment (including sewage sludge disposal) and discharges into the environment. All of these affect South West Water's operations.

In addition, South West Water is required to obtain various environmental permissions from regulatory agencies for its operations. South West Water endeavours to comply with all regulatory standards but cannot guarantee that it will be in full compliance with them at all times.

Environmental laws are complex and change frequently. These laws and their enforcement have tended to become more stringent over time. South West Water budgets for future capital and operating expenditures to achieve compliance with current and known future changes in law and regulation. However, it is possible that new or stricter standards could be imposed that would raise South West Water's capital and operating expenditures by requiring modifications to its assets or operations. It is also possible that future legislation will impose constraints on existing water abstractions requiring South West Water to source alternative water supplies. These costs are recoverable in part or in whole through the regulatory process of setting appropriate future price limits. In the event of these being significant, South West Water could apply to Ofwat for a revision of its price limits through an Interim Determination.

As environmental laws are becoming more stringent, South West Water may also be unable to comply with all new regulatory and environmental performance standards. Such non-compliance could result in the potential for fines or other sanctions imposed by either Ofwat or the courts, including ultimately the loss of South West Water's licence.

Contamination of water supplies could adversely affect profitability

Water supplies may be subject to contamination, which may emanate from naturally occurring compounds, and pollution resulting from man-made sources. Although South West Water has established contingency plans and incident management procedures and has controls in place in respect of its water supplies, if one or more of the Issuer Group's water supplies becomes contaminated and the Issuer Group is unable to substitute a supply or to treat the contaminated water source adequately, there may be an adverse effect on its reputation, operating results and financial position. Some or all of the remedial costs may be recoverable through future price reviews or through insurance policies maintained by South West Water (although there is no guarantee that all or any of the costs associated with these risks would be covered or that coverage will continue to be available in the future). South West Water could also be held liable for human exposure to

hazardous substances in its water supplies or other environmental damage.

Non-recovery of customer debt could adversely affect profitability

South West Water is responsible for the billing, cash collection and debt management activities for around 780,000 domestic and business water and waste water customers. The Water Industry Act 1997 prohibits the disconnection of a domestic water supply for non-payment.

Non-recovery of debt is therefore a risk to South West Water and may cause the Issuer Group's profitability to suffer. Allowance is made by Ofwat in each price determination for its estimate of debt deemed to be irrecoverable, but there can be no assurance that the amount allowed by Ofwat is or will be adequate. In addition to existing strategies, South West Water is implementing new initiatives to improve and secure cash collection, including the use of property charging orders. Provision was made in the last price determination for companies to make an application for an Interim Determination in the event of bad debts being significantly greater than the amount allowed by Ofwat. However the Draft Determination states that Ofwat do not see any compelling reason for continuing to allow a company to apply for an Interim Determination on the basis of bad debts as companies now have more expertise in forecasting and managing bad debts. To the extent that the Final Determination is consistent with the Draft Determination in this respect, the inability of South West Water to apply for an Interim Determination would mean that if Ofwat did not make sufficient allowance for bad debts in the Final Determination, this could have an adverse impact on the Issuer Group's profitability.

Risks associated with current UK economic conditions affecting South West Water

There is a risk that the current economic slowdown could reduce income from customers. However the impact has been marginal to date partly because South West Water has a lower than average proportion of large industrial customers in its area. There is also a risk that levels of bad debts from domestic customers may increase beyond the level allowed for by Ofwat in the Final Determination. The longer that the adverse economic conditions continue, the greater the risk that the level of income from customers could decrease and hence affect the profitability of South West Water and the Issuer Group.

Energy cost volatility

Energy costs are approximately 12% of South West Water's operating costs excluding depreciation and restructuring costs. Whilst Ofwat allows for energy costs in a price determination and although South West Water mitigates, in part, rising energy costs through careful system operation to reduce consumption, by maximising renewable energy generation and by purchasing more cost-effective or efficient energy, increases in energy costs beyond the level assumed in the Final Determination by Ofwat would adversely affect the Issuer Group's profitability.

Operational failures

A failure of the equipment operated by South West Water could lead to the escape of water or waste water including sewage effluent. South West Water has processes in place whereby it is able to monitor its significant assets by automated and remote operation and has routine controls and procedures in place that are kept under review. It also employs asset management techniques such as assessing the reliability of assets against breakdown and maintaining back-up controls and procedures to pre-empt the failure of assets. If such processes or asset management techniques were not to prove effective or any other controls and procedures employed by South West Water to monitor equipment were to fail, this could result in damage to third party property or personal injury and South West Water could incur liability. South West Water could also be prosecuted by the EA⁶ or DWI⁷ and/or be required to undertake changes to its equipment or controls and procedures. Any such additional costs would adversely affect the Issuer Group's profitability.

⁶ EA means the Environment Agency.

⁷ DWI means the Drinking Water Inspectorate.

Meter option take-up greater than forecast, resulting in reduced revenues for South West Water

Higher than national average water and sewerage charges exist within the South West Water area. This has encouraged many customers to change from an unmeasured rateable value based charging system to a payment based on volume of water used as measured by a meter. Properties constructed since 1989 do not have a rateable value assessment and are therefore charged by the volume of water used. Most customers in properties built prior to 1989 can choose to opt for metered charges. In doing so they have an option to switch back to rateable value payment within 12 months of meter installation. The rate at which customers elect to switch to metered charges is estimated during each Periodic Review.

Customers will generally switch to rateable value payment where such a change would result in lower water bills for them, which concurrently also tends to lead to better water conservation practices by households. As such, if more customers change to a payment based on volume of water used as charged by a meter, to the extent the effect of such change is not adequately provided for in the Final Determination, the Issuer Group's profitability will be adversely affected.

Reduced revenue from falling customer demand for water

Customer demand for water is subject to variation and may decrease, which has the potential to impact negatively on South West Water's revenue. Ofwat makes assumptions about the level of customer demand when setting maximum prices for a five year regulatory period. If actual demand is lower than this assumption, as has happened in the current regulatory period (from 2005 to date), it has not normally been possible for South West Water to recover this shortfall in income. Approximately 66 per cent. of domestic South West Water customers already have water meters. As customers who opt to have a water meter generally adopt better water conservation measures, as they are more aware of the level of water usage by their household, the level of volatility in customer demand for water increases with the number of further customers opting to have a water meter. The reduced demand experienced in the current regulatory period will be taken into account by Ofwat in setting a baseline turnover for the start of the next regulatory period from 2010. Ofwat is introducing a form of revenue cap regulation from the start of the next regulatory period (which commences in 2010), which will allow water companies to recover a shortfall in income in respect of a five year regulatory period in the following five year regulatory period (which commences in 2015) and, thereafter, on a rolling five year basis. There can be no guarantee that any such adjustment provision will provide adequate revenue compensation to South West Water and if it does not, this could have an adverse effect on the business, profitability and cash flow of the Issuer Group.

Water resource adequacy

A water shortage due to a severe drought could reduce the water supply available to customers, which could reduce usage and have a material impact on the profitability of South West Water and the Issuer Group.

Although South West Water has a number of schemes in place to maintain water resources (such as pumped storage for certain reservoirs), these schemes are not without their inherent risks. For example, pumped storage is only a viable option if there has been sufficient rainfall and to the extent that water levels of rivers are not too low. In addition, although South West Water promotes conservation measures, these simultaneously lower customer demand and hence lead to reduced profitability..

South West Water prepares a new "Water Resources Plan" every five years and reviews it annually for a range of climate change and demand scenarios. The draft "Water Resources Plan" published in January 2009 indicates that no new reservoirs are required before the planning horizon of 2035. However, investment is needed to develop the overall trunk main infrastructure, to expand treatment capacity and to enhance certain pumped storage facilities. To the extent that the Final Determination does not allow for sufficient capital expenditure to fund the trunk main infrastructure, expand treatment capacity or enhance the necessary pumped storage facilities, the findings of the "Water Resources Plan" may prove incorrect and South West Water could be faced with a water shortage.

Climate Change

South West Water may be impacted by the long-term effects of climate change. Extreme weather conditions (including drought), together with increased demand from customers resulting from, for example, hotter drier summers, could affect South West Water's resources, water quality and biodiversity. South West Water has established contingency plans, and will adapt the way it conducts its business, to respond effectively to the hotter, drier summers and wetter winters which are predicted. However, South West Water's assets and infrastructure could also increasingly be vulnerable to rising sea-levels, more intense storms and flooding. These conditions could affect South West Water's ability to provide water and wastewater services. Costs may be incurred in taking action to tackle vulnerable sites and infrastructure, this having an adverse effect on the business, profitability and cash flow of the Issuer Group.

Deflation

Deflation (negative RPI⁸) could affect South West Water in the form of lower customer bills and hence lower revenues and could also result in a lower Regulatory Capital Value (**RCV**) for South West Water, resulting in increased gearing due to the majority of South West Water's debt not being index linked. At present, South West Water is conservatively financed with debt to RCV gearing in Ofwat's preferred range of 55-65 per cent., but deflation may result in an adverse effect on the profitability of the Issuer Group and its ability to raise debt finance against the value of the RCV.

Financial loss arising from the insolvency of a major supplier or contractor

Although South West Water does not have material creditor exposure as it does not make payments before receipt of goods and services, and also uses a third party credit monitoring service for changes to suppliers' financial status and creditworthiness to supplement an annual risk review of key and strategic suppliers, the Issuer Group may nevertheless be vulnerable to financial loss in the event of one of its key suppliers or contracts becoming insolvent in circumstances previously unknown to South West Water.

Potential impact of regulatory enforcement action

Ofwat is empowered under section 22A (11) of the Water Industry Act 1991 to impose financial penalties on water and sewerage companies in the event of a company being in breach of its statutory and licence obligations. The maximum penalty that can be imposed is 10 per cent. of a company's turnover. Enforcement action is likely only to be taken by Ofwat against such a company in the event of serious or persistent breaches, but the imposition of any fine of this magnitude on South West Water could seriously impact its profitability in that year.

Impact of competition in the industry

South West Water is assessing the implications of the Cave Report published by the UK Government in April 2009 in order to prepare for an extension of competition for non-household customers in the water industry. Legislation will be required for any further extension of competition in the water and sewerage services markets. To the extent that competition is increased within the water and sewerage services markets, this could result in a reduced customer base and market share for South West Water and could as a result have an adverse impact on profitability of the Issuer Group.

Ring-fencing of the assets of South West Water

As part of the licensing requirements for South West Water, the Issuer Group is required to ring-fence its regulated water and sewerage cash flows and activities from other operations of the Issuer Group.

⁸ **RPI** means the UK Government's Retail Price Index.

To the extent that South West Water was to create a Security Interest (as defined in the Conditions) upon or with respect to its Assets (as defined in the Conditions) to secure any Relevant Indebtedness (as defined in the Conditions), the Issuer would not be required to ensure that all amounts payable under the Bonds, the Coupons (as defined in the Conditions) and the Trust Deed (as defined in the Conditions) were secured by such Security Interest equally and rateably with the Relevant Indebtedness. The effect of this exclusion to the negative pledge is that, although the financial results for the Issuer Group are directly affected by and depend upon the performance of South West Water, any Bondholder would only ever be an obligee of the Issuer and its other Material Subsidiaries (as defined in the Conditions) and not of South West Water.

Viridor

Increases in landfill costs may not be recovered through price increases

The raising of environmental standards in the United Kingdom is leading to a gradual increase in landfill costs in general. Particular areas of cost increase include: site engineering (which results in increased depreciation), restoration and aftercare costs (see below), leachate management, landfill gas management and general site management. Companies such as Viridor, with landfills engineered to modern standards and established environmental control systems, should incur lower than average increases in costs. However, there remains a risk that rising standards may generate higher treatment and disposal costs than are currently assumed.

Landfill sites are divided into sections termed "cells" and are then filled and restored on a cell by cell basis. After site closure, final restoration and aftercare are undertaken in accordance with the planning permission for the site. Although aftercare costs are built into budgets for each landfill sites, the costs can be extensive and are also expected to continue for around 30 years post closure. These costs are best estimates based on Viridor's own experience and they are updated at each stage of the capital expenditure programme. Nevertheless, as with any estimate of future costs, there is a risk that circumstances may change which may affect the level of those costs.

The costs are calculated on a landfill usage basis, i.e. per tonne input. This is determined by dividing the total expected cost by the number of tonnes expected to be input into the site up to its closure. This number is derived from the remaining void space, as estimated by external consultants, and estimated compaction rates (tonnes per cubic metre). These are best estimates, based on current information, which are reviewed every year. However, to the extent that tonnages are overestimated or underestimated, there is a risk that the amount provided may be too high or too low.

Municipal waste contracts typically last for up to seven years. They usually have provision for price increases under set formulae related to inflation as measured by the RPI in the UK and in some cases take into account specific legislative or technical changes. Prices for other types of waste depend more on local markets and competitive conditions. Viridor's experience over a number of years is that prices, as a long-term trend, have risen fast enough at least to cover cost increases in the areas in which it operates, although, in individual years, price increases may have been less than cost increases. There is a risk that landfill prices may not rise sufficiently in all locations and in all years to recover recent and projected cost increases. See also "Risks associated with current UK and world economic conditions" below.

The UK Government's Waste Strategy, stemming from the Landfill Directive⁹, will lead to a reduction in volumes of waste being disposed to landfill

Existing Government initiatives are having an impact on the amount of municipal waste being disposed of to landfill, which is now declining. The UK is required under the Landfill Directive to reduce the amount of biodegradable waste going to landfill sites, compared to the 1995 level, by 25 per cent. by 2010, by 50 per cent. by 2015 and by 65 per cent. by 2020. Assuming the Landfill Directive targets are met, the total amount

⁹ **Landfill Directive** means Council Directive 1999/31/EC of 26 April 1999 on the landfill of waste.

of municipal solid waste (**MSW**) which will be landfilled from 2020 will be, based on current projections, between 5 and 10 million tonnes per annum (depending on the precise interpretation of the Directive). If there is no change in other waste streams, this would still leave a substantial landfill market in 2020.

The above needs to be considered in light of the EA estimate of landfill capacity. The EA estimates that on the basis of the current consented landfill capacity (i.e. assuming that no other landfill sites are approved under planning permissions), and at the current rate of landfill activity, that there would no longer be any landfill availability in six to seven years. However, at current rates of fill, Viridor has an average remaining landfill life of 14 years.

Viridor's total landfill disposal volumes decreased by 11 per cent. in 2008/09 due to a reduction in third party industrial and commercial volumes, particularly in the second half of the year, and included the impact of 0.2m tonnes non-recurring volumes in the previous year. Volumes from domestic customers and Viridor's own inputs were maintained over the period. The reduction was offset by the average revenue per tonne received increasing by 11 per cent.

However, despite the performance of Viridor and the EA estimates of landfill availability, the combined effect of the various Government measures is likely to reduce the total amount of waste being landfilled in the UK in the future and, accordingly, have a negative impact on Viridor's revenues.

Standards or requirements may be imposed in accordance with environmental protection legislation which would adversely impact on the economics of landfill

Landfills (and other industrial processes) in the UK are subject to a statutory permitting regime designed for environmental protection requirements made in accordance with EU Directives. All of Viridor's operational landfills have Environmental Permits under these regimes, though in some cases Viridor is appealing against certain of the conditions imposed, which might have cost or other implications for operating the landfills, such as limiting the types of waste that can be deposited in landfills, restricting the hours during which the landfill can be operated or otherwise resulting in higher standards for the business.

Under Environmental Permits, landfills require expenditure on restoration when the site is closed and subsequently on aftercare (maintenance, supervision, monitoring and management of gas and leachate levels) long after the landfilling activities have ceased. The EA or SEPA will only grant a full or partial permit or allow surrender of the permit once it is satisfied that the landfill no longer poses any environmental risk. There may still be a risk of liability arising from any residual contamination following the surrender of the permit. Landfill permits cannot be surrendered during the aftercare period. The costs related to an Environmental Permit, both during and after the lifetime of a landfill site can be substantial and have the potential to negatively impact on Viridor's profitability.

Pricing and other risks relating to renewable energy

Renewable energy prices under the current RO regime¹⁰ are primarily a function of the underlying "brown energy" price (i.e. energy arising from sources other than renewable resources) and the premium achieved from the sale of ROCs¹¹.

Underlying brown energy prices rose significantly in 2006/07 reflecting the general energy supply/demand position in the UK and worldwide. Brown energy prices fell back significantly in 2007/08 and increased somewhat during 2008/09. Viridor's policy is to sell its brown energy forward and currently has sold energy through to the end of March 2010. Brown energy prices will continue to be determined by the world and UK energy markets and may go down as well as up. Any changes in underlying energy prices will directly affect Viridor's revenues when its sales forward contracts come up for renewal.

¹⁰ **RO** means Renewables Obligation.

¹¹ **ROC** means Renewable Obligation Certificate.

Oil is an important component of overall brown energy prices. Whilst Viridor's power generation business may be positively affected by increases in oil prices, other parts of the business (in particular, collection) may be adversely affected as increased oil prices could lead to increased operating costs.

Without a pricing mechanism such as the RO regime, further investment in renewable energy generation would not generally be economic. The Government has made a strong commitment to renewables which are key to meeting the long-term carbon reduction strategy set out in the energy white paper and the UK's targets for carbon dioxide reductions under the Kyoto Protocol. To date, the Government has stressed its commitment to "grandfather" rights under current ROC schemes, which are not subject to retrospective changes. Renewables are also important in minimising the UK's increasing reliance on imported energy. Nevertheless, there remains a risk that the Government may change the pricing mechanism for renewable energy, which could have an adverse effect on Viridor's profitability.

The value of ROCs is increased by the sharing of the buy-out price monies among holders of ROCs. The value of a ROC depends on the supply of renewable electricity relative to the UK's annual increasing targets. If large amounts of renewable energy generating capacity gained planning permission and commenced operations there is a risk that the value of a ROC would decline. The value of a ROC is also dependent on the financial strength of those suppliers who opt to pay the buy-out price. There is a risk that the insolvency of a licensed electricity supplier could lead to a drop in the value of the ROCs which Viridor sells to licensed suppliers.

A landfill gas project must be able to collect and burn sufficient gas to produce electricity. Ultimately, the volume of gas generated will depend on the amount and composition of the waste landfilled. For example, as the amount of biodegradable municipal waste diverted away from landfill is increased in the future in accordance with the Landfill Directive obligations, the total biodegradable component of the waste going to landfill will reduce, affecting the volumes of landfill gas produced. It is therefore possible that the gas obtained will not be available either in the amounts or of the calorific value required to make a project cost effective.

Lakeside Energy from Waste (EfW) construction and technical risks

The Lakeside joint venture between Grundon Waste Management Limited and Viridor involves building an EfW plant of approximately 400kt capacity at Colnbrook near Heathrow at a cost of approximately £160 million and operating it for 25 years. 86 per cent. of the project is funded by non-recourse bank debt which limits the risk to the Issuer Group. The remainder is funded by the joint venture, of which Viridor has 50 per cent. of the equity. Construction of the plant is close to completion and a profit contribution is expected in the current financial year. To the extent that completion is not achieved within the timeline envisaged, or at all, this could have a material impact on future profitability.

The plant is a modern conventional waste to energy facility. As a result of a competitive procurement procedure it is being supplied by the Japanese consortium Itochu/Takuma.

It is being supplied in accordance with a fixed price contract which was drawn up with the assistance of specialist external consultants. Nevertheless, as with any major infrastructure project, unforeseen circumstances may arise which may affect the construction process.

The efficiencies and output of the plant will be affected by the precise calorific value of the waste throughput. The plant is well proven and it has a robust conventional technology designed to take the currently projected waste mix. However, if the mix of the waste changes significantly over the next 25 years, there may be significant impact on efficiencies and output.

The current planning regime may restrict the availability of future waste treatment facilities

Achievement of the Government's targets for waste management is critically dependent on the planning

system delivering sufficient waste treatment facilities. Obtaining planning permission for any type of waste treatment facility is difficult and will represent a major challenge for the waste management industry.

Risks associated with long-term integrated contracts

Any long-term integrated contract in which Viridor participates has a range of risks associated with it. Indeed, risk transfer is a key part of Government PFI¹² procurement guidelines. The risks include waste volumes and mix, planning, technology, input costs and recyclate prices. A careful assessment of the risks and apportionment of them between client, main contractor, technology and equipment suppliers, and sub contractors is a key part of the process of bidding for and finalising a contract.

Viridor seeks to protect itself against the risks in such contracts in the first instance by conducting extensive due diligence, typically using a combination of external advisers and in-house experts, so that risks are correctly identified.

Viridor will then seek to protect itself against the risks identified through contractual documentation with its clients, subcontractors and sub-suppliers. The degree to which it does so depends on the other parties' attitude to risk transfer and on the specific commercial situation.

To the degree that Viridor is not able to (or chooses not to) mitigate all the risks identified in the contractual documentation, it includes in its pricing an assessment of a reasonable return for accepting such risks. Viridor takes a robust approach on this issue. If it cannot mitigate the risks satisfactorily or cannot get a reasonable commercial return for taking such risks, its policy is to accept being outbid with respect to such a contract rather than win it on unsatisfactory terms. However, there remains a risk that Viridor's commercial assessment will not be satisfactory and the future results from such contracts will be adverse.

Recyclate Price Risks

Recycling is becoming an increasingly important part of Viridor's business. Recyclate prices are driven by global supply/demand trends among manufacturing reprocessors who wish to use the recyclate and by national and European legislation setting targets for landfill diversion, recovery and use based on 'polluter pays' principles. As with any global commodity, recyclate prices are very sensitive to world economic conditions (see "-Risks associated with current UK and world economic conditions" below) and therefore, even though Viridor may mitigate some recyclate price risk by sharing downsides or upsides with both its clients and customers, there remains a risk that its profits in recycling may be adversely affected by downward movements in recyclate prices. As an illustration of the sensitivity, prices in the first half of 2008/09 were well above historical trends for recyclate prices but, in the second half of 2008/09, fell significantly below historical trend levels for recyclate prices, whereas currently they have returned to trend.

Whilst reprocessing capacity in the UK is finite and limited growth is forecast, increasing amounts of recyclate are being sought by, and exported to, the rapidly expanding major manufacturing locations in China and elsewhere. Viridor therefore exports recyclates and trades the recyclates on the international market. As non-European export prices and freight costs for recyclate are set in U.S. dollars, these costs can vary with U.S. dollar exchange rate movements as well as with world economic conditions and the increasing cost of sourcing and processing raw materials.

Risks associated with current UK and world economic conditions

Current UK and world economic conditions are highly uncertain.

It is not possible to forecast what the impact of a prolonged worldwide recession or depression would be on Viridor. The UK is currently facing significant economic uncertainties and therefore there may be

¹² **PFI** means Private Finance Initiative.

unforeseen impacts on Viridor's business.

There is a risk that volumes taken to landfill sites will decline due to a contraction in the economy, such risk being most pertinent to the 40 per cent. of Viridor's volumes which are not either domestic landfill or landfill collected by Viridor's own fleet.

To date, landfill prices in general have proved robust but there can be no guarantee that in a prolonged recession such prices will not be impacted by a contraction in volume and increased price competition.

Recyclate prices are, like any commodity, volatile and are directly impacted by world economic conditions. To date, the greatest impact has been on the 35 per cent. of Viridor's recycling volumes which are in internationally traded commodities such as paper, card, plastics and metals as prices are set by international trading conditions. There can be no guarantee that prices in these commodities may not fall further or that prices for the remaining part of Viridor's volumes may not be impacted by a prolonged recession.

Viridor's revenues from collection activities are subject to UK economic conditions, particularly among its industrial customers. Currently margins are holding up, helped by lower fuel prices. However, there can be no guarantee that a "price war" caused by intense competition may not develop if weak economic conditions continue for a significant period.

Viridor's record of bad debts has been, and remains, good based on effective credit controls and the ability to put customers "on stop" i.e. refuse to accept waste at its landfills if debts are not being paid. However, in a prolonged downturn, collection of debts would likely become more challenging.

The above represents an assessment of the most significant current risks arising from existing economic conditions in the first half of the financial year of 2009/10. If there were to be a prolonged UK and world recession or depression then Viridor's business might be adversely affected in other unexpected ways.

The Issuer Group

It may not be possible to continue to sustain the same level of earnings and growth of the Issuer Group as in the past

The Issuer's ability to fulfil its obligations under the Bonds may be affected if the Issuer Group is not able to continue to grow its key businesses and produce sustainable earnings growth. This is dependent upon the correct strategies being pursued and successfully implemented by strong and able management within the Issuer Group, as well as on external factors.

Issuer Group Pension costs may increase due to factors outside the Issuer Group's control

The Issuer Group operates defined benefit schemes for certain staff. Employer costs have been limited as a result of the introduction of defined contribution arrangements for the majority of new Viridor employees from 2003 and for all new South West Water employees from April 2008. As at 31 March 2009, 59.5% of employees in the Issuer Group were in defined benefit schemes and 40.5% in defined contribution schemes."

The Issuer Group pension schemes had net liabilities (before deferred tax relief) at 31 March 2009 of approximately £66 million (compared to £26 million as at 31 March 2008), the increase principally resulting from reduced equity values impacting fund assets, partially offset by a further £39 million employer contributions made during the year to 31 March 2009. The net liabilities (after deferred tax relief) of £48 million represented less than 4 per cent. of the Issuer Group's total market capitalisation as at 31 March 2009.

The triennial actuarial valuation for March 2007 of the Issuer Group's defined benefit schemes has resulted in higher cash costs for both future service and deficit recovery contributions. For IAS 19 reporting, the

longevity assumption has been strengthened to a scheme-specific "medium cohort" basis which allows for improved life expectancy for existing and future pensioners.

The future costs of defined benefit schemes are subject to a number of factors including:

- the returns achieved on pension fund investments;
- movements in interest rates and inflation; and
- pensioner longevity.

Pension trustees keep the pension schemes' investment policy under review and use professional investment advisers. The pension trustees also review the investment strategy to improve the match of investments and liabilities. In addition, employee and employer contributions are kept under review and have been increased.

For IAS 19 reporting, independent actuaries have identified scheme-specific mortality experience which is reflected in liabilities.

The Issuer Group is potentially exposed to interest rate variations

The Issuer Group's debt obligations are subject to both fixed and floating interest rate provisions. The Issuer Group maintains a policy that, in any one year, at least 50 per cent. of net debt carries fixed rate interest payment obligations and the Issuer Group's exposure to interest rate movements on its floating-rate debt is managed by the use of interest rate derivatives. The Issuer Group has fixed approximately 60 per cent. of its existing net debt up to 31 March 2010.

At 31 March 2009, the Issuer Group had interest rate swaps to convert floating rate liabilities to fixed rate, and hedged financial liabilities, with a notional value of £760 million and a weighted average maturity of 2.4 years (2008: £634 million, with 2.1 years). The weighted average interest rate of the swaps for their nominal amount was 4.5 per cent. (2008: 4.8 per cent.). The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Issuer Group.

In addition South West Water has index-linked approximately 25 per cent. of its current net debt up to 2041 – 2057. South West Water's total index-linked debt of £353 million has an average real interest rate of 1.66 per cent. The interest rate for index-linked debt is based upon an RPI measure which is also used in determining the tariff increase for South West Water customers. As South West Water's charges are index-linked, the effect of index-linking a portion of its current net debt is that this mitigates to an extent movements in interest rates (inflation component).

Despite South West Water and the Issuer Group having measures in place to counteract the effects of interest rate movements, substantial changes in market interest rates and/or incorrect hedging strategies could still result in greater liabilities for the Issuer Group in respect of its interest payment obligations which could, consequently, affect the Issuer Group's profitability and cash flow.

Mis-allocation or incorrect categorisation of capital expenditure for tax purposes may affect the Issuer Group's taxes

A material risk for the Issuer Group is the possibility that capital expenditure qualifying for capital allowances is mis-allocated or categorised incorrectly. This could result in under-claims or over-claims for corporation tax relief and result in unforeseen material liabilities of the Issuer Group arising at any particular time, which could adversely affect the Issuer Group's profitability and cash flows.

The Issuer Group may not be able to refinance existing financial facilities due for renewal

The Issuer Group has robust treasury policies in place, including ensuring that the Issuer Group has sufficient cash and committed loan facilities equivalent to at least one year's forecast requirements at all times (borrowing repayment commitments are expected to be met as required during the coming period) and ensuring that no more than 20 per cent. of Issuer Group net debt is permitted to mature in any one financial year. For example, as at 31 March 2009 the Issuer Group had cash and deposits of £353 million, and undrawn committed bank facilities of £204 million, giving access to total cash resources of £557 million. Loan repayments falling due by 31 March 2010 amount to £235 million, of which £192 million is due in the period January to March 2010. Despite these treasury policies, however, the Issuer Group is still subject to the risk of not being able to refinance material financial facilities, which could consequently have an adverse impact on the cash flows of the Issuer Group.

The Issuer Group may be at risk of losing funds held by third parties (counterparty risk management)

Surplus funds of the Issuer Group are usually placed in short-term fixed interest deposits or the overnight money markets. The Issuer Group is thus potentially exposed to counterparty risk from holders of these surplus funds that could result in financial losses should such counterparties become unable to meet their obligations to the Issuer Group. Although, the Issuer has agreed a policy for managing such counterparty risk, which includes controlling risk through credit limits, counterparty approvals, rigorous monitoring procedures and ensuring that deposits are held with counterparties which have a credit rating approved by the Board of Directors of the Issuer (Moody's AA2 and Standard and Poor's AA), should the Group's counterparties be unable to meet their obligations to the Issuer Group, its operating results, cash flows and financial condition could be materially and adversely affected.

The Issuer Group may breach its financial covenants and have to repay loan monies

The Issuer and South West Water have entered into covenants with lenders. Whilst terms vary, these typically provide for limits on gearing (primarily based on South West Water's Regulatory Capital Value and Viridor's EBITDA) and interest cover.

The financial covenants included in the Issuer Group's debt facilities are monitored on a regular basis. The financial covenants offered by the Issuer Group include a term to re-test the covenants applying frozen GAAP accounting standards. This is to protect the Issuer Group from changes in accounting standards which may have a detrimental impact on the financial covenant testing methodology. To the extent that any covenants offered by the Issuer Group do not have such provisions, a change in accounting standards could result in a breach of financial covenants and an obligation on the Issuer Group to repay loan monies.

Redemption penalties included in the facility documentation can be invoked if debt facilities are redeemed early. The redemption penalties vary in each facility and may have an adverse effect on the Issuer Group's cash flows and profitability.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its

particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- (c) understand thoroughly the terms of the Bonds;
- (d) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds may be redeemed prior to maturity

The terms and conditions of the Bonds (the **Conditions**) provide that the Bonds are redeemable at the Issuer's option in certain limited circumstances and, accordingly, the Issuer may choose to redeem the outstanding Bonds at times when prevailing interest rates may be relatively low. In such circumstances, an investor may either be compelled to exercise its Conversion Rights earlier than it might otherwise have chosen to do so or, if it does not so convert its Bonds, may not be able to reinvest the redemption proceeds in a comparable security bearing an effective interest rate as high as that of the Bonds and/or containing a Conversion Right.

Risks attached to the exercise of Conversion Rights

Investors should be aware that the Bonds, which are convertible into Ordinary Shares, bear certain additional risks. Depending on the performance of the underlying Ordinary Shares, the value of the Ordinary Shares may be substantially lower than when the Bonds were initially purchased. In addition, the value of the Ordinary Shares to be delivered upon conversion of the Bonds may vary substantially between the date on which Conversion Rights are exercised under the Bonds and the date on which such Ordinary Shares are delivered. See "Terms and Conditions of the Bonds – Conversion of Bonds".

There is a limited period for the exercise of Conversion Rights

A Bondholder (as defined in the Conditions) will, subject as more fully described herein under "Terms and Conditions of the Bonds", have the right to convert his or her Bonds into Ordinary Shares. Conversion Rights may be exercised, subject as provided herein, at any time on or after 30 September 2009 and up to the close of business on the date falling seven calendar days prior to the Final Maturity Date (as defined in the Conditions) (both dates inclusive) or, if such Bond is to be redeemed prior to the Final Maturity Date, then up to (and including) the close of business on the seventh calendar day before the date fixed for redemption or, if earlier, the date upon which the relevant Bondholder has exercised its right to require the Issuer to redeem such Bond following a Change of Control Event. If the Conversion Rights are not exercised by Bondholders during the Conversion Period, the Bonds will be redeemed at their principal amount on 20 August 2014, unless the Bonds are previously purchased and cancelled or redeemed in accordance with the Conditions.

Bondholders have limited anti-dilution protection

The Bonds are convertible into Ordinary Shares. The Conversion Price at which the Bonds may be converted into Ordinary Shares will be adjusted in the event that there is a consolidation, reclassification or subdivision, capitalisation of profits, Capital Distribution (as defined in the Conditions), Extraordinary Dividend (as defined in the Conditions), rights issue or grant of other subscription rights or other adjustment, including a spin-off event, which affects the Ordinary Shares, but only in the situations and only to the extent provided under "Terms and Conditions of the Bonds – Conversion of Bonds". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary

Shares. Events in respect of which no adjustment is made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the Bonds.

Further issues or sales of Ordinary Shares

There can be no certainty as to the effect, if any, that future issues or sales of Ordinary Shares, or the availability of such Ordinary Shares for future issue or sale, would have on the market price of the Ordinary Shares prevailing from time to time and therefore on the price of the Bonds. Although the Issuer has agreed not to, among other things, issue or sell Ordinary Shares for a period of 90 days from 30 July 2009, sales of substantial numbers of Ordinary Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Ordinary Shares and the Bonds.

Risks related to Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally:

Modification, waivers and substitution

The Conditions contain provisions for convening meetings of Bondholders to consider matters relating to the Bonds. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Bondholders or Couponholders (as defined in the Conditions), agree to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement (as defined in the Conditions), any agreement supplemental to the Agency Agreement, the Bonds or the Conditions, which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven or to comply with mandatory provisions of law, and (ii) any other modification to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or the Conditions, which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may also, without the consent of the Bondholders or Couponholders, determine any Event of Default (as defined in the Conditions) or a Potential Event of Default (as defined in the Conditions) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders and Couponholders will not be materially prejudiced thereby. Any such modification, authorisation, waiver or determination shall be binding upon the Bondholders and Couponholders .

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), each Member State is required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in another Member State or to certain limited types of entities established in another Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead (unless during that period they elect otherwise) impose a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Jersey and Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the European Commission's advice on the need for changes to the Savings Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes.

The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system pursuant to the Savings Directive and an amount for, or on account of, tax were to be withheld or deducted from that payment, neither the Issuer nor any Paying and Conversion Agent nor any other person would be obliged to pay additional amounts with respect to any Bond or Coupon as a result of the imposition of such withholding or deduction. The Issuer will be required to maintain a Paying and Conversion Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

Change of law

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Currently no secondary market exists for the Bonds and one may never develop. In the event that a secondary market in the Bonds does develop, there can be no assurance that it will provide the Bondholders with liquidity of investment or that it will continue for the life of the Bonds. It is expected that transaction costs in any secondary market may be high. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Accordingly, the purchase of Bonds is suitable only for investors who can bear the risks associated with a lack of liquidity in the Bonds and the financial and other risks associated with an investment in the Bonds. Investors must be prepared to hold the Bonds until maturity.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (a) the Investor's Currency-equivalent yield on the Bonds; (b) the Investor's Currency-equivalent value of the principal payable on the Bonds; and (c) the Investor's Currency-equivalent market value of the Bonds.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

As the Global Bonds are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Bonds will be represented by the Global Bonds and, except in certain limited circumstances described in the Global Bond, investors will not be entitled to receive definitive Bonds. The Global Bonds will be deposited with the common depository for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bonds. While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by procuring that payments are made to Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

Holders of beneficial interests in the Global Bonds will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

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

Bondholders will bear the risk of fluctuation in the price of the Ordinary Shares

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Ordinary Shares and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Trading prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Issuer, its results of operations, its future prospects and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares may have an adverse effect on the market price of the Bonds. The future issue of Ordinary Shares by the Issuer or the disposal of Ordinary Shares by any substantial shareholders of the Issuer or the perception that such issues or sales may occur may significantly affect the trading price of the Bonds and the Ordinary Shares.

CONDITIONS OF THE BONDS

TERMS AND CONDITIONS OF THE BONDS

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds.

The issue of the £125,000,000 4.625 per cent. Convertible Bonds due 2014 (the **Bonds**, which expression shall, unless otherwise indicated, include any Further Bonds) was (save in respect of any such Further Bonds) authorised by a resolution of the Board of Directors of Pennon Group Plc (the **Issuer**) passed on 29 July 2009. The Bonds are constituted by a trust deed dated 20 August 2009 (the **Trust Deed**) between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. The statements set out in these Terms and Conditions (the **Conditions**) are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons relating to them (the **Coupons**). 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 those provisions applicable to them which are contained in the Paying and Conversion Agency Agreement dated 20 August 2009 (the **Agency Agreement**) relating to the Bonds between the Issuer, the Trustee, Citibank, N.A., London Branch (the **Principal Paying and Conversion Agent**, which expression shall include any successor as Principal Paying and Conversion Agent under the Agency Agreement) and the other Paying and Conversion Agents for the time being (such persons, together with the Principal Paying and Conversion Agent, being referred to below as the **Paying and Conversion Agents**, which expression shall include their successors as Paying and Conversion Agents under the Agency Agreement).

Copies of each of the Trust Deed and the Agency Agreement are available for inspection by prior appointment during normal business hours at the registered office for the time being of the Trustee (being at the Closing Date at Fifth Floor, 100 Wood Street, London EC2V 7EX), and at the specified offices of the Paying and Conversion Agents.

Capitalised terms used but not defined in these Conditions shall have the meanings provided in the Trust Deed unless, in any case, the context otherwise requires or unless otherwise stated.

1 **Form, Denomination, Title and Status of the Bonds**

(a) *Form and Denomination*

The Bonds are serially numbered and in bearer form in the denomination of £100,000 each with Coupons attached on issue.

(b) *Title*

Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Bonds and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of the Issuer ranking pari passu and without any preference among themselves, and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by applicable legislation and by provisions of law that are mandatory and of general application, and subject to Condition 3.

3 Negative Pledge

So long as any of the Bonds or Coupons remain outstanding (as defined in the Trust Deed), the Issuer will not, and will not permit any Material Subsidiary of the Issuer to, create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) (**Assets**) to secure any Relevant Indebtedness (as defined in Condition 4), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by it under the Bonds, the Coupons and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (i) as the Trustee in its absolute discretion deems not materially less beneficial to the interests of the Bondholders or (ii) as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders,

save that in the event of the creation or subsistence of a Security Interest by South West Water Limited (**SWWL**) upon, or with respect to, any of its Assets to secure any Relevant Indebtedness, subparagraph (a) above will not apply and the Issuer will, in such event, only provide such other Security Interest or other arrangement in the manner prescribed in, and subject to the requirements set out in, subparagraph (b) above.

This Condition 3 does not apply to any Security Interest:

- (i) securing any Project Finance Indebtedness;
- (ii) securing any Relevant Indebtedness of SWWL having a maximum aggregate amount outstanding at any time not exceeding the greater of £150,000,000 and 15 per cent. of Capital and Reserves (as defined in Condition 4);
- (iii) upon, or with respect to, any assets of any company which becomes a Subsidiary of the Issuer after 20 August 2009, where such Security Interest was created prior to the date on which that company becomes a Subsidiary of the Issuer, if:
 - (A) the Security Interest was not created in contemplation of that company becoming a Subsidiary of the Issuer; and

- (B) the principal amount secured by the Security Interest has not increased in contemplation of or since that company becoming a Subsidiary of the Issuer;
- (iv) upon, or with respect to, any assets acquired by the Issuer or a Material Subsidiary of the Issuer after 20 August 2009, where the Security Interest is created prior to the date on which the relevant asset was acquired, if:
 - (A) the Security Interest was not created in contemplation of the acquisition of that asset by the Issuer or relevant Material Subsidiary of the Issuer; and
 - (B) the principal amount secured by the Security Interest has not been increased in contemplation of or since the acquisition of that asset by the Issuer or relevant Material Subsidiary of the Issuer; and
- (v) in respect of any Relevant Indebtedness (**New Relevant Indebtedness**) created to refinance any Relevant Indebtedness in respect of which any Security Interest referred to in paragraphs (ii), (iii) or (iv) above exists (**Existing Relevant Indebtedness**), provided that (1) the principal amount of such New Relevant Indebtedness does not exceed the principal amount of the Existing Relevant Indebtedness and (2) the Security Interest does extend to any Assets of the Issuer or any Subsidiary of the Issuer which were not subject to the Existing Relevant Indebtedness.

4 Definitions

In these Conditions, unless otherwise provided:

Additional Ordinary Shares has the meaning provided in Condition 6(c).

Auditors means the auditors of the Issuer Group from time to time.

Bondholder and **holder** mean the holder of any Bond.

business day means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place.

Capital and Reserves means the aggregate of:

- (a) the amount paid up or credited as paid up on the share capital of SWWL; and
- (b) the total of the capital, revaluation and revenue reserves of SWWL, including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to minority interests and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the SWWL Group, prepared in accordance with generally accepted accounting principles in the United Kingdom, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the SWWL Group since the date of that balance sheet and further adjusted as

may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the SWWL Group and/or as the Auditors may consider appropriate.

A certificate signed by two directors of SWWL as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on SWWL, the Trustee, the Bondholders and the Couponholders whether or not addressed to each such party, and the Trustee shall be entitled to rely thereon without liability to any person.

Capital Distribution has the meaning provided in Condition 6(b)(iii)(A).

Cash Dividend has the meaning provided in Condition 6(b)(iii)(B).

a **Change of Control** shall occur if an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror(s) and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror(s)), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme of arrangement or analogous proceeding with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme of arrangement or analogous proceeding having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in the offeror(s) or such person, as the case may be and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror(s) or such person, as the case may be.

Change of Control Notice has the meaning provided in Condition 6(l).

Change of Control Period means the period commencing on the occurrence of a Change of Control and ending 60 calendar days following the Change of Control or, if later, 60 calendar days following the date on which a Change of Control Notice is given to Bondholders as required by Condition 6(l).

Change of Control Put Date has the meaning provided in Condition 7(e).

Change of Control Put Exercise Notice has the meaning provided in Condition 7(e).

Closing Date means 20 August 2009.

Companies Act means the Companies Act 2006 of the United Kingdom.

Conversion Date has the meaning provided in Condition 6(g).

Conversion Notice has the meaning provided in Condition 6(g).

Conversion Period has the meaning provided in Condition 6(a).

Conversion Price has the meaning provided in Condition 6(a).

Conversion Right has the meaning provided in Condition 6(a).

Couponholder means the holder of any Coupon.

Current Market Price means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
- (b) if the Ordinary Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser.

dealing day means a day on which the Relevant Stock Exchange or relevant market is open for business and on which Ordinary Shares, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant market is scheduled to or does close prior to its regular weekday closing time).

Dividend means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account,

profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

(a) where:

- (1) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (i) the Fair Market Value of such cash amount and (ii) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued or delivered is determined; or
- (2) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued or transferred and delivered is determined;

(b) any issue of Ordinary Shares falling within Condition 6(b)(ii) below shall be disregarded;

(c) a purchase or redemption or buy back of share capital of the Issuer by or on behalf of the Issuer or any member of the Issuer Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Issuer or any member of the Issuer Group, the weighted average price per Ordinary Share (before expenses) on any one day (a **Specified Share Day**) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the closing prices of the Ordinary Shares on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a

price per Ordinary Share, a minimum price per Ordinary Share or a price range or formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any member of the Issuer Group (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

- (d) if the Issuer or any member of the Issuer Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser; and
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Issuer for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from another person or person other than (or in addition to) the Issuer, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Issuer, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Issuer paying or making any Capital Distribution or making any Extraordinary Dividend, shall be construed accordingly.

Excluded Subsidiary means any Material Subsidiary of the Issuer (a) which is either (i) a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset or (ii) is a holding company whose sole assets are shares in, or loans to, another Excluded Subsidiary; (b) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of such asset is subject to any recourse whatsoever to any member of the Issuer Group (other than such Material Subsidiary of the Issuer or another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (b) of the definition of Project Finance Indebtedness; 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.

Exempt Newco Scheme means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as the Issuer or Newco may determine.

Existing Shareholders has the meaning provided in the definition of “Newco Scheme”.

Extraordinary Dividend has the meaning provided in Condition 6(b)(iii)(B).

Extraordinary Resolution has the meaning provided in the Trust Deed.

Fair Market Value means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided that (i) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) above during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

Final Maturity Date means 20 August 2014.

Further Bonds means any further Bonds issued pursuant to Condition 18 and consolidated and forming a single series with the then outstanding Bonds.

Independent Financial Adviser means an independent financial institution of international repute appointed by the Issuer at its own expense and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee (without liability for so doing) following notification to the Issuer.

Interest Payment Date has the meaning provided in Condition 5(a).

Issuer Group means the Issuer and its Subsidiary Undertakings and “member of the Issuer Group” shall be construed accordingly.

London Stock Exchange means the London Stock Exchange plc.

Material Subsidiary means, at any time, a Subsidiary of the Issuer:

- (a) whose profits on ordinary activities before tax or gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer relate, are equal to) not less than 15% of the consolidated profits on ordinary activities before tax or consolidated gross assets of the Issuer, all as calculated respectively by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated financial statements of the Issuer, provided that:
- (i) if the then latest audited consolidated financial statements of the Issuer show (x) a net loss for the relevant financial period then there shall be substituted for the words “profits on ordinary activities before tax” the words “gross revenues” for the purposes of this definition and/or (y) negative assets at the end of the relevant financial period then there shall be substituted for the words “gross assets” the words “total assets” for the purposes of this definition; and
 - (ii) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Issuer following consultation with the Auditors (as defined in the Trust Deed); or
- (b) to which is transferred the whole or substantially the whole of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary and provided that the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated financial statements of the Issuer for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated financial statements have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or
- (c) to which is transferred an undertaking or assets which, taken together with the other undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer relate, generate) profits on ordinary activities before tax or gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) equal to not less than 15% of the consolidated profits on ordinary activities before tax or consolidated gross assets of the Issuer, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer its undertaking and assets generate profits on ordinary activities before tax or gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) equal to not less than 15% of the consolidated profits on ordinary activities before tax or consolidated gross assets of the Issuer, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Material

Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated financial statements of the Issuer for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated financial statements have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

The Trustee is entitled to rely without further investigation or liability on a certificate provided by the Issuer (and signed by two directors of the Issuer) specifying those companies which are Material Subsidiaries as at the date of such certificate.

Newco Scheme means a scheme of arrangement or analogous proceeding (**Scheme of Arrangement**) which:

- (i) effects the interposition of a limited liability company (**Newco**) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the **Existing Shareholders**) and the Issuer; and
- (ii) in respect of which the Issuer and the Trustee agree, with effect immediately after the implementation of such Newco Scheme, (a) at the Issuer's option, either to the substitution of Newco in place of the Issuer as principal obligor (with a guarantee from the Issuer) or to the provision of a guarantee from Newco and (b) to make such amendments to the Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that (i) the Bonds may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts representing such ordinary shares) mutatis mutandis in accordance with and subject to these Conditions and the Trust Deed and (ii) the Trust Deed and the Conditions (including, without limitation, the adjustment and related provisions (in Condition 6), the Events of Default (in Condition 10) and the Undertakings (in Condition 11)) provide at least the same protections and benefits to the Trustee and the Bondholders following the implementation of such Newco Scheme as they provided to the Trustee and the Bondholders prior to the implementation of the Newco Scheme, mutatis mutandis, all subject to and in accordance with Condition 10(a)(ix) below,

provided that:

- (A) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;
- (B) immediately after completion of the Scheme of Arrangement the only shareholders of ordinary shares of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco, are Existing Shareholders in the same proportions as such Existing Shareholders held Ordinary Shares immediately prior to the Scheme of Arrangement;
- (C) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only ordinary shareholder (or shareholders) of the Issuer;

- (D) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and
- (E) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

Non-Cash Dividend has the meaning provided in Condition 6(b)(iii).

Optional Redemption Date has the meaning provided in Condition 7(b).

Optional Redemption Notice has the meaning provided in Condition 7(b).

Ordinary Shares means fully paid ordinary shares in the capital of the Issuer currently with a par value of £0.407 each.

a **person** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, unincorporated association, limited liability company, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

Presentation Date means a day which:

- (i) is or falls after the relevant due date for payment, but, if the due date for payment is not or was not a business day in London, is or falls after the next following such business day; and
- (ii) is a business day in the place of a specified office of the Paying and Conversion Agent at which the relevant Bond or Coupon is presented for payment.

Prevailing Rate means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined, or if such rate cannot be so determined by reference to the Relevant Page, the rate determined in such other manner as an Independent Financial Adviser in good faith shall prescribe.

Project Finance Indebtedness means any present or future indebtedness incurred to finance or refinance the ownership, acquisition, development and/or operation of an asset, whether or not an asset of a member of the Issuer 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 Issuer Group) has or have no recourse whatsoever to any member of the Issuer Group (other than an Excluded Subsidiary falling within paragraph (a)(i) of the definition of that term) 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 to Viridor Limited or any of its Subsidiaries for the purpose only of enabling amounts to be claimed in respect of such indebtedness in an enforcement of any Security Interest given by such borrower over such asset or project 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, or any loans to, 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 Issuer 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 Issuer Group (other than an Excluded Subsidiary) or any of its assets (save for the assets the subject of such encumbrance); and/or
- (iii) recourse to Viridor Limited or any of its Subsidiaries under any form of assurance, undertaking or support, which recourse is limited to a claim for damages for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by any member of the Issuer Group (other than an Excluded Subsidiary).

Reference Date means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day.

Relevant Currency means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time.

Relevant Date means, in respect of any Bond or Coupon, whichever is the later of:

- (i) the date on which payment in respect of it first becomes due; and
- (ii) if the full amount payable has not been received by the Principal Paying and Conversion Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders.

Relevant Indebtedness includes (a) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which (with the consent of the issuer of the indebtedness) are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and (b) any guarantee or indemnity in respect of any such indebtedness.

Relevant Page means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

Relevant Stock Exchange means the London Stock Exchange or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing.

Retroactive Adjustment has the meaning provided in Condition 6(c).

Scheme of Arrangement has the meaning provided in the definition of “Newco Scheme”.

Securities means any securities including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer.

Shareholders means the holders of Ordinary Shares.

Specified Date has the meaning provided in Condition 6 (b) (vii) and (viii).

Spin-Off means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or Securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders, as a class (but excluding the issue and allotment of ordinary shares (or depositary or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders), pursuant in each case to any arrangements with the Issuer or any member of the Issuer Group.

Spin-Off Securities means equity share capital of an entity other than the Issuer or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Issuer.

Subsidiary has the meaning provided in Section 1159 of the Companies Act.

Subsidiary Undertaking shall, in relation to any person, have the meaning given to it by section 1162 of the Companies Act (but shall exclude any undertaking (as defined in the Companies Act) whose accounts are not included in the then latest published audited consolidated accounts of such person or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Issuer Group or the SWWL Group, as the case may be, since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

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

Tax Redemption Date has the meaning provided in Condition 7(c).

Tax Redemption Notice has the meaning provided in Condition 7(c).

UK Listing Authority means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000.

Volume Weighted Average Price means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page VAP or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined, or as an Independent Financial Adviser might otherwise determine in good faith to be appropriate.

£ and **sterling** means the lawful currency for the time being of the United Kingdom.

References to **ordinary share capital** has the meaning provided in Section 832 of the Income and Corporation Taxes Act 1988 of the United Kingdom and **equity share capital** has the meaning provided in Section 548 of the Companies Act.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders **as a class** or **by way of rights** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Condition 6 (a), (b), (c), (g) and (h) and Condition 11 only, (a) references to the **issue** of Ordinary Shares or Ordinary Shares being **issued** shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any member of the Issuer Group, and (b) Ordinary Shares held by or on behalf of the Issuer or any member of the Issuer Group (and which, in the case of Conditions 6(b)(iv) and 6(b)(vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as **in issue** or **issued** or entitled to receive any Dividend, right or other entitlement.

References in these Conditions to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and admission to trading on the EEA Regulated Market of the London Stock Exchange and references to **EEA Regulated**

Market mean a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

5 Interest

(a) *Interest Rate*

The Bonds bear interest from (and including) the Closing Date at the rate of 4.625 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear in equal instalments on 20 February and 20 August in each year (each an **Interest Payment Date**), commencing with the Interest Payment Date falling on 20 February 2010.

The amount of interest payable in respect of a Bond in respect of any period which is shorter than an Interest Period shall be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the product of the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Closing Date) to (but excluding) the next Interest Payment Date and the number of Interest Periods normally ending in any year.

Interest Period means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

(b) *Accrual of Interest*

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Closing Date (subject in any such case as provided in Condition 6(i)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 7 or Condition 10, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of the principal in respect of the Bond is improperly withheld or refused, in which event interest will continue to accrue at the rate specified in Condition 5(a) (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Conversion Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

6 Conversion of Bonds

(a) *Conversion Right*

Subject to and as provided in these Conditions, each Bond shall entitle the holder to convert such Bond into new and/or existing Ordinary Shares, as determined by the Issuer, credited as fully-paid (a **Conversion Right**).

The number of Ordinary Shares to be issued or transferred and delivered on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be

converted by the conversion price (the **Conversion Price**) in effect on the relevant Conversion Date.

The initial Conversion Price is £5.9781 per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in Condition 6(b).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a Conversion Notice, to the specified office of any Paying and Conversion Agent in accordance with Condition 6(b) and making any payment required to be made as provided in Condition 6(b), whereupon the Issuer shall procure the delivery to or as directed by the relevant Bondholder of Ordinary Shares credited as paid-up in full as provided in this Condition 6.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and (as hereinafter provided) from 30 September 2009 to the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling 7 calendar days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 7(b) or 7(c) prior to the Final Maturity Date, then up to (and including) the close of business (at the place aforesaid) on the 7th calendar day before the date fixed for redemption thereof pursuant to Condition 7(b) or 7(c), unless there shall be a default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 17 or, if earlier, the Final Maturity Date or, if the Final Maturity Date is not a London business day, the immediately preceding London business day; provided that, in each case, if such final date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding business day at the place aforesaid.

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 10 or (ii) in respect of a Bond in respect of which the relevant Bondholder has exercised its right to require the Issuer to redeem that Bond pursuant to Condition 7(e).

The period during which Conversion Rights may (subject as provided below) be exercised by a Bondholder is referred to as the **Conversion Period**.

Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

Fractions of Ordinary Shares will not be issued or transferred and delivered on the exercise of Conversion Rights or pursuant to Condition 6(c) and no cash payment or other adjustment will be made in lieu thereof. However, if a Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be issued or transferred and delivered on the exercise of Conversion Rights or pursuant to Condition 6(c) are to be registered in the same name, the number of Ordinary Shares to be issued or transferred and delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds, and rounded down to the nearest whole number of Ordinary Shares. The Issuer will procure that Ordinary Shares to be issued or transferred and delivered on exercise of Conversion Rights will be issued or transferred and delivered to the relevant person specified in the relevant Conversion Notice.

Such Ordinary Shares will be deemed to be issued or transferred and delivered on or as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued or transferred and delivered pursuant to Condition 6(c) will be deemed to be issued or transferred and delivered on or as of the relevant Reference Date.

(b) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such issue; and
- B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

(iii)

- (A) If and whenever the Issuer shall pay or make any Capital Distribution to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Capital Distribution attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Ordinary Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Capital Distribution is capable of being determined as provided herein.

Effective Date means, in respect of this paragraph (b)(iii)(A), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or in the case of a Spin-Off, the first date on which the Ordinary Shares are traded ex- the relevant Spin-Off on the Relevant Stock Exchange.

Capital Distribution means any Non-Cash Dividend.

Non-Cash Dividend means any Dividend which is not a Cash Dividend, and shall include a Spin-Off.

- (B) If and whenever the Issuer shall pay any Extraordinary Dividend to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A - C}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date;
- B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend; and
- C is the amount (if any) by which the Threshold Amount in respect of the Relevant Period exceeds an amount equal to the aggregate of the Fair Market Values of any previous Cash Dividends per Ordinary Share paid or made in such Relevant Period (where C shall be zero if such previous Cash Dividends per Ordinary Share are equal to, or exceed, the Threshold Amount in respect of such Relevant Period). For the avoidance of doubt "C" shall equal the Threshold Amount in respect of the Relevant Period where no previous Cash Dividends per Ordinary Share have been paid or made in such Relevant Period.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

Effective Date means, in respect of this paragraph (b)(iii)(B), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange.

Extraordinary Dividend means any Cash Dividend (the **Relevant Dividend**) in respect of which the Ex-Date falls in any Relevant Period (as defined below) (and whether or not such Cash Dividend is paid in such Relevant Period), if (a) the Fair Market Value of the Relevant Dividend per Ordinary Share or (b) the sum of (i) Fair Market Value of the Relevant Dividend per Ordinary Share and (ii) an amount equal to the aggregate of the Fair Market Value or Fair Market Values of any other Cash Dividend or Cash Dividends per Ordinary Share in respect of which the Ex-Date falls in such Relevant Period, exceeds the Threshold Amount in respect of such Relevant Period, and in that case the Extraordinary Dividend shall be the Relevant Dividend.

Ex-Date means in respect of any Cash Dividend the first date on which the Ordinary Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

Relevant Period means the period in which the Ex-Date in respect of a Cash Dividend falls by reference to the table set out below.

Threshold Amount means in respect of any Relevant Period, the amount per Ordinary Share corresponding to such Relevant Period as set out below (adjusted pro rata for any adjustments to the Conversion Price made pursuant to the provisions of this paragraph (b)).

Relevant Period	Threshold Amount (£)
From (and including) 30 July 2009 but on or before 30 July 2010	0.218
Thereafter, but on or before 30 July 2011	0.231
Thereafter, but on or before 30 July 2012	0.249
Thereafter, but on or before 30 July 2013	0.267
Thereafter, but on or before 30 July 2014	0.287
Thereafter, but on or before 20 August 2014	0.201

Cash Dividend means (i) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of **Spin-Off** and (ii) any Dividend determined to be a Cash Dividend pursuant to paragraph (a) of the definition of **Dividend**, and for the avoidance of doubt, a Dividend falling within paragraph (c) or (d) of the definition of **Dividend** shall be treated as being a Non-Cash Dividend.

- (C) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of **Dividend** and in the definition of **Fair Market Value**) be determined as at the Effective Date.
- (D) In making any calculations for the purposes of this paragraph (b)(iii), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect (i) any consolidation or sub-division of any Ordinary Shares or (ii) the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any like or similar event) or (iii) any increase in the number of Ordinary Shares in issue in the Relevant Period in question.
- (iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in

respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this paragraph (b)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (v) If and whenever the Issuer shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this paragraph (b)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Further Bonds), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this paragraph (b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

- (vii) If and whenever the Issuer or any member of the Issuer Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any member of the Issuer

Group) any other company, person or entity (otherwise than as mentioned in paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term for this purpose shall exclude any Further Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by the Issuer or any member of the Issuer Group (or at the direction or request or pursuant to any arrangements with the Issuer or any member of the Issuer Group) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph (b)(vii), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided), then for the purposes of this paragraph (b)(vii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription,

purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any Further Bonds) as are mentioned in sub-paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Issuer or any member of the Issuer Group (or at the direction or request or pursuant to any arrangements with the Issuer or any member of the Issuer Group) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser in good faith shall consider appropriate for any previous adjustment under this sub-paragraph (b)(viii) or sub-paragraph (b)(vii) above;

provided that if at the time of such modification (as used in this paragraph (b)(viii), the **Specified Date**) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

Effective Date means the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (ix) If and whenever the Issuer or any member of the Issuer Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any member of the Issuer Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraphs (b)(ii), (b)(iii), (b)(iv), (b)(vi) or (b)(vii) above or (b)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under paragraph (b)(v) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date;
and
B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

Effective Date means, in respect of this paragraph (b)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) If a Change of Control shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Change of Control Period, the Conversion Price shall be as set out below, but in each case adjusted, if appropriate, under the foregoing provisions of this Condition 6(b):

Conversion Date	Conversion Price (£)
On or before 20 August 2010	4.5289
Thereafter, but on or before 20 August 2011	4.8187
Thereafter, but on or before 20 August 2012	5.1086
Thereafter, but on or before 20 August 2013	5.3984
Thereafter, and until the Final Maturity Date	5.6883

- (xi) If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this paragraph (b) (even if the relevant circumstance is specifically excluded from the operation of paragraphs (b)(i) to (x) above), the Issuer shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph (b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this paragraph (b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Financial Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement as referred to in paragraphs (b)(vi), (b)(vii) or (b)(viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above) or the relevant date of first public announcement (in the case of (b) above);
- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.
- (c) *Retroactive Adjustments*

If the Conversion Date in relation to the conversion of any Bond shall be after the record date in respect of any consolidation, reclassification or sub-division as is mentioned in paragraph (b)(i) above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in paragraph (b)(ii), (b)(iii) (b)(iv), (b)(v) or (b)(ix) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraphs (b)(vi) and (b)(vii) above or of the terms of

any such modification as is mentioned in paragraph (b)(viii) above, but before the relevant adjustment to the Conversion Price becomes effective under paragraph (b) above (such adjustment, a **Retroactive Adjustment**), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or transferred and delivered to the converting Bondholder, in accordance with the instructions contained in the relevant Conversion Notice, such additional number of Ordinary Shares (if any) (the **Additional Ordinary Shares**) as, together with the Ordinary Shares issued or transferred and delivered on conversion of the relevant Bonds (together with any fraction of an Ordinary Share not so issued or transferred and delivered), is equal to the number of Ordinary Shares which would have been required to be issued or transferred and delivered on such conversion if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date. For the avoidance of doubt, a Retroactive Adjustment shall be made where, in the case of any distribution as is mentioned in paragraph (b)(iii), the Conversion Date in relation to the conversion of any Bond shall be after 30 July 2014 and on or before the last date upon which a Conversion Date may fall pursuant to Condition 6(a), but the Ex-Date for such distribution falls after such Conversion Date but on or prior to the Final Maturity Date.

(d) *Decision of an Independent Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Financial Adviser, a written determination of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

(e) *Share or Option Schemes, Dividend Reinvestment Plans*

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any member of the Issuer Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

(f) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment, the resultant Conversion Price, if not an integral multiple of £0.0001, shall be rounded down to the nearest whole multiple of £0.0001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Bondholders in accordance with Condition 17 and to the Trustee promptly after the determination thereof.

The Conversion Price shall not in any event be reduced to below the nominal value of the Ordinary Shares. The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal value or any minimum level permitted by applicable laws or regulations.

(g) *Procedure for exercise of Conversion Rights*

Conversion Rights may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a **Conversion Notice**) in the form (for the time being current) obtainable from any Paying and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If the delivery of the relevant Bond and Conversion Notice as described in the foregoing paragraph is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Each Bond should be delivered upon exercise of Conversion Rights together with all Coupons relating to it which mature on or after the relevant Conversion Date, failing which the relevant holder will be required to pay the full amount of any such missing Coupon. Each amount so paid will be repaid in the manner specified in Condition 8 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time after the relevant Conversion Date and before the expiry of ten years after the Relevant Date in respect of the relevant Bond (whether or not any such Coupon would otherwise have become void pursuant to Condition 12), but not thereafter.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Paying and Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee and the Paying and Conversion Agents and the relevant Bondholder.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the **Conversion Date**) shall be the business day in London immediately following the date of the delivery of the relevant Bond and the Conversion Notice as provided in this Condition 6(g) and payment of any other amount payable by the relevant Bondholder pursuant to the third paragraph of this Condition 6(g).

A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on conversion (other than any capital, stamp, issue, registration and transfer taxes and duties payable in the United Kingdom in respect of the allotment, issue or transfer and delivery of any Ordinary Shares in respect of such exercise (including any Additional Ordinary Shares), which shall be paid by the Issuer). If the Issuer shall fail to pay any capital, stamp, issue, registration or transfer taxes and duties payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to

reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

The Trustee shall not be responsible for determining whether such taxes or capital, stamp, issue, registration and transfer taxes and duties are payable or the amount thereof and it shall not be responsible or liable for any failure by the Issuer or any Bondholder to pay such taxes or capital, stamp, issue, registration and transfer taxes and duties.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or any interest therein in connection with the exercise of Conversion Rights by it.

The Ordinary Shares to be issued or transferred and delivered on exercise of Conversion Rights (including any Additional Ordinary Shares) will not be available for issue or transfer and delivery (i) to, or to a nominee or agent for, Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depository receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the **abolition day** as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

Ordinary Shares to be issued or transferred and delivered on exercise of Conversion Rights (including any Additional Ordinary Shares) will be issued or transferred and delivered in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST. Where Ordinary Shares are to be issued or transferred and delivered through CREST, they will be issued or transferred and delivered to the account specified by the relevant Bondholder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Ordinary Shares, not later than seven London business days following the Reference Date). Where Ordinary Shares are to be issued or transferred and delivered in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the recipient) to the relevant Bondholder or as it may direct in the relevant Conversion Notice within 28 days following the relevant Conversion Date or, as the case may be, the Reference Date.

(h) *Ordinary Shares*

- (i) Ordinary Shares (including any Additional Ordinary Shares) issued or transferred and delivered upon exercise of Conversion Rights will be fully paid and will in all respects rank pari passu with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.
- (ii) Save as provided in Condition 6(i), no payment or adjustment shall be made on exercise of Conversion Rights for any interest which otherwise would have accrued on the

relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

(i) *Interest on Conversion*

If any notice requiring the redemption of the Bonds is given pursuant to Condition 7(b) on or after the fifteenth London business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) in respect of any Dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue at the rate provided in Condition 5(a) on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Closing Date) to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to a sterling account with a bank in London in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(j) *Purchase or Redemption of Ordinary Shares*

The Issuer or any member of the Issuer Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Issuer (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Trustee or the Bondholders.

(k) *No Duty to Monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or as to the amount of any adjustment actually made, and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

(l) *Change of Control*

Within 14 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof in writing to the Trustee and to the Bondholders in accordance with Condition 17 (a **Change of Control Notice**). The Change of Control Notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 7(e).

The Change of Control Notice shall also specify:

- (i) all information material to Bondholders concerning the Change of Control;

- (ii) the Conversion Price immediately prior to the occurrence of the Change of Control and the Conversion Price applicable pursuant to Condition 6(b)(x) during the Change of Control Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Change of Control;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of the Change of Control Notice;
- (iv) the last day of the Change of Control Period;
- (v) the Change of Control Put Date; and
- (vi) such other information relating to the Change of Control as the Trustee may require.

The Trustee shall not be required to take any steps to monitor or ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

7 Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 7(b) or 7(c).

(b) *Redemption at the Option of the Issuer*

On giving not less than 45 nor more than 60 days' notice (an **Optional Redemption Notice**) to the Trustee and to the Bondholders in accordance with Condition 17, the Issuer may redeem all but not some only of the Bonds on the date (the **Optional Redemption Date**) specified in the Optional Redemption Notice at their principal amount, together with accrued but unpaid interest to such date at any time if prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Further Bonds).

(c) *Redemption for Taxation Reasons*

At any time the Issuer may, having given not less than 45 nor more than 60 days' notice (a **Tax Redemption Notice**) to the Bondholders redeem (subject to the second following paragraph) all but not some only of the Bonds for the time being outstanding on the date (the **Tax Redemption Date**) specified in the Tax Redemption Notice at their principal amount, together with accrued but unpaid interest to such date, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or

any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 August 2009, and (ii) such obligation cannot be avoided by the Issuer by 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 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 (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal or tax advisers of recognised standing to the effect that such change or amendment has occurred and that the Issuer has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled to accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

On the Tax Redemption Date the Issuer shall (subject to the next following paragraph) redeem the Bonds at their principal amount, together with accrued interest to such date.

If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that his Bonds shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of interest to be made on such Bonds by the Issuer which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable by the Issuer in respect thereof pursuant to Condition 9 and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of any United Kingdom taxation required to be withheld or deducted by the Issuer. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying and Conversion Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying and Conversion Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(d) *Optional Redemption and Tax Redemption Notices*

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, which shall be a London business day, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Notice, (iii) the last day on which Conversion Rights may be exercised by Bondholders and (iv) the amount of accrued interest payable in respect of each Bond on the Optional Redemption Date or, as the case may be, Tax Redemption Date.

(e) *Redemption at the Option of Bondholders upon a Change of Control*

Following the occurrence of a Change of Control, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Change of Control Put Date at its principal amount, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must deliver such Bond, together with all Coupons relating to it which mature after the Change of Control Put Date, to the specified office of any Paying and Conversion Agent, together with a duly completed and signed notice of exercise in the form for the time being

current obtainable from the specified office of any Paying and Conversion Agent (a **Change of Control Put Exercise Notice**), at any time during the Change of Control Period. The **Change of Control Put Date** shall be the tenth London business day after the expiry of the Change of Control Period.

Payment in respect of any such Bond shall be made by transfer to a sterling account with a bank in London as specified by the relevant Bondholder in the relevant Change of Control Put Exercise Notice.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

(f) *Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any member of the Issuer Group may at any time purchase any Bonds (provided that all unmatured Coupons relating to them are purchased therewith or attached hereto) in the open market or otherwise at any price. Such Bonds may be held, re-sold or reissued or, at the option of the relevant purchaser, surrendered to any Paying and Conversion Agent for cancellation. The Bonds so purchased, while held by or on behalf of the Issuer or any member of the Issuer Group, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Bondholders for the purpose of Condition 14(a).

(g) *Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised (together with all unmatured Coupons attached to the Bonds or surrendered with the Bonds) will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or any member of the Issuer Group (together with all unmatured Coupons attached to the Bonds or surrendered with the Bonds) may be surrendered to the Principal Paying and Conversion Agent for cancellation and, if so surrendered, shall be cancelled.

(h) *Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 7, the first of such notices to be given shall prevail.

8 **Payments**

(a) *Principal*

Payment of principal in respect of the Bonds and payment of accrued interest payable on redemption of the Bonds (other than on an Interest Payment Date) will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Bond at the specified office of any Paying and Conversion Agent.

(b) *Interest and Other Amounts*

- (i) Payment of interest due on any Interest Payment Date will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Coupons at the specified office of any of the Paying and Conversion Agents.
- (ii) Payments of all amounts other than as provided in Conditions 8(a) and (b) (i) will be made as provided in these Conditions.

(c) *Coupons*

Each Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, the proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 12) or, if later, five years after the date on which the Coupon would have become void pursuant to Condition 12, but not thereafter.

(d) *Payments*

Each payment in respect of the Bonds pursuant to Conditions 8(a) and (b)(i) will be made by transfer to a sterling account maintained by the payee with a bank in London.

(e) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to Condition 10.

(f) *Presentation Date*

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

(g) *Paying and Conversion Agents, etc.*

The initial Paying and Conversion Agents and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying and Conversion Agent and appoint additional or other Paying and Conversion Agents, provided that it will (i) maintain a Principal Paying and Conversion Agent, (ii) maintain a Paying and Conversion Agent (which may be the Principal Paying and Conversion Agent) with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive and (iii) maintain a Paying and Conversion Agent with a specified

office in at least two major European cities approved by the Trustee one of which will be outside the United Kingdom (which may, for the avoidance of doubt, be the same Paying and Conversion Agent maintained for the purposes of sub-paragraph (ii)). Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 17.

(h) *No charges*

None of the Paying and Conversion Agents shall make or impose on a Bondholder or Couponholder any charge or commission in relation to any payment in respect of the Bonds or Coupons or any conversion of the Bonds.

(i) *Fractions*

When making payments to Bondholders or Couponholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

9 **Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders of such amounts, after such withholding or deduction, as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon:

- (a) presented for payment by or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom otherwise than merely by holding the Bond or Coupon or by the receipt of amounts in respect of the Bond or Coupon; or
- (b) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (e) presented for payment by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying and Conversion Agent in a major European city.

References in these Conditions to principal and/or interest and/or any other amounts payable in respect of the Bonds or Coupons shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

The provisions of this Condition 9 shall not apply in respect of any payments of interest which fall due after the relevant Tax Redemption Date in respect of any Bonds which are the subject of a Bondholder election pursuant to Condition 7(c).

10 Events of Default

An Event of Default shall exist if any of the following conditions or events shall occur:

- (a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of ten days in the case of principal or five days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed or fails to perform or observe any obligation under Condition 11 which, in the case of Condition 11, would, but for the provision of applicable law, be a breach thereof and (except in any such case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if the Issuer or any of its Material Subsidiaries (as defined in Condition 4) defaults in the payment on the due date (including any applicable grace period) of any sums due and payable, or any other default occurs, under any acceptance credit facility, commercial paper, loan, bond, note, lease, similar borrowing or guarantee (where in all cases the aggregate outstanding amount exceeds £10,000,000 or the equivalent, as determined by the Trustee (having regard to the then current rates of exchange)) and, as a result of such default, the Issuer or such Material Subsidiary is required to repay or prepay such borrowing or make a payment pursuant to such guarantee; or
- (d) (i) an encumbrancer takes possession of, or a receiver, liquidator, administrator, administrative receiver or special administrator is appointed over, the whole or, in the opinion of the Trustee, substantially the whole of the business or assets of the Issuer or any of its Material Subsidiaries; or (ii) a distress, execution, sequestration or other legal process is levied or enforced upon the whole or, in the opinion of the Trustee, substantially the whole of the property of the Issuer or any of its Material Subsidiaries and is not discharged or stayed within 30 London business days; or
- (e) an order is made or an effective resolution passed for the winding-up of the Issuer or any of its Material Subsidiaries, or the Issuer is declared insolvent or ceases or resolves to cease to carry on the whole or, in the opinion of the Trustee, substantially the whole of its business or activities, except in the course of a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or on any solvent winding-up or reorganisation of any Subsidiary of

Viridor Limited where all the assets of such Subsidiary of Viridor Limited are transferred to the Issuer or any other Subsidiary of the Issuer and provided that a disposal for full value (as certified to the Trustee in a certificate signed by two directors of the Issuer (which shall be conclusive and binding and which the Trustee shall be entitled to rely on without further investigation or liability)) by the Issuer or any Subsidiary of the Issuer of the whole or any part of the share capital of a Subsidiary shall be deemed not to be a cessation for the purposes of this paragraph (e); or

- (f) the Issuer or any of its Material Subsidiaries is unable to pay its debts as they fall due or makes or seeks to make a composition with its creditors.

If an Event of Default exists, then the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (but in the case of the happening of any of the events described in paragraphs (b) to (f) above other than the winding up or insolvency of the Issuer, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), in either case provided it is secured and/or indemnified and/or prefunded to its satisfaction, give notice to the Issuer that the Bonds are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed.

11 Undertakings

(a) *Undertakings of the Issuer*

Whilst any Conversion Right remains exercisable, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (i) issue, allot and deliver Ordinary Shares on exercise of Conversion Rights and at all times keep available for issue free from pre-emptive or other similar rights out of its authorised but unissued share capital such number of Ordinary Shares as would enable the Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares to be satisfied in full;
- (ii) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
 - (1) by the issue of fully paid Ordinary Shares or other Securities to the Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other Securities on a capitalisation of profits or reserves; or
 - (2) by the issue of Ordinary Shares paid up in full out of profits or reserves (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or
 - (3) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of

shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or

- (4) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Issuer or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives (or, in the case of an issue or payment up of Securities in connection with a Change of Control, will give) rise (or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price or is (or, in the case of any issue or payment up of Securities in connection with a Change of Control, will be) otherwise taken into account for the purposes of determining whether such an adjustment should be made;

- (iii) not in any way modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than such rights attaching to the Ordinary Shares but so that nothing in this Condition 11(a)(iii) shall prevent:

- (1) the issue of any equity share capital to employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) whether of the Issuer or any of the Issuer's subsidiaries or associated companies by virtue of their office or employment pursuant to any scheme or plan approved by the Issuer in general meeting or which is established pursuant to such a scheme or plan which is or has been so approved; or
- (2) any consolidation, reclassification or subdivision of the Ordinary Shares or the conversion of any Ordinary Shares into stock or vice versa; or
- (3) any modification of such rights which is not, in the determination in good faith of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or
- (4) any alteration to the articles of association of the Issuer made in connection with the matters described in this Condition 11 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or
- (5) any issue of equity share capital where the issue of such equity share capital results or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share

receivable therefor is at least 95 per cent. of the Current Market Price per Ordinary Share on the relevant date, otherwise result, in an adjustment to the Conversion Price; or

- (6) any issue of equity share capital or modification of rights attaching to the Ordinary Shares where prior thereto the Issuer shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined in good faith either that no adjustment is required or that an adjustment to the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly); or
 - (7) without prejudice to Condition 6(b)(x) and Condition 7(e), the amendment of the articles of association of the Issuer following a Change of Control to ensure that any Bondholder exercising its Conversion Right after the occurrence of a Change of Control will receive the same consideration for the Ordinary Shares arising on conversion as it would have received had it exercised its Conversion Right at the time of the occurrence of the Change of Control; or
 - (8) without prejudice to any rule of law or legislation (including regulations made under Sections 783, 784(3), 785 and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the articles of association of the Issuer to enable title to Securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the articles of association of the Issuer made in connection with the matters described in this Condition 11(a)(iii)(8) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures);
- (iv) procure that no Securities (whether issued by the Issuer or any member of the Issuer Group or procured by the Issuer or any member of the Issuer Group to be issued) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;

- (v) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on conversion of the Bonds, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (vi) not reduce its issued share capital, share premium account or capital redemption reserve or any uncalled liability in respect thereof except (1) pursuant to the terms of issue of the relevant share capital or (2) by means of a purchase or redemption of share capital of the Issuer or (3) as permitted by Section 610(2) and (3) of the Companies Act or (4) where the reduction does not involve any distribution of assets to Shareholders or (5) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed or (6) a reduction of its share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the High Court and which does not involve the return to Shareholders, either directly or indirectly, of an amount standing to the credit of the share premium account of the Issuer in respect of which the Issuer shall have tendered to the High Court such undertaking as it may require prohibiting, so long as any of the Bonds remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of the Issuer as a result of such reduction or (7) to create distributable reserves (to which, in respect of any such creation of distributable reserves by the Issuer, the Trustee will be deemed to have irrevocably given its consent (without any liability for so doing) prior to such creation of distributable reserves occurring and, to the extent that express consent is required, the Bondholders authorise and direct the Trustee to give its consent (without any liability for so doing) to such creation of distributable reserves) or (8) pursuant to a Newco Scheme or (9) by way of transfer to reserves as permitted under applicable law or (10) where the reduction is permitted by applicable law and the Trustee is advised by an Independent Financial Adviser, acting as an expert and in good faith, that the interests of the Bondholders will not be materially prejudiced by such reduction or (11) where the reduction is permitted by applicable law and results (or, in the case of a reduction in connection with a Change of Control, will result) in (or would, but for the provisions of Condition 6(f)) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is (or, in the case of a reduction in connection with a Change of Control, will be) otherwise taken into account for the purposes of determining whether such an adjustment should be made,

provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (vii) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates (as defined in Section 988 (1) of the Companies Act or any modification or re-enactment thereof) of the offeror) to acquire all or a majority of the issued ordinary share capital of the Issuer, or if a scheme (other than a Newco Scheme) is proposed with regard to such acquisition, give notice in writing of such offer or scheme to the Trustee and the Bondholders at the same time as any notice thereof is sent to its Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the Board of Directors of the Issuer, or where such an offer has become or been declared unconditional in all respects or

such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders and/or to the holders of the Bonds (which like offer or scheme in respect of such Bondholders shall entitle any such Bondholders to receive the same type and amount of consideration it would have received had it held the number of Ordinary Shares to which such Bondholder would be entitled assuming he were to exercise his Conversion Rights in the relevant Change of Control Period);

- (viii) use all reasonable endeavours to ensure that the Ordinary Shares issued upon conversion of the Bonds will as soon as practicable be admitted to the Official List of the UK Listing Authority and admitted to trading by the London Stock Exchange in accordance with their respective rules and will be listed, quoted or accepted for dealing as soon as practicable on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in; and
- (ix) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of any Scheme of Arrangement:

(1) at its option either Newco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing a guarantee) subject to and as provided in the Trust Deed; or Newco becomes a guarantor under the Bonds and the Trust Deed and such amendments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged for ordinary shares in Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed (and the Trustee shall (at the expense of the Issuer) be obliged to concur in effecting such substitution or grant of such guarantee and in either case making any such amendments), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose new or more onerous duties or obligations upon it or expose it to further liabilities or reduce its protections;

(2) the Trust Deed and the Conditions (including, without limitation, the adjustment and related provisions (in Condition 6), the Events of Default (in Condition 10) and the Undertakings (in Condition 11)) provide at least the same protections and benefits to the Trustee and the Bondholders following the implementation of such Newco Scheme as they provided to the Trustee and the Bondholders prior to the implementation of the Newco Scheme, *mutatis mutandis*;

(3) the ordinary shares of Newco (or depositary or other receipts or certificates representing ordinary shares of Newco) are (i) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market or (ii) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market (and provided always that such ordinary shares of Newco are listed on a recognised stock exchange for the purposes of section 1005 of the Income Tax Act 2007); and

(4) for so long as any Bond remains outstanding, use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares are (i) admitted to the Official

List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market or (ii) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market (and provided always that such Ordinary Shares are listed on a recognised stock exchange for the purposes of section 1005 of the Income Tax Act 2007).

(b) *Compliance Certificates*

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate signed by two of its directors, as to there not having occurred an Event of Default or Potential Event of Default (as defined in the Trust Deed) since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely without liability on such certificate and shall not be obliged to independently monitor whether an Event of Default or Potential Event of Default has occurred or monitor compliance by the Issuer with the undertakings set forth in this Condition 11, nor be liable to any person for not so doing.

12 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 8 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date, subject as otherwise provided in Conditions 6(g) and 8(c).

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

13 Replacement of Bonds

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying and Conversion Agent subject to all applicable laws and stock exchange requirements, 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 reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14 Meetings of Bondholders, Modification and Waiver, Substitution

(a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee if requested in writing by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider 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, unless the business of such meeting includes consideration of proposals, inter alia, (i) to change the Final Maturity Date or the dates on which interest is payable in respect of the Bonds, (ii) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem

the Bonds pursuant to Condition 7 (b), (c) or (e), (iii) to reduce or cancel the principal amount of, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds, (iv) to modify the basis for calculating the interest payable in respect of the Bonds, (v) to modify the provisions relating to, or cancel, the Conversion Rights (other than pursuant to or as a result of any amendments to these Conditions, the Trust Deed, made pursuant to and in accordance with the provisions of Condition 11(a)(ix) (**Newco Scheme Modification**) and other than a reduction to the Conversion Price), (vi) to increase the Conversion Price (other than in accordance with the Conditions or pursuant to a Newco Scheme Modification), (vii) to change the currency of the denomination or any payment in respect of the Bonds, (viii) to change the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 14(c)), or (ix) or modify certain other provision of these Conditions or the Trust Deed, or (viii) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Bondholders (whether or not they were present at the meeting at which such resolution was passed) and all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

No consent or approval of Bondholders shall be required in connection with any Newco Scheme Modification.

(b) *Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions, which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven or to comply with mandatory provisions of law, and (ii) any other modification to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions, which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders or Couponholders, determine any Event of Default or a Potential Event of Default should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation, waiver or determination shall be binding on the Bondholders and Couponholders and, if the Trustee so requires, shall be notified to the Bondholders promptly in accordance with Condition 17.

(c) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, without the consent of the Bondholders or Couponholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds, subject to (i) the Bonds continuing to be convertible or exchangeable into Ordinary Shares mutatis mutandis as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution and (iii) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders or 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.

In connection with a Newco Scheme, at the request of the Issuer the Trustee shall, without the requirement for any consent or approval of the Bondholders or the Couponholders, concur with the Issuer in the substitution in place of the Issuer (or any previous substituted company) as principal debtor under the Trust Deed and the Bonds of Newco pursuant to and subject to the provisions set out in Condition 11(a)(ix).

(d) *Entitlement of the Trustee*

Where, in connection with the exercise or performance of any right, power, trust, authority, duty or discretion under or in relation to these Conditions (including, without limitation, in relation to any modification, waiver, authorisation, determination or substitution as referred to above), the Trustee shall have regard to the 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 any such exercise or performance 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, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders.

15 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons 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 and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

16 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer without accounting for any profit. The Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of the Issuer, any accountants, financial advisers or financial institution, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise, and if so relied upon such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders and Couponholders.

17 Notices

Notices to Bondholders will be valid if published in a leading English language daily newspaper circulating in the United Kingdom (which is expected to be the Financial Times) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. 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.

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.

18 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities, whether in registered or bearer form, either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them and the first date on which Conversion Rights may be exercised) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities 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 securities of other series where the Trustee so decides.

19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

20 Governing Law

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

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

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Bond will be exchangeable in whole or in part for interests in the Global Bond on or after a date which is expected to be 30 September 2009 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond will become exchangeable, in whole but not in part (free of charge to the holder), for the definitive Bonds only (i) if the Global Bond is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (ii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 9 which would not be suffered were the Bonds represented by such Global Bond in definitive form and a certificate to such effect signed by two Directors of the Issuer is delivered to the Trustee. Thereupon (in the case of (i) above) the holder may give notice to the Trustee and the Principal Paying and Conversion Agent and (in the case of (ii) above) the Issuer may give notice to the Trustee, the Principal Paying and Conversion Agent and the Bondholders, of its intention to exchange the Global Bond for definitive Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the Global Bond may (or, in the case of (ii) above, shall) surrender the Global Bond to or to the order of the Principal Paying and Conversion Agent. In exchange for the Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange in full of the Global Bond, the Issuer will if the holder so requests, procure that it is cancelled and returned to the holder together with any relative definitive Bonds.

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

2 Payments

No payment will be made on the Temporary Global Bond unless exchange for the relevant interest in the Global Bond is improperly withheld or refused. Payments of principal and interest in respect of the Global Bond will be made against presentation for endorsement and, if no further payment falls to be made on it, surrender of the Global Bond to or to the order of the Principal Paying and Conversion Agent or such other Paying and Conversion Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds. Condition 8(b)(i) will apply to the definitive Bonds only.

3 Notices

So long as the Bonds are represented by the Temporary Global Bond and/or the Global Bond and the Temporary Global Bond and/or the Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions, provided that, so long as the Bonds are admitted to the Official List and admitted to trading on the Professional Securities Market, the notice requirements of the UKLA and the LSE have been complied with. Any such notice shall be deemed to have been given to the Bondholders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be).

4 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 4).

5 Meetings

The holder of the Global Bond will be treated at a meeting of Bondholders as having one vote in respect of each £1,000 in principal amount of Bonds.

6 Purchase and Cancellation

Cancellation of any Bond represented by the Temporary Global Bond or the Global Bond to be cancelled following its purchase will be effected by reduction in the principal amount of the Temporary Global Bond or the Global Bond (as the case may be).

7 Trustee's Powers

In considering the interests of Bondholders while the Temporary Global Bond or Global Bond is held on behalf of a clearing system the Trustee may have regard to any information provided to it by such clearing system or its operator or a participant in such system as to the identity (either individually or by category) of its accountholders with entitlements to the Temporary Global Bond or the Global Bond (as the case may be) and may consider such interests as if such accountholders were the holder of the Temporary Global Bond or the Global Bond (as the case may be).

8 Conversion Rights

The Conversion Rights in respect of the Bonds may be exercised at any time during the Conversion Period by the relevant accountholder giving notice to the Principal Paying and Conversion Agent in accordance with the standard procedures for Euroclear and/or Clearstream, Luxembourg (which may include notice being given on such accountholder's instructions by Euroclear and/or Clearstream, Luxembourg or any common depositary for them to the Principal Paying and Conversion Agent by electronic means) and in a form acceptable to Euroclear and/or Clearstream, Luxembourg, of the principal amount of Bonds in respect of which Conversion Rights are exercised and at the same time presenting or procuring the presentation of the Global Bond to the Principal Paying and Conversion Agent for endorsement of exercise within the time limits specified in Condition 6. Conversion Rights may not be exercised in respect of any Bond while such Bond is represented by the Temporary Global Bond.

9 Put Option

The Bondholders' put option in Condition 7(e) may be exercised by the relevant accountholder in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (which may include notice being given on such accountholder's instructions by Euroclear and/or Clearstream, Luxembourg or any common depository for them to the Principal Paying and Conversion Agent by electronic means), and in a form acceptable to Euroclear and/or Clearstream, Luxembourg, of the principal amount of Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the Global Bond to the Principal Paying Agent for endorsement of exercise within the time limits specified in Condition 7(e).

10 Election Right under Condition 7(c)

The Bondholders' right under Condition 7(c) to elect, after the Issuer has given a Tax Redemption Notice, that his Bonds shall not be redeemed by the Issuer under Condition 7(c) and that the provisions of Condition 9 shall not apply in respect of any payment of interest to be made under such Bonds by the Issuer which falls due after the relevant Tax Redemption Date, may be exercised by the relevant accountholder giving notice to the Principal Paying and Conversion Agent within the time limits specified by Condition 7(c) and in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (which may include notice being given on such accountholder's instructions by Euroclear and/or Clearstream, Luxembourg or any common depository for them to the Principal Paying and Conversion Agent by electronic means), and in a form acceptable to Euroclear and/or Clearstream, Luxembourg, of the principal amount of Bonds in respect of which such election right is exercised.

11 Euroclear and Clearstream, Luxembourg

References in the Global Bond and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to be references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds will be applied by the Issuer for general corporate purposes and re-financing of recent acquisitions.

DESCRIPTION OF THE ISSUER

History and Development

The Issuer is a public limited company domiciled in the United Kingdom. The Issuer was incorporated in England on 1 April 1989. The Issuer is registered in England under registration number 2366640. The principal legislation under which the Issuer operates is the Companies Act 1985 and (to the extent that it has been enacted) the Companies Act 2006, together with regulations made under those Acts.

The Issuer's address is Peninsula House, Rydon Lane, Exeter EX2 7HR and its telephone number is +44 (0)1392 446677.

Organisational Structure

The Issuer is a holding company and has two main subsidiaries, South West Water Limited and Viridor Limited.

Principal Activities

The Issuer operates and invests in the areas of water and sewerage services and waste management. It has assets of approximately £3.5 billion and currently employs over 4,000 people.

South West Water Limited

South West Water Limited (**SWW**) is the licensed water and sewerage service provider for Devon, Cornwall and parts of Dorset and Somerset. It serves a region of nearly 10,300 square kilometres with 1.65 million residents and in excess of 10 million annual visitors. On average, each day SWW distributes over 440 million litres of treated water and disposes of around 250 million litres of waste water through an asset base comprising, as at 31 March 2009, approximately 15,000 kilometres of water distribution mains, 9,200 kilometres of sewers, 15 impounding reservoirs, 40 water treatment works, 633 waste water treatment works including 54 works with ultra-violet treatment and three with membrane filtration and 1,686 intermittent discharges, including 1,041 combined sewer overflows.

Since privatisation in 1989, SWW has successfully delivered the largest capital programme per capita of any of the water and sewerage companies in England and Wales with an initial focus on improving coastal waste water treatment and disposal. The region currently has 144 EU designated bathing waters, almost one third of the total in England and Wales, and 132 of these have been improved over the last 18 years as a result of the company's marine investment programme. The emphasis has now moved to completing a 15 year programme of improving the quality of drinking water and to providing better customer service.

Ofwat has recently issued its Draft Determination for 2010-2015, which subject to consultation and feedback from the water industry, will be published as a Final Determination in November 2009. Subject to the issuance of the Final Determination and delivery of efficiency targets set out within that determination, SWW expects to create value through delivering the regulatory contract agreed with Ofwat. As well as determining outputs, Ofwat sets prices to enable efficient companies to earn a reasonable rate of return on their assets.

In the current regulatory period (2005 – 2010) Ofwat assumed that the equity cost of capital for all companies would be 7.7 per cent. real after tax with an overall weighted average cost of capital of 5.1 per cent. real after tax. Ofwat's determination allowed for further investment by SWW to improve the quality of water and sewerage services. As a result SWW's RCV is expected to increase from £1.956 billion in March

2005 to approximately £2.444 billion in March 2010, an increase of approximately 25 per cent. This will enlarge the base for the calculation of the return allowed by Ofwat. Additional value may be created if SWW outperforms Ofwat's assumptions by, for example, delivering service at lower operating and/or capital costs and/or financing its investment programme and operations at lower cost.

Viridor Limited

Viridor Limited (**Viridor**) is one of the UK's leading waste management and renewable energy companies. Viridor has core competencies in landfill disposal, recycling and generation of electricity from landfill gas. Viridor has a waste collection fleet focusing primarily on the industrial and commercial market and also operates materials recycling facilities, waste transfer stations, treatment plants, household waste recycling (civic amenity) sites (**HWRS**) and composting facilities in a number of regions in the UK.

Viridor's strategy is to add value by:

- capitalising on its strong position in landfill waste disposal;
- maximising its landfill gas renewable energy generation; and
- exploiting opportunities arising from the UK Government's landfill diversion and recycling targets including:
 - public private partnership (PPP) & private finance initiative (PFI) contracts;
 - recycling operations; and
 - energy from waste (EfW) plants and other power generation plants.

Viridor's landfill market consists of municipal, commercial and industrial wastes, along with certain other special types of waste. Landfill is currently the major final disposal route for these wastes.

Viridor is a major landfill site operator within the UK with a total consented landfill capacity of approximately 81 million cubic metres as at 31 March 2009. Viridor is at present filling this at a rate of approximately six million cubic metres per annum, which results in an average remaining life of 14 years at current rates of fill, which is significantly longer than the industry as a whole.

Gas produced from decomposing waste on landfill sites is increasingly used to generate electricity. It is a form of renewable energy and now represents 24 per cent. of the UK's total renewable energy generation with EfW a further 6 per cent. according to 'The Environment in your Pocket' published by DEFRA. The Government's stated strategy is to increase the percentage of electricity generated from renewable sources from the current figure of approaching 5 per cent. to a target of 10 per cent. in 2010 and 15 per cent. in 2015. The UK has an EU target of generating 15 per cent. of total energy from renewable sources by 2020, which is likely to require over 30 per cent. of electricity to be generated from renewable sources. Historically, renewable energy projects were supported by the Government through the Non Fossil Fuel Obligation (**NFFO**) scheme. Fixed price RPI contracts with terms of up to 15 years were awarded to the most competitive renewable projects in five tranches of bidding. In April 2002, the NFFO regime was replaced by the Renewable Obligation (**RO**) regime. The overall price for electricity supplied under the RO regime is currently substantially higher than that achieved under the most recent NFFO scheme. This has facilitated the increase of Viridor's total landfill gas power generation capacity to 101 MW at 31 March 2009, compared with 28 MW in March 2002. Of this power generation capacity, 38 per cent. is under NFFO and 62 per cent. is under the RO regime. Viridor's existing NFFO contracts end in calendar years 2011 and 2013, after which the capacity can transfer to ROCs.

To take advantage of opportunities presented by the Government's developing waste strategy, Viridor is

pursuing EfW (sometimes in combined heat and power (CHP) schemes) and a range of recycling or related treatment opportunities (including materials recycling facilities, mechanical-biological treatment, anaerobic digestion, composting and HWRS). These facilities may be combined in integrated waste management contracts.

Board of Directors

The members of the Board of Directors of the Issuer, their functions and the principal activities performed by them outside the Issuer as of the date hereof are set forth in the following table:

Name	Function	Principal Activities performed outside the Issuer
Kenneth Harvey	Chairman	Senior independent non-executive director of National Grid Plc
Colin Drummond	Chief Executive, Viridor Limited	Chairman of the Government's Environmental Sector Advisory Group, chairman of the Environmental Knowledge Transfer Network and Deputy Master of the Worshipful Company of Water Conservators
David Dupont	Group Director of Finance	Member of the CBI Environmental Affairs Committee and the CBI South West Regional Council
Christopher Loughlin	Chief Executive, South West Water Limited	Vice Chairman of Water UK
Gerard Connell	Senior Independent Non-executive Director	Group finance director of Wincanton Plc
Martin Angle	Non-executive Director	Non-executive director of Savills plc, JSC Severstal and Dubai International Capital llc; chairman of The National Exhibition Centre; and member of the Board of the Warwick Business School
Dinah Nichols	Non-executive Director	Crown estate commissioner, non-executive director of Shires Smaller Companies Plc, chair of the National Forest Company, chair of Groundwork North London and director of several Trusts

The business address of each of the directors listed above is Peninsula House, Rydon Lane, Exeter EX2 7HR.

There are no potential conflicts of interest between the duties to the Issuer of any of the directors listed above and their private interests and/or other duties.

SHARE PRICE HISTORY

The table below sets out, for the periods indicated, the reported high and low closing sales prices per Ordinary Share on the LSE, the principal market for the Ordinary Shares. As at 14 August 2009, the closing price per Ordinary Share on the LSE was 446.5p.

Period	Price per Share	
	High	Low
(in p)		
2007		
First Quarter	584.5	532.5
Second Quarter	699.0	592.5
Third Quarter	640.5	547.5
Fourth Quarter	686.5	589.5
2008		
First Quarter	694.5	616.5
Second Quarter	663.0	604.5
Third Quarter	658.5	582.0
Fourth Quarter	602.5	426.0
2009		
First Quarter	551.5	380.8
Second Quarter	497.0	404.0
July	507.5	455.8

(Source: Bloomberg)

Note: All prices to 1 decimal place

Information about the past and the further performance of the Ordinary Shares and their volatility can be obtained from the Issuer Group's website at (www.pennon-group.co.uk/pennongroup/investor/index.jsp?t=4).

TAXATION

The United Kingdom

The comments below are of a general nature based on the Issuer's understanding of current law and HM Revenue & Customs (HMRC) practice in the United Kingdom and are not intended to be exhaustive. They apply only to persons who are the absolute beneficial owners of Bonds and Ordinary Shares and may not apply to certain classes of person such as dealers or certain professional investors and persons connected with the Issuer. The United Kingdom tax treatment of prospective Bondholders and Shareholders will depend on their individual circumstances and may be subject to change in the future, possibly with retrospective effect. Prospective Bondholders and Shareholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are unsure as to their tax position should seek their own professional advice.

A. Withholding Tax on Interest on the Bonds

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

If the Bonds cease to be so listed at any time, interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double tax treaty.

B. HMRC Information Powers

Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

C. Taxation of Returns on the Bonds

The United Kingdom taxation treatment of a Bondholder that is within the charge to corporation tax will depend on, among other things, the accounting treatment of the Bonds in the Bondholder's hands, including, in particular, whether or not the Bonds are bifurcated into a host contract and an "embedded derivative" as an accounting matter. The accounting treatment will also affect the tax treatment of a disposal of the Bonds (including a disposal occurring on redemption or conversion).

Bondholders (whether corporate or non-corporate) should consult their own accounting and tax advisers concerning their tax liabilities that may arise as a result of holding the Bonds, or as a result of the disposal or conversion of the Bonds.

Subject to the above, Bondholders (other than certain trustees) who are not resident for tax purposes in the United Kingdom and who do not carry on a trade, profession or vocation in the United Kingdom through a

permanent establishment, branch or agency in connection with which the returns on the Bonds are received or to which the Bonds are attributable, will generally not be liable to United Kingdom tax on the returns on the Bonds.

D. Dividends on Ordinary Shares

The Issuer will not be required to withhold tax at source when paying a dividend in respect of the Ordinary Shares.

Shareholders who are within the charge to United Kingdom corporation tax will be subject to corporation tax on dividends paid by the Issuer, unless the dividends fall within an exempt class and certain other conditions are met. It is expected that the dividends paid by the Issuer would generally be exempt from corporation tax.

Shareholders (whether corporate or non-corporate) are recommended to seek their own professional advice on the tax treatment of dividends that are paid by the Issuer in respect of the Shares.

E. United Kingdom Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on the issue or redemption of the Bonds. No United Kingdom stamp duty will be payable on a transfer by delivery of the Bonds. No SDRT will generally be payable on an agreement to transfer the Bonds, including transfers within a clearance system, so long as (a) the Bonds are held by (or by a nominee or agent for) a provider of clearance services and such person has not made an election under Section 97A Finance Act 1986 or (b) no such agreement is entered into in contemplation of, or as part of, a takeover of the Issuer and both the Bonds and the Ordinary Shares continue (as is intended) to be listed on a recognised stock exchange (as described above in respect of the Bonds in “Withholding Tax on Interest on the Bonds”).

No United Kingdom stamp duty or SDRT is payable on the issue of the Ordinary Shares upon conversion of the Bonds, other than an issue to issuers of depositary receipts or providers of clearance services (or their nominees or agents (see further below)). Pursuant to condition 6(g) of the Bonds the Issuer will be liable to pay any United Kingdom stamp duty or SDRT which is payable in respect of the issue or transfer of the Ordinary Shares upon conversion of the Bonds, other than in respect of an issue or a transfer to issuers of depositary receipts or providers of clearance services (or their nominees or agents (see further below)).

The conveyance or transfer on sale of Ordinary Shares by means of an instrument of transfer will generally be subject to ad valorem stamp duty, generally at the rate of 0.5 per cent. of the amount or value of the consideration for the transfer, and rounded-up to the nearest £5. The purchaser normally pays the stamp duty.

An unconditional agreement to sell an Ordinary Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration for the sale. If a duly stamped transfer in respect of the agreement is produced within six years of the date that the agreement is entered into or (if later) the date that it becomes unconditional, any SDRT paid is repayable, generally with interest, and the SDRT charge is cancelled.

Issues or transfers of Ordinary Shares (a) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts within Section 67 or Section 93 Finance Act 1986 or (b) to, or to a nominee or agent for, a person providing a clearance service within Section 70 or Section 96 Finance Act 1986, will generally be subject to stamp duty or SDRT at 1.5 per cent. of the amount or value of the consideration or, in certain circumstances, the value of the Ordinary Shares transferred (rounded up to the nearest £5 in the case of stamp duty) unless, in the case of a transfer to a clearance service, the clearance service in question has made an election under Section 97A Finance Act 1986 which applies to the Ordinary Shares. Under Section 97A Finance Act 1986, clearance services may, provided they meet certain conditions, elect for the 0.5 per cent. rate of stamp duty or SDRT to apply to transfers of securities within

such services instead of the 1.5 per cent. rate applying to an issue or transfer of such securities into the clearance service.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the CREST system unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST are generally liable to SDRT rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions within the CREST system.

F. EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), each Member State is required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in another Member State or to certain limited types of entities established in another Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead (unless during that period they elect otherwise) impose a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Jersey and Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the European Commission's advice on the need for changes to the Savings Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Credit Suisse Securities (Europe) Limited and Merrill Lynch International (the **Joint Lead Managers**) and Barclays Bank PLC, HSBC Bank plc and RBS Hoare Govett Limited (together with the Joint Lead Managers, the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 30 July 2009, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds on a several (but not joint) basis. The Issuer has agreed to pay to the Managers a combined management and underwriting commission and selling concession in consideration of their agreement to act as Managers. The Issuer has also agreed to reimburse the Managers for certain costs and expenses incurred in connection with the management of the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment being made to the Issuer.

The Issuer has agreed that, during the period commencing on 30 July 2009 and ending 90 days thereafter (both dates inclusive), it will not, and will procure that none of its subsidiaries will, without the prior written consent of the Joint Lead Managers (i) directly or indirectly, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly any Ordinary Shares or Relevant Securities or any securities convertible into or exercisable or exchangeable for Ordinary Shares or Relevant Securities or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Ordinary Shares or Relevant Securities, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by the delivery of Ordinary Shares or Relevant Securities or such other securities, in cash or otherwise. This does not however apply to (i) the issue of the Bonds or (ii) any Ordinary Shares issued pursuant to the conversion of the Bonds or (iii) the issue of Ordinary Shares pursuant to any options, warrants or other rights existing as at 30 July 2009 and as have been publicly disclosed by the Issuer or (iv) the issue of Ordinary Shares pursuant to any employee share schemes existing as at 30 July 2009 and as have been publicly disclosed by the Issuer. For the purposes of this paragraph, **Relevant Securities** shall include any participation certificates and any depositary or other receipt, instrument, rights or entitlement representing Ordinary Shares.

United States

The Bonds and the Ordinary Shares to be issued or delivered upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act 1933 (the **Securities Act**) and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to 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 of 1986 and treasury regulations promulgated thereunder.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything

done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would to the best of their knowledge permit a public offer of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

Jersey

No offer for the subscription, sale or exchange of the Bonds has or will be taken for which any prior written consent would be required pursuant to the Companies (Jersey) Law 1991, as amended, the Companies (General Provisions) (Jersey) Order 2002, as amended or the Control of Borrowing (Jersey) Order 1958, as amended.

Purchase of Bonds and Stabilising Activities

The Bonds are a new issue of securities with no established trading market. Accordingly, the Issuer cannot assure the liquidity of the trading market for the Bonds.

Purchasers who purchase Bonds from the Managers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set out on the cover page of this Offering Circular.

In connection with the offering of the Bonds, the Managers are permitted to engage in certain transactions that stabilise the price of the Ordinary Shares or the price of the Bonds. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Ordinary Shares or the price of the Bonds.

In addition, if the Managers over-allot by selling more Bonds than are set out on the cover page of this Offering Circular, and thereby create a short position in the Bonds in connection with the offering, the Managers may reduce that short position by purchasing Bonds in the open market.

In general, purchases of a security for the purpose of stabilising or reducing a syndicate short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases.

Neither the Issuer nor the Managers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Ordinary Shares or the price of the Bonds. In addition, none of the Issuer or the Managers make any representation that the Managers will engage in such transactions or that such transactions will not be discontinued without notice, once they are commenced.

From time to time, the Managers and their respective affiliates have or may have provided, and may continue to provide, investment banking services to members of the Issuer Group for which they may have been or will be paid customary fees.

In connection with the offering of the Bonds, the Managers and/or their respective affiliates may act as investors for their own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for their own account such Bonds and any securities of the Issuer or related investments and may offer or sell such securities or other related investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered or placed should be read as including any offering or placement of Bonds to the Managers and/or their respective affiliates acting in such capacity. Such

persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

GENERAL INFORMATION

1. Authorisation

The issue of the Bonds was duly authorised by resolutions of the Board of Directors of the Issuer passed on 29 July 2009.

2. Listing

Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the LSE for such Bonds to be admitted to trading on the LSE's Professional Securities Market. It is expected that admission of the Bonds to the Official List and admission to trading of the Bonds on the Professional Securities Market of the LSE will be granted on or about 19 August 2009, subject only to the issue of the Temporary Global Bond. It is expected that dealings in the Bonds will commence on 21 August 2009. The expenses in connection therewith are expected to be £7,175.

The Issuer has undertaken to use all reasonable endeavours to ensure that the Ordinary Shares issued upon conversion of the Bonds will as soon as practicable be admitted to the Official List and admitted to trading by the LSE.

3. Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0443571517 and the Common Code is 044357151. The ISIN for the Ordinary Shares is GB00B18V8630.

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

4. No significant change

There has been no significant change in the financial or trading position of the Issuer or of the Issuer Group taken as a whole since 31 March 2009 and there has been no material adverse change in the financial position or prospects of the Issuer or of the Issuer Group since 31 March 2009.

5. Litigation

Neither the Issuer nor any other member of the Issuer Group (as defined in paragraph 4 above) is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Offering Circular which may have or have had, in the recent past, significant effects on the financial position or profitability of the Issuer or the Issuer Group.

6. Auditors

The auditors of the Issuer are PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, who have audited the Issuer's consolidated financial statements, without qualification, in accordance with IFRS for each of the two financial years ended on 31 March 2009. The auditors of the Issuer have no material interest in the Issuer.

7. U.S. tax

The Bonds and Coupons will contain the following legend: "Any United States person who holds

this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

8. Yield

The yield of the Bonds is 4.625 per cent. per annum, calculated on the basis of the issue price and as at the date of this Offering Circular.

9. Managers transacting with the Issuer

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Bonds has an interest material to the offer.

10. Documents Available

For the period of 12 months starting on the date on which this Offering Circular is made available to the public, copies of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified office of the Paying Agents:

- (a) the Trust Deed (which includes the form of the Global Bonds, the definitive Bonds and the Coupons) and the Paying Agency Agreement;
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the published annual report and audited consolidated financial statements of the Issuer for the two financial years ended 31 March 2009; and
- (d) a copy of this Offering Circular.

This Offering Circular will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews/.

11. Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to the issue of the Bonds.

12. Third-party information

The Issuer confirms that the information sourced from Bloomberg on page 78 of this document has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by Bloomberg, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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