



**UNITED UTILITIES PLC**

*(incorporated with limited liability in England)*

**UNITED UTILITIES WATER FINANCE PLC**

*(incorporated with limited liability in England)*

**with obligations under Notes issued by United Utilities Water Finance PLC  
to be unconditionally and irrevocably guaranteed by**

**UNITED UTILITIES WATER LIMITED**

*(incorporated with limited liability in England)*

**EUR 7,000,000,000**

**Euro Medium Term Note Programme**

*This Offering Circular supersedes any previous Offering Circulars issued in respect of the Programme. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes already in issue.*

Under this EUR 7,000,000,000 Euro Medium Term Note Programme (the "Programme"), United Utilities PLC ("UU") and United Utilities Water Finance PLC ("UUWF") (each an "Issuer" and together the "Issuers") may from time to time issue notes (the "Notes") denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below).

The payments of all amounts due in respect of Notes issued by UUWF will be unconditionally and irrevocably guaranteed by United Utilities Water Limited ("Uuw" or the "Guarantor").

Notes may be issued in bearer or registered form (respectively "Bearer Notes" and "Registered Notes").

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR 7,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

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

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors" on page 11.**

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the "UK Listing Authority" or "UKLA") for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

References in this Offering Circular to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) (the "Markets in Financial Instruments Directive").

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in the applicable Final Terms (the "Final Terms") which, with respect to Notes to be listed, will be delivered to the UK Listing Authority and to the London Stock Exchange. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will be disclosed in the Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

UU and UUW have each received corporate credit ratings. For discussion of these see "Information on United Utilities Group Plc – Group capital structure target credit rating for UUW and credit ratings for UU and UUW". Standard & Poor's Credit Market Services Europe Limited ("S&P") is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (the "CRA Regulation"). Moody's Investors Service Ltd ("Moody's") is established in the European Union and is registered under the CRA Regulation. Notes issued under the Programme may be rated by S&P, Moody's, or any other rating agency established in the European Union and registered under the CRA Regulation.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons except to certain persons in offshore transactions in reliance on Regulation S under the Securities Act.

The relevant Issuer and the Trustee (as defined below) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event and, if appropriate, a supplemental Offering Circular or a new Offering Circular will be published.

**Arranger**

**Deutsche Bank**

**Dealers**

**Barclays**

**Goldman Sachs International**

**J.P. Morgan Cazenove**

**Mizuho Securities**

**Société Générale Corporate & Investment Banking**

**Deutsche Bank**

**HSBC**

**MUFG**

**RBC Capital Markets**

**The Royal Bank of Scotland**

The date of this Offering Circular is 15 November 2016.

**This Offering Circular comprises a base prospectus in relation to each Issuer for the purposes of Article 5.4 of the Prospectus Directive. When used in this Offering Circular, “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the “EEA”).**

Each of the Issuers and the Guarantor (together, the “Responsible Persons”) accepts responsibility for the information contained in this Offering Circular and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of each of the Issuers and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see “Documents Incorporated by Reference” below). This Offering Circular shall, save as specified herein, be read and construed on the basis that those documents are so incorporated and form part of this Offering Circular.

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

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

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

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

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Guarantor, the Dealers and the Trustee do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor, the Dealers or the Trustee which would permit a public offering of any Notes outside the United Kingdom (the “UK”) or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction,

except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of Notes in the United States, the EEA (including the United Kingdom and Germany) and Japan (see “Subscription and Sale” below).

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. Furthermore, the Index Linked Notes do not constitute, and have not been marketed as, contracts of sale of a commodity for future delivery (or options thereon) subject to the United States Commodity Exchange Act (the “CEA”), as amended, and trading in the Index Linked Notes has not been approved by the United States Commodity Futures Trading Commission (the “CFTC”) under the CEA, and no U.S. person may at any time trade or maintain a position in the Index Linked Notes (see “Subscription and Sale”).

Unless the Final Terms in respect of any Notes specifies “EEA Retail Investor Selling Restriction” as “Not Applicable”, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

### **Certain Defined Terms and Conventions**

Capitalised terms which are used but not defined in any particular section of this Offering Circular will have the meaning attributed to them in “*Terms and Conditions of the Notes*” or any other section of this Offering Circular. In addition, the following terms as used in this Offering Circular have the meanings defined below:

All references in this Offering Circular to “U.S. dollars”, “U.S.\$” and “\$” refer to United States dollars, “Sterling” and “£” refer to pounds sterling and “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. References to a “billion” are to a thousand million.

Certain figures and percentages included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In this Offering Circular and except where the context otherwise requires, references to “United Utilities”, “UUG” or the “Group” are to United Utilities Group PLC, either alone or together with its consolidated subsidiaries, as the context requires. References to “UU” are to United Utilities PLC, either alone or together with its consolidated subsidiaries, as the context requires. UU is a wholly-owned subsidiary

of UUG. References to “UUWF” are to United Utilities Water Finance PLC which is a wholly-owned subsidiary of UUW. References to “UUW” are to United Utilities Water Limited which is a wholly-owned subsidiary of UUG.

**In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the “Stabilisation Manager(s)”) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

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## GENERAL DESCRIPTION OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC (the "Prospectus Regulation").

Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

<b>Issuers:</b>	United Utilities PLC United Utilities Water Finance PLC
<b>Guarantor</b>	Obligations in respect of Notes to be issued by UUWF will be unconditionally and irrevocably guaranteed by UUF.
<b>Risk Factors:</b>	There are certain factors that may affect each Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "Risk Factors" beginning on page 11 hereof. There are also certain factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee. These are also set out under "Risk Factors" below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "Risk Factors" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
<b>Description:</b>	Euro Medium Term Note Programme
<b>Trustee:</b>	The Law Debenture Trust Corporation p.l.c.
<b>Arranger:</b>	Deutsche Bank AG, London Branch
<b>Dealers:</b>	Barclays Bank PLC Deutsche Bank AG, London Branch Goldman Sachs International HSBC Bank plc J.P. Morgan Securities plc MUFG Securities EMEA plc Mizuho International plc RBC Europe Limited Société Générale The Royal Bank of Scotland plc and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale") including the following restrictions applicable at the date of this Offering Circular.

<b>Issuing and Principal Paying Agent:</b>	Citibank, N.A., London Branch.
<b>Registrar and Transfer Agent:</b>	Citibank, N.A., London Branch.
<b>Programme Size:</b>	Up to EUR 7,000,000,000 in nominal amount (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. Each of the Issuers and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
<b>Redenomination:</b>	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
<b>Maturities:</b>	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.
<b>Form of Notes:</b>	<p>The Notes will be issued in either bearer or registered form and may be issued in New Global Note (“NGN”) or held under the New Safekeeping Structure (“NSS”) form as described in “Form of the Notes”. Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i>.</p> <p>So long as any Notes are represented by a Temporary Global Note and/or a Permanent Global Note and the relevant clearing systems so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination and integral multiples of such other amount as shown in the applicable Final Terms.</p>
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <p>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</p>

(b) on the basis of a reference rate set out in the applicable Final Terms.

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

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

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

**Index Linked Notes:**

Payments of principal and interest in respect of Index Linked Notes will be calculated by multiplying an Index Ratio, derived from: (i) the U.K. Retail Price Index (“RPI”) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace RPI; (ii) the U.K. Consumer Price Index (“CPI”) (for all items) published by the Office for National Statistics (2015 = 100) or any comparable index which may replace CPI; or (iii) the U.K. Consumer Price Index including owner occupier’s housing costs (“CPIH”) (for all items) published by the Office for National Statistics (2015 = 100) or any comparable index which may replace CPIH; in each case by an amount specified in the applicable Final Terms.

**Zero Coupon Notes:**

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

**Instalment Notes:**

The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

**Redemption:**

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

**Denomination of Notes:**

Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be EUR 100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).



<b>Taxation:</b>	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within the United Kingdom, subject as provided in Condition 10. In the event that any such deduction is made, the relevant Issuer or, as the case may be, the Guarantor, will, save in certain limited circumstances provided in Condition 10, be required to pay additional amounts to cover the amounts so deducted.
<b>Negative Pledge:</b>	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
<b>Cross Default:</b>	The terms of the Notes will contain a cross default provision as further described in Condition 12.
<b>Status of the Notes:</b>	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
<b>Status of the Guarantee in respect of Notes issued by UUWF</b>	The Notes issued by UUWF will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under the Guarantee will be direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.
<b>Rating:</b>	Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
<b>Listing:</b>	Application has been made for Notes issued under the Programme to be listed on the London Stock Exchange.
<b>Governing Law:</b>	The Notes and any non-contractual obligations arising out of or in connection therewith will be governed by, and construed in accordance with, English law.
<b>Selling Restrictions:</b>	There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA (including the United Kingdom and Germany), and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "Subscription and Sale").
<b>Representation of Noteholders:</b>	Trustee.

## RISK FACTORS

*The Issuers and the Guarantor believe that the following factors may affect their ability to fulfil their respective obligations under the Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuers and the Guarantor are not in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Notes are also described below.*

*The Issuers and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuers and the Guarantor to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuers and the Guarantor do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

*Capitalised terms used herein shall, unless otherwise stated, have the same meaning as given to them in the sections entitled “Terms and Conditions of the Notes”, “Information on United Utilities Group PLC”, “Description of the Issuers – United Utilities PLC”, “Description of the Issuers – United Utilities Water Finance PLC”, and “Description of the Guarantor – United Utilities Water Limited”.*

### **Risks relating to the Group and its business**

UUG’s principal operating subsidiary, U UW, is appointed by the Secretary of State as the water and wastewater undertaker for the North West of England and is subject to economic and quality regulation. The following is a summary of the key risks associated with U UW’s regulated operations and the non-regulated activities of the Group.

### **Regulatory Environment & Framework**

The Group’s businesses are subject to various laws and regulations in the United Kingdom (“UK”) and internationally. The legal and regulatory landscape is complex and subject to on-going change. Potential changes in the regulatory environment and frameworks within which the Group operates could have an impact on all elements of the regulated market and change the requirements under the frameworks and associated strategies imposed or overseen by Ofwat, the Drinking Water Inspectorate, the Environment Agency, Defra, European Directives, the Consumer Council for Water and/or Natural England.

Changes to regulation and the regulatory regime (either through political or regulatory events) may increase operating costs, reduce income and margin and lead to greater variability of returns.

Current key risks and issues include market reform and non-household competition, domestic retail competition, and potential competition in certain wholesale activities (“Upstream Competition”). These developments include the market opening for non-household retail competition from April 2017, whereby all non-household customers in England will be entitled to switch their water and wastewater retailer. This will include all businesses, charities and public sector customers. As part of these reforms, water supply licensees will be entitled to compete in respect of retail services nationally for non-household customers currently served by incumbent appointed undertakers. U UW is exiting the non-household retail market and all its non-household customers will initially have retail services provided by Water Plus, a joint venture between the Group and Severn Trent Group plc, with U UW providing wholesale services to Water Plus. Further into the future, additional reforms are likely to introduce the potential for domestic retail competition and competition in certain wholesale activities, including input of water into a water company’s network or removal of wastewater and/or sludge for treatment. Upstream competition has the potential to result in loss to some aspects of the value chain, associated revenue and regulatory capital value (“RCV”).

On 23 June 2016, the UK held a referendum to decide on the UK’s membership of the European Union. The UK voted to leave the European Union (the “**Brexit vote**”). Following the Brexit vote, there are a number of uncertainties in connection with the future of the UK and its relationship with the European Union, including the impact and applicability of European Union legislation following a UK exit from the European Union. The negotiation of the UK’s exit terms is likely to take a number of years. Until the terms and timing of the UK’s exit from the European Union are clearer, it is not possible to determine the impact that the Brexit vote, the UK’s departure from the European Union and/or any related matters may have on the business of the Group or the regulatory framework applicable to it.

As part of its Water 2020 proposals, the economic regulator, Ofwat, intends to transition from using RPI as the basis of indexation of allowed revenues and RCV to CPI or CPIH from 2020. Such a change could lead to increased financing costs, along with changes in customer bills with a lowering of long-term growth in the RCV. This could have a negative impact on the Group's profitability.

### **Corporate Governance and Legal compliance**

The Group has extensive obligations and responsibilities, such as those related to structure, governance, stakeholder relations, sustainability, legal, regulatory and statutory compliance. These include statutory financial reporting requirements, the requirement to comply with all aspects of listing rules and the requirement to comply with employment law and Health & Safety legislation.

Non-compliance with existing or future UK or international laws or regulations (especially given the highly regulated environment in which the Group operates and in the context of uncertainty over the potential future status of European Union legislation following a UK exit from the European Union) could result in additional workload and operating costs in justifying or defending the Group's position. Financial penalties (including of up to 10 per cent. of relevant regulated turnover for extreme events) and compensation following litigation are also possible, together with additional capital/operating expenditure as a result of the imposition of enforcement orders. In more remote but extreme circumstances, impacts could ultimately include the revocation of U UW's instrument of appointment or the appointment of a special administrator.

Current key risks and issues include the challenge of continued regulatory compliance and operating in accordance with competition law whilst preparing for and operating within a changing competitive non-household market. In preparation for the opening of the non-household retail market in April 2017, the Group entered into a joint venture with Severn Trent, transferring its non-household retail activities to a separate, related, water supply licensee called Water Plus.

As part of preparations for the wholesale part of the appointed business to deal with multiple non-household suppliers, a compliance regime is being delivered in respect of U UW's wholesale business's relationship with all retailers so that no undue preference is shown. This is in compliance with Ofwat's "Level Playing Field" objective of allowing new entrants to the water retail market to compete effectively with established companies. Such compliance measures include operational separation in relation to IT systems, telephony, intranet, email systems and office locations, as well as robust training and compliance activities and assurance.

### **Material Litigation**

Material litigation involving the following two matters is ongoing.

In February 2009, United Utilities International Limited ("UUIL") was served with notice of a multiparty 'class action' in Argentina related to the issuance and payment default of a US\$230 million bond by Inversora Eléctrica de Buenos Aires S.A. ("IEBA"), an Argentine project company set up to purchase one of the Argentine electricity distribution networks which were privatised in 1997. UUIL had a 45 per cent. shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will resist the proceedings.

In March 2010, Manchester Ship Canal Company ("MSCC") issued proceedings seeking, amongst other relief, damages alleging trespass against U UW in respect of U UW's discharges of water and treated effluent into the canal. Whilst the matter has not reached a final conclusion, the Supreme Court has found substantively in U UW's favour on a significant element of the claim. The High Court has now upheld U UW's position on the remainder of the proceedings, although MSCC has now issued proceedings to introduce additional matters for determination.

In respect of enforcement action for regulatory compliance there is now a risk of higher environmental fines than in the past, potentially amounting to millions of pounds per incident. The Sentencing Council's guidelines for environmental offences, which have been in effect since 1 July 2014, provide for a tariff of fines for environmental offences based on 1) the level of a defendant's culpability, being either deliberate (the most serious), reckless, negligent or no culpability (the least serious); 2) the harm caused by the incident, categorised as either 1 (the most serious), 2, 3 or 4 (the least serious); and finally 3) the defendant company's financial turnover, with companies being classified as micro, small, medium or large. A large company is defined as having a turnover of over £50m and under the guidelines could

be liable to be fined up to £3 million for the most serious incidents. The guidelines provide that where a company's turnover very greatly exceeds the £50m threshold for large companies it may be necessary to move outside the suggested range of fines. Water companies' turnovers often exceed £50m, with U UW's turnover being c£1.7 billion, and therefore water companies are likely to be susceptible to fines measured in millions of pounds for the most serious incidents.

High value litigation, if adversely determined, and/or fines could have an adverse effect on the Group's business.

### **Water Service and Wastewater Service**

The secure supply of clean safe drinking water is the core duty of U UW as the regulated water business. This includes all aspects of supply and demand, such as abstraction, catchment management, drought management and population growth and the capacity, capability, effectiveness and compliance of infrastructure and non-infrastructure assets, including impounding reservoirs, to deliver water to customers.

U UW's regulated wastewater activities must ensure the capacity, capability, effectiveness and compliance of infrastructure and non-infrastructure wastewater assets to remove, treat and return water to the environment in a compliant manner that meets environmental standards. This includes all aspects of supply and demand such as population growth and changing weather patterns.

Operational performance problems or service failures caused by both internal and external factors can result in performance issues such as leakage, discharge consent breaches and operational or asset failures leading to adverse effects on supply, quality or flooding. This can lead to increased regulatory scrutiny, regulatory penalties and/or additional operating or capital expenditure. In more extreme situations the Group could also be fined for breaches of statutory obligations, be held liable to third parties and/or sustain reputational damage.

Current key risks and issues include dealing with the impacts of population growth, climate change and weather conditions. The weather can have a major impact on operational and/or hazard risk including as a result of excessive or insufficient rainfall and cold temperature effects. Weather patterns are becoming increasingly variable, including storm events depositing extreme rainfall which can impact operations, and in severe dry-periods, U UW must ensure it continues to have resilient water resources and an infrastructure capable of moving water efficiently around the North West. Population growth increases service and infrastructure requirements in both water and wastewater and can also affect abstraction and/or discharging requirements and consents. The abstraction licensing regime and changes to it could also affect this risk.

The region's geography and weather, the legacy of the industrial revolution, population growth and the age of infrastructure mean that European environmental legislation has a significant impact on U UW's plans for the next five years and beyond. Furthermore, the North West has one of the country's largest combined waste and surface water infrastructures and this has significant implications for river and bathing water quality in the heavy rainfall events anticipated under climate change. These are significant challenges for U UW's wastewater service and are likely to drive high levels of capital expenditure in meeting statutory obligations.

### **Security, Property and other Assets.**

The inability to protect people, information, infrastructure and non-infrastructure from malicious activity or manage other Group wide property related interests could have an impact on the security of people, information, assets and property, including water and wastewater treatment works, office sites and non-regulated assets.

The Group's resources, assets and infrastructure are exposed to various threats (malicious, accidental and natural) which could impact the provision of vital services and/or harm people or commercial business.

Current key risks and issues include cybercrime and the threat of the Group's financial, engineering and strategic information being accessed or interfered with by unauthorised parties. In addition, employee and customer personal data could be the subject of cybercrime.

Terrorism and other criminal activity also represents a threat to operational assets and the service delivered to customers. In exceptional circumstances the impact could range from environmental damage to economic and social disruption or loss of life.

### **Human and IT resource**

The inability to have appropriately skilled people and provide effective human resources (including appropriate skill set), system, telephony and operational or technological resource could damage the Group's operational activities and adversely impact business performance. This can also affect the ability to recruit and retain knowledge/expertise or to recover effectively following an operational incident. In remote but extreme circumstances there is also the potential for higher levels of regulatory scrutiny, financial penalties, reputational damage and missed commercial opportunities.

Current key risks and issues include ensuring that the Group continues to adequately train its employees to give them the right skills and knowledge so that they can deliver effectively in their roles, and so that talented people are managed and nurtured through their career development so that their skills and experience are retained within the Group.

The Group recognises that there is an increasing need to ensure that there is sufficient focus on investment in the development of technology and that people have the right skills to apply technology. Future growth also depends upon an awareness of customers' increased use of technology for communication and monitoring their use of the Group's services.

### **Tax, Treasury & Financial Control**

The inability to appropriately finance the Group's activities in relation to capital, credit, market, funding, liquidity, pensions or tax related risk could have an adverse impact on the Group's business.

The failure of financial counterparties could result in additional financing cost, an adverse impact on the Group's financial resources and/or potential reputational damage. Variability in inflation (as measured by the RPI) and changes in interest rates, funding costs and other market risks (including the effects of the Brexit vote on financial markets) could adversely impact the economic return on the RCV and affect the Group's pension schemes with a requirement for the Group to make additional contributions. In extreme but remote cases adverse market conditions could affect the Group's access to debt capital markets and subsequently available liquidity and credit ratings.

Stability of the global economy, pace of economic growth and stability of financial institutions remain areas of uncertainty. Adverse market conditions can impact the Group's profitability and financial condition in a number of ways. These range from price rises for goods and services affecting profit and cash flow to the availability and /or cost of funding and hedging.

### **Programme Delivery**

The ineffective delivery of capital, operational and change programmes across the Group's operations, including elements of the supply chain against relevant time, cost or quality measures could result in a failure to secure competitive advantage or operating performance efficiency and cost benefits. There is also the risk of increased delivery costs or a failure to meet the Group's obligations and customer outcomes (as measured through the "Outcome Delivery Incentive" ("ODI") metrics) which, depending on the nature and extent of failure, could result in an impact at future price reviews, regulatory or statutory penalties and negative reputational impact with customers and regulators.

Current key risks and issues include compromised security of supply, price volatility and the potential for failing to deliver solutions. A failure by the Group to invest in and develop new technology and to align itself to innovative practices could result in delays in delivery and an adverse impact on quality. The new contract delivery partnerships for the 2015-2020 period introduced a risk of uncertainty in partners' performance and capabilities.

### **Revenues and profitability**

There is a risk that an inability to maintain revenues and margin due to competition and/or poor customer service could impact on all aspects of the customer base, including service provision, billing, cash collection and debt management. This could also affect competitive and non-competitive areas, in and out of area competition, business development and other non-regulated revenues.

Poor service to customers can result in financial penalties issued by the economic regulator through components of the service incentive mechanism for domestic customers, financial and other penalties being applied as a result of failing ODI measures and loss of revenue associated with commercial churn for commercial customers using 5 megalitres and above per annum. Post April 2017 all business customers are entitled to switch supplier.

Current key risks and issues include the introduction of increased competition in the non-household retail activities from April 2017 and Upstream Competition. This remains an area of uncertainty and, in relation to non-household retail activities, could result in loss of market share and margin erosion. Longer term, Upstream Competition has the potential to present risks relating to underutilisation or stranding of operational assets and infrastructure.

The North West contains some of the most socially challenged and economically deprived areas in England and so it is anticipated that there will be continued hardship for a number of communities and difficulties for some customers in paying their bills. Deprivation is the principal driver of UUW's higher than average cost to serve household customers, and recovery of the UK economy does not mean that deprivation in the North West will necessarily fall and the Brexit vote could produce adverse economic impacts. Welfare reforms could affect around 970,000 people in the North West and consequently collection of bills for those customers could become more challenging and could also increase the Group's level of bad debt and reduce the Group's profits.

### **Health, Safety and Environmental**

In providing water and wastewater treatment, there is potential for harm to employees, contractors, the public or the environment. This includes potential hazardous events from operational activity or external factors, as well as occupational health. Working with and around water, sewage, construction and excavation sites, plant and equipment exposes employees, contractors and visitors to various man-made and naturally occurring hazards which could cause harm to people and the environment. Depending on the circumstances the Group could be fined for breaches of statutory obligations, be held liable to third parties and/or sustain reputational damage.

Current key risks and issues include hazards associated with excavation, tunnelling and construction work as the programme of capital expenditure is delivered, as well as the effects of weather on the Group's operations.

### ***Risks relating to a particular issue of the Notes***

With respect to an investment in Notes indexed to one or more interest rates, currencies or other indices or formulas, significant risks exist that are not associated with a conventional fixed rate or floating rate debt security. Such risks include fluctuation of the particular indices or formulas and the possibility that an investor will receive a lower amount of principal, premium or interest and at different times than expected. The Issuers have no control over a number of matters, including economic, financial and political events that are important in determining the existence, magnitude and longevity of such risks and their results. In addition, if an index or formula used to determine any amounts payable in respect of the Notes contains a multiplier or leverage factor, the effect of any change in such index or formula will be magnified. In recent years, values of certain indices and formulas have been volatile and volatility in those and other indices and formulas may be expected in the future. However, past experience is not necessarily indicative of what may occur in the future.

### **Index Linked Notes**

Each Issuer may issue Index Linked Notes where interest and redemption amounts will be adjusted by reference to movements in RPI, CPI or CPIH (each an "Index"), as the case may be, during a reference period.

A decrease in the relevant Index over the reference period will reduce the interest or redemption amounts payable in respect of such Notes. In a deflationary environment, (i) the annual interest received may be lower than the rate of interest specified in the applicable Final Terms and (ii) the amount to be repaid upon redemption of the Notes would be reduced to less than the nominal amount of the Notes (unless the applicable Final Terms specifies a minimum redemption amount which is equal to or higher than the nominal amount of the Notes). As a consequence, investors may lose the value of their entire investment or part of it. The historical experience of the relevant Index should not be viewed as an indication of future performance of such Index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Moreover, the methodology used by the Office for National Statistics (“ONS”) for calculating RPI, CPI or CPIH may change over time which may affect the actual RPI, CPI or CPIH figure. Consequently, the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of Index Linked Notes may increase, or decrease, as a result of such a change to the RPI, CPI or CPIH figure.

If the relevant Index ceases to be published or where there is a fundamental change in the rules governing such Index, adjustments to such Index may be made, or a substitute index may be agreed. If an adjustment to such Index cannot be made or any substitute for such Index found then, in specified circumstances, the Issuer may redeem the Index Linked Notes early. See Conditions 7.5 and 9.3 for further detail.

The application of Conditions 7.5 and 9.3 may have a positive or negative impact on the amount of interest payable on each interest payment date and/or the amount to be repaid upon, or the timing of, any redemption of Index Linked Notes.

### ***Risks associated with the Notes generally***

#### **Holding company structure**

Because UU is an intermediate holding company, its rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its subsidiary’s creditors, except to the extent that UU may be a creditor with recognised claims ranking ahead of or pari passu with such prior claims against the subsidiary. UU’s ability to make payments on debt obligations and pay certain operating expenses may be dependent on the receipt of dividends from its subsidiaries. Certain of UU’s subsidiaries have regulatory restrictions that can limit the payment of dividends.

#### **UUWF is a finance vehicle**

UUWF’s primary business is the raising of money for the purpose of on-lending to UUW. UUWF is not an operating company; it is a special purpose vehicle with no other business other than issuing Notes. Substantially all of UUWF’s assets will be loans and advances made by UUWF to UUW. UUWF is, therefore, dependent upon UUW paying interest on, and repaying, its loans in a timely fashion. If UUW failed to pay interest on, or repay, any loan in a timely fashion, this could have a material adverse effect on the ability of UUWF to fulfil its obligations under the Notes. It is for this reason the Notes are guaranteed by UUW. By virtue of its dependence on UUW, each of the risks described herein that affect UUW will also indirectly affect UUWF.

#### **No limitation on issuing pari passu securities**

There is no restriction on the amount of securities which each Issuer may issue which rank pari passu with the Notes being offered hereby. The issue of any such securities may reduce the amount recoverable by holders of the Notes in the event that the Issuer is wound up or becomes insolvent or may increase the likelihood of a deferral of payments under the Notes.

#### **Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued.**

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denominations (as defined in the Final Terms). In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that it holds an amount equal to one or more Specified Denominations.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### **Risks associated with redemption of the Notes**

If the applicable Final Terms specify that the Notes are redeemable at the option of each Issuer, or are otherwise subject to mandatory redemption, the Issuer may (in the case of optional redemption) or must (in the case of mandatory redemption) choose to redeem such Notes at times when prevailing interest rates may be relatively low. Accordingly, an investor generally may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

#### **The Issuers cannot assure a trading market for the Notes will ever develop or be maintained**

The Issuers cannot assure a trading market for the Notes will ever develop or be maintained. If a market does develop, it may not be very liquid. Many factors independent of the creditworthiness of each Issuer affect the trading market. These factors include:

- the complexity and volatility of the index or formula applicable to the Notes;
- the method of calculating the principal, premium and interest in respect of the Notes;
- the time remaining to the maturity of the Notes;
- the outstanding amount of the Notes;
- the redemption features of the Notes;
- the amount of other debt securities linked to the index or formula applicable to the Notes; and
- the level, direction and volatility of market interest rates generally.

In addition, certain Notes have a more limited trading market and experience more price volatility because they were designed for specific investment objectives or strategies. There may be a limited number of buyers when an investor decides to sell such Notes. This may affect the price an investor receives for such Notes or the ability of an investor to sell such Notes at all. An investor should not purchase Notes unless such an investor understands and can bear these investment risks.

#### **Noteholders' interests may be adversely affected by a change of law in relation to U.K. withholding tax**

In the event that amounts due under the Notes are subject to U.K. withholding tax, the Issuers or the Guarantor may not be obliged to pay additional amounts in relation thereto if Noteholders fall within certain exceptions to the obligation to pay such additional amounts. In addition, the Issuers may, in certain circumstances, redeem the Notes (as described in Condition 9.2 of the Notes). The applicability of any U.K. withholding tax under current law is discussed under "Taxation – United Kingdom Taxation - Withholding Tax".

#### **Modification, waivers and substitution**

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes, in the circumstances described in Condition 20 of the Terms and Conditions of the Notes.



**Change of law**

The Terms and Conditions of the Notes 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 and any such change could materially adversely impact the value of any Notes affected by it.

**Credit ratings may not reflect all risks**

One or more independent credit rating agencies may assign credit ratings to the relevant Issuers, the Guarantor or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-European Union credit rating agencies, unless the relevant credit ratings are endorsed by a European Union-registered credit rating agency or the relevant non-European Union rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular. Where a Tranche of Notes is rated, such rating will be specified in the applicable Final Terms and will not necessarily be the same as the rating of the Programme.

**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 (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar risks.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Offering Circular and have been filed with the Financial Conduct Authority shall be incorporated in, and form part of, this Offering Circular:

- (a) the sections of the annual reports 2015 and 2016 (consisting of the auditor's report and statutory annual financial statements for each of the financial years ended 31 March 2015 and 31 March 2016 of UU and the Guarantor) set out at the following pages; and

### **United Utilities Water Limited**

#### *Annual Financial Statements 2016*

- independent auditor's report Pages 69-73
- consolidated income statement Page 74
- consolidated statement of comprehensive income Page 75
- consolidated and company statement of financial position Page 76
- consolidated and company statement of changes in equity Page 77
- consolidated and company statement of cash flows Page 78
- accounting policies Pages 79-82
- notes to the financial statements Pages 83-124

#### *Annual Financial Statements 2015*

- independent auditor's report Page 64
- consolidated income statement Page 65
- consolidated and company statement of comprehensive income Page 66
- consolidated and company statement of financial position Page 67
- consolidated and company statement of changes in equity Page 68
- consolidated and company statement of cash flows Page 69
- accounting policies Pages 70-73
- notes to the financial statements Pages 74-119

### **United Utilities PLC**

*Annual Financial Statements 2016*

• independent auditor's report	Page 27
• consolidated income statement	Page 28
• consolidated statement of comprehensive income	Page 29
• consolidated and company statement of financial position	Page 30
• consolidated statement of changes in equity	Page 31
• company statement of changes in equity	Page 32
• consolidated and company statement of cash flows	Page 33
• accounting policies	Pages 34-36
• notes to the financial statements	Pages 37-85

*Annual Financial Statements 2015*

• independent auditor's report	Page 23
• consolidated income statement	Page 24
• consolidated statement of comprehensive income	Page 25
• consolidated and company statement of financial position	Page 26
• consolidated statement of changes in equity	Page 27
• company statement of changes in equity	Page 28
• consolidated and company statement of cash flows	Page 29
• accounting policies	Pages 30-33
• notes to the financial statements	Pages 34-78

**United Utilities Water Finance PLC***Annual Financial Statements 2016*

• independent auditor's report	Page 6
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- income statement Page 7
- statement of financial position Page 8
- statement of changes in equity Page 9
- notes to the financial statements Pages 10-14

*Annual Financial Statements 2015*

- independent auditor's report Page 7
- profit and loss account Page 8
- balance sheet Page 9
- statement of changes in equity Page 10
- notes to the financial statements Pages 11 – 13

(b) the Terms and Conditions of the Notes contained in each of the following Offering Circulars:

- the Offering Circular dated 23 November 2005;
- the Offering Circular dated 23 November 2006;
- the Offering Circular dated 20 November 2007;
- the Offering Circular dated 14 November 2008;
- the Offering Circular dated 12 November 2009;
- the Offering Circular dated 12 November 2010;
- the Offering Circular dated 14 November 2011;
- the Offering Circular dated 19 November 2012;
- the Offering Circular dated 21 November 2013;
- the Offering Circular dated 19 November 2014; and
- the Offering Circular dated 17 November 2015.

Following the publication of this Offering Circular, a supplement may be prepared by the Issuers and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Any statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this

Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered offices of UU and the Guarantor and from the specified offices of the Paying Agents for the time being in London and have been made available at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Only the information in the parts of the documents specified above is incorporated into and forms part of this document. Information in other parts of the documents is either covered elsewhere in the document or is not relevant for the investor.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular for the purposes of the Prospectus Directive.

The Issuers and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

## FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons (“Coupons”) and receipts for the payment of instalments of principal (“Receipts”) attached, or registered form, without Coupons or Receipts attached. Bearer Notes and Registered Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”).

### **Bearer Notes**

Each Tranche of Bearer Notes will be in bearer form and will be initially issued in the form of a temporary global note (a “Temporary Bearer Global Note”) or, if so specified in the applicable Final Terms, a permanent global note (a “Permanent Bearer Global Note” and, together with a Temporary Bearer Global Note, each a “Bearer Global Note”) which, in either case, will:

- (a) if the Bearer Global Notes are intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”); and
- (b) if the Bearer Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depository (the “Common Depository”) for, Euroclear and Clearstream, Luxembourg.

Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, Euroclear and Clearstream, Luxembourg will be notified whether or not such Bearer Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Notes are to be so held does not necessarily mean that the Bearer Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note if the Temporary Bearer Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “Exchange Date”) which, in respect of each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, Receipts, Coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless upon due certification exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note if the Permanent Bearer Global Note is not intended to be in NGN form) without any requirement for certification. The applicable Final Terms will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, Receipts, Coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default (as defined in Condition 12) has occurred and is continuing, (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by

reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 10 which would not be required were the Notes represented by the Permanent Bearer Global Note in definitive form. The relevant Issuer will promptly give notice to the Noteholders in accordance with Condition 16 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

If the Bearer Global Note may be exchanged for definitive Bearer Notes in circumstances other than upon the occurrence of an Exchange Event, only one Specified Denomination can be specified (or all Specified Denominations must be an integral multiple of the lowest Specified Denomination). The clearing systems will not accept the Bearer Notes for clearing if the "€100,000 plus integral multiples of €1,000" construct is used unless exchange of the Bearer Global Note for definitive Bearer Notes is limited to the occurrence of an Exchange Event.

The exchange of a Permanent Bearer Global Note for definitive Bearer Notes upon notice from Euroclear and/or Clearstream (acting on the instructions of any holder) or at any time at the request of the Issuer should not be expressed to be applicable in the applicable Final Terms if the Bearer Notes are issued with a minimum Specified Denomination such as €100,000 (or its equivalent in another currency) plus one or more higher integral multiples of another smaller amount such as €1,000 (or its equivalent in another currency). Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Bearer Notes which is to be represented on issue by a Temporary Bearer Global Note exchangeable for definitive Notes.

In the case of each Tranche of Bearer Notes, the applicable Final Terms will specify whether U.S. Treas. Reg. § 1.163-5(c)(2)(i)(C) ("TEFRA C") (or any successor U.S. Treasury Regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) or U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) ("TEFRA D") is applicable in relation to the Notes. The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes), Receipts and Coupons relating to such Notes. Where TEFRA D is specified in the applicable final Terms:

"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."

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

### **Registered Notes**

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a "Registered Global Note").

Registered Global Notes will be deposited with a common depository or, if the Registered Global Notes are intended to be held under the new safekeeping structure (the "NSS"), a common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of the nominee for the Common Depository of Euroclear and Clearstream, Luxembourg or in the name of a nominee of the Common Safekeeper, as specified in the applicable Final Terms.

Where the Registered Global Notes issued in respect of any Tranche are to be held under the NSS, Euroclear and Clearstream, Luxembourg will be notified as to whether or not such Registered Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Registered Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the

Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for a Registered Global Note held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear or Clearstream, Luxembourg.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest (if any) and any other amount in respect of a Registered Global Note will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 8.4) as the registered holder of the relevant Registered Global Note. None of the Issuers, the Guarantor, the Trustee, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in a Registered Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest (if any) or any other amount in respect of a Registered Note in definitive form will, in the absence of provision to the contrary, be made to the person(s) shown on the Register on the relevant Record Date (as defined in Condition 8.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) an Event of Default (as defined in Condition 12) has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for a common depository or a common safekeeper for Euroclear and Clearstream, Luxembourg, the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no alternative clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 10 which would not be required were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 16 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

## **General**

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes") the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period applicable to the Notes of such Tranche.

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



subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

Noteholders who hold the Notes in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell on or before the relevant Exchange Date, a principal amount of Notes such that their holding is an integral multiple of a Specified Denomination.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any successor operator and/or successor clearing system and/or any additional or alternative clearing system specified in the applicable Final Terms.

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

**FORM OF FINAL TERMS**

[Date]

[UNITED UTILITIES PLC]  
[UNITED UTILITIES WATER FINANCE PLC]

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
[unconditionally and irrevocably guaranteed by UNITED UTILITIES WATER LIMITED]  
under the EUR 7,000,000,000  
Euro Medium Term Note Programme**

**PART A - CONTRACTUAL TERMS**

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 15 November 2016 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Offering Circular"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Offering Circular dated [original date] which are incorporated by reference in the Offering Circular dated 15 November 2016. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular dated 15 November 2016 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "Offering Circular"), including the Conditions incorporated by reference in the Offering Circular. Full information on the Issuer, the Guarantor, and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/news/market-news/rns/rns.htm>.]

- |    |     |  |   |
|----|-----|--|---|
| 1. | (a) | Issuer:  | [United Utilities PLC/United Utilities Water Finance PLC]   |
|    | (b) | [Guarantor   | [United Utilities Water Limited]]   |
| 2. | (a) | Series Number:   | [     ]   |
|    | (b) | Tranche Number:  | [     ]   |
|    | (c) | Date on which the Notes will be consolidated and form a single Series: | The Notes will be consolidated and form a single Series with [     ] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [24] below, which is expected to occur on or about [     ]][Not Applicable] |
| 3. |     | Specified Currency or Currencies:                                      | [     ]   |
| 4. |     | Aggregate Nominal Amount:  |   |

- (a) Series: [ ]
- (b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus [ ] days'] accrued interest from (and including) [ ] to (but excluding) [ ] (if applicable)]
6. (a) Specified Denominations: [ ] [EUR [100,000] and integral multiples of EUR [1,000] in excess thereof up to and including EUR [199,000]. No Notes in definitive form will be issued with a denomination above EUR [199,000].]
- (b) Calculation Amount for Notes in definitive form (and in relation to calculation of interest for Notes in global form see Conditions): [ ]
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [[ ]/Issue Date/Not Applicable]
8. Maturity Date: [Specify date/or for Floating rate notes - Interest Payment Date falling in or nearest to [ ]]
9. Interest Basis: [[ ] per cent. Fixed Rate] [ ] [+/-] [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] (see paragraph [15/16/17/18]) below)
10. Redemption/Payment Basis: [Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [[98][99][100][101][102] per cent. of their nominal amount]][Par][Index Linked Redemption] [Instalment]
11. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [ ] paragraph [15/16] applies and for the period from (and including) [ ], up to (but excluding) the Maturity Date paragraph [15/16] applies] [Not Applicable]
12. Put/Call Options: [Not Applicable] [Investor Put] [Issuer Call] [(see paragraph [19/20/21] below)
13. (a) Status of the Notes: Senior, unsecured
- (b) Date [Board] approval for issuance obtained: [ ]
14. Method of Distribution [Syndicated/Non-syndicated]

A12.4.1.9(C)  
A12.6.1(ii)(C)  
A13.4.13(C)  
A13.5.1(ii)(C)  
A12.4.1.11(i)  
(C)  
A13.4.9(i)(C)

A13.4.9(ii)(B)

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (a) Rate(s) of Interest: [ ] per cent. per annum payable [annually/semi-annually/quarterly] in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- I Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [ ] per Calculation Amount
- (d) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]/Not Applicable]
- (e) Day Count Fraction: [Actual/Actual (ICMA)] [30/360]  
[Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]
- (f) Determination Date(s): [[ ] in each year][Not Applicable]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) First Interest Payment Date: [ ]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (d) Additional Business Centre(s): [ ]
- (e) Manner in which the Rate of Interest and Interest Amount are to be determined: [Screen Rate Determination/ISDA Determination]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): [ ]
- (g) Screen Rate Determination:
- Reference Rate, Relevant Time and Relevant Financial Centre: Reference Rate: [ ] month [LIBOR/AUD-BBR-BBSW/CAD-BA-CDOR/HIBOR/TIBOR/PRIBOR/EURIBOR]

Relevant Time: [ ] in the Relevant Financial Centre

Relevant Financial Centre:  
[London/Brussels/Sydney/Toronto/Hong Kong/Tokyo/Prague]

- Interest Determination Date(s): [Second London business day prior to the start of each Interest Period]  
[First day of each Interest Period]  
[Second day on which the TARGET2 System is open prior to the start of each Interest Period]  
[Second Tokyo business day prior to the start of each Interest Period]  
[Second Prague business day prior to the start of each Interest Period]  
[[ ] days prior to the start of each Interest Period]
- Relevant Screen Page: [ ]

(h) ISDA Determination:

- Floating Rate Option: [ ]
- Designated Maturity: [ ]
- Reset Date: [ ]

(i) Linear Interpolation: [Not Applicable/Applicable – the Rate of Interest for [the/each] [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]

(j) Margin(s): [+/-] [ ] per cent. per annum

(k) Minimum Rate of Interest: [ ] per cent. per annum

(l) Maximum Rate of Interest: [ ] per cent. per annum

(m) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond basis]  
[30E/360 (ISDA)]

17. **Zero Coupon Note Provisions** [Applicable/Not Applicable]

(a) Accrual Yield: [ ] per cent. per annum

(b) Reference Price: [ ]

(c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
[Actual/360]

		[Actual/365]	
18.	<b>Index Linked Interest/Redemption Note Provisions</b>	[Applicable – Conditions [6] and [7] apply/Not Applicable]	A12.4.2.1(C) A13.4.8(C) A13.4.8(iii)(C) A13.4.8(vi)(A)
(a)	Index	[RPI/CPI/CPIH]	
(b)	Rate of Interest:	[ ] per cent. per annum multiplied by the Index Ratio (in accordance with Condition [6.3])	
(c)	Name and address of Calculation Agent:	[ ]	
(d)	Specified Period(s)/Specified Interest Payment Dates:	[ ]	A13.4.8(xii)(C) A12.5.4.5(C)
(e)	Business Day Convention:	[Not Applicable/Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention]	A12.4.1.13(ii)(B)
(f)	Additional Business Centre(s):	[ ] [Not Applicable]	
(g)	Day Count Fraction:	[Actual/Actual (ICMA)] [30/360 (as set out in Condition [6.2(d))]] [Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/360] [30/360 (as set out in Condition [6.2(d))]] [360/360][Bond Basis] [30E/360][Eurobond basis] [30E/360 (ISDA)] [Index Day Count Fraction]	
(h)	Base Index Figure:	[ ]	
(i)	Index Figure applicable to:	[[ ] month lag applies] [Not Applicable]	
(j)	t	[ ] [Not Applicable]	
(k)	Reference Gilt:	[[ ] per cent. Index-Linked Treasury Stock due [ ]] [Not Applicable]	
(l)	Minimum Rate of Interest:	[ ] per cent. per annum	
(m)	Maximum Rate of Interest:	[ ] per cent. per annum	

#### PROVISIONS RELATING TO REDEMPTION

19.	Notice periods for Condition 9.2	Minimum period: [ ] days Maximum period: [ ] days
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20. Issuer Call: [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (i) Minimum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (ii) Maximum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
21. Investor Put: [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (i) Minimum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (ii) Maximum Optional Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (c) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days
22. Final Redemption Amount: [ ] per Calculation Amount
- (i) Minimum Final Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
- (ii) Maximum Final Redemption Amount: [[ ] per Calculation Amount/Not Applicable]
23. Early Redemption Amount payable on redemption for taxation reasons, indexation reasons or on event of default: [ ] per Calculation Amount
- (i) Minimum Early [ ] per Calculation Amount/Not Applicable]

Redemption Amount:

(ii) Maximum Early Redemption Amount: [[ ] per Calculation Amount/Not Applicable]

Redemption Amount:

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Bearer Notes:
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event.]
- [Temporary Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date.]
- [Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]]
- [Registered Notes: Global Note registered in the name of a nominee for Euroclear and Clearstream, Luxembourg / a common safekeeper for Euroclear or Clearstream, Luxembourg]
25. New Global Notes (“NGN”) / New Safekeeping Structure (“NSS”): [NGN/NSS/No]
26. Additional Financial Centre(s): [Not Applicable/[ ]]
27. Talons for future Coupons or Receipts to be attached to Definitive Notes: [Yes/No]
28. Redenomination applicable: Redenomination [not] applicable
29. Details Relating to Instalment Notes [Applicable]/[Not Applicable]
- (a) Instalment Amount(s) [ ]
- (b) Instalment Dates [ ]

#### DISTRIBUTION

30. (a) If syndicated, names of Managers: [Not Applicable/[ ]]
- (b) Date of [Subscription] Agreement: [Not Applicable/[ ]]
31. If non-syndicated, name of relevant Manager: [ ]



32. Whether TEFRA D or TEFRA C rules [TEFRA D/TEFRA C/TEFRA not applicable] applicable or TEFRA rules not applicable:

33. EEA Retail Investor Selling Restriction: [Applicable/Not Applicable]

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the EUR 7,000,000,000 Euro Medium Term Note Programme established by United Utilities PLC and United Utilities Water Finance PLC, with obligations under Notes issued by United Utilities Water Finance PLC unconditionally and irrevocably guaranteed by United Utilities Water Limited.

**[THIRD PARTY INFORMATION]**

[ ] has been extracted from [ ]. [Each of the][The] Issuer[s] [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: .....

[Duly authorised]

Signed on behalf of the Guarantor:

By: .....

[Duly authorised]

**PART B - OTHER INFORMATION****1. LISTING**

- (a) Listing: London
- (b) Admission to trading: Application [has been]/[will be] made for the Notes to be admitted to trading on [the London Stock Exchange's regulated market] with effect from [ ].
- (c) Estimate of total expenses related to [ ] admission to trading:

**2. RATINGS**

Ratings: [Not Applicable]/[[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

“[ ]” by [*insert the legal name of the relevant credit rating entity(/ies) and associated defined terms*]

[Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the CRA Regulation).]

**3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to [the] [[ ] (“Managers”)/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers, the Guarantor and their affiliates in the ordinary course of business]

**4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- (a) [Reasons for the offer [ ]]
- (b) [Estimated net proceeds: [ ]]
- (c) [Estimated total expenses: [ ]]

**5. YIELD**

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

**6. HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/TIBOR/PRIBOR/HIBOR/AUD-BBR-BBSW/CAD-BA-CDOR] rates can be obtained from [Reuters].

**7. OPERATIONAL INFORMATION**

- (a) ISIN: [ ]
- (b) Common Code: [ ]
- (c) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/[ ]]
- (d) Delivery: Delivery [against/free of] payment
- (e) Names and addresses of additional Paying Agent(s) (if any): [ ]

## TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by United Utilities PLC (“UU”) or United Utilities Water Finance PLC (“UUWF”) (each an “Issuer” and, together, the “Issuers”) constituted by an Amended and Restated Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “Trust Deed”) dated 15 November 2016 made between the Issuers and United Utilities Water Limited (the “Guarantor”) as guarantor of Notes issued by UUWF and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include any successor as trustee).

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

- (a) in relation to any Notes represented by a global Note (a “Global Note”), units of the lowest Specified Denomination in the Specified Currency;
- (b) any Global Note;
- (c) any definitive Notes in bearer form (“Bearer Notes”) issued in exchange for a Global Note in bearer form; and
- (c) any definitive Notes in registered form (“Registered Notes”) (whether or not issued in exchange for a Global Note in registered form).

References herein to the “relevant Issuer” shall be to the Issuer of the Notes named as such in the applicable Final Terms (as defined below). References in these Terms and Conditions to the “Guarantor” shall only be applicable if UUWF is specified as the Issuer of the Notes in the applicable Final Terms.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Agency Agreement, as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 15 November 2016 and made between the Issuers, the Guarantor, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the “Principal Paying Agent”, which expression shall include any successor principal paying agent), the other paying agents named therein (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents), Citibank, N.A., London Branch as registrar (in such capacity, the “Registrar”, which expression shall include any successor registrar) and as transfer agent (in such capacity, the “Transfer Agent”, which expression shall include any additional or successor transfer agents) and the Trustee. The Principal Paying Agent, the Registrar, the Paying Agents and other Transfer Agents together referred to as the “Agents”).

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the “applicable Final Terms” are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, and including any relevant implementing measure in a relevant Member State of the European Economic Area).

Interest bearing definitive Bearer Notes have interest coupons (“Coupons”) and, in the case of Bearer Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Notes in definitive bearer form which are repayable in instalments have receipts (“Receipts”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

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

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Trust Deed, the Agency Agreement and the applicable Final Terms are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at 15 November 2016 at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents and the Registrar. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. If this Note is not to be admitted to trading on the regulated market of the London Stock Exchange, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the relevant Issuer and the Trustee or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Couponholders and the Receiptholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

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

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the currency (the “Specified Currency”) and the denominations (the “Specified Denomination(s)”) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Instalment Note or an Index Linked Note, or a combination of any of the foregoing, depending upon the Interest Basis and Redemption Basis shown in the applicable Final Terms.

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

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The relevant Issuer, the

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and/or Clearstream Banking S.A. (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF), the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely on such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

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

## **2. TRANSFERS OF REGISTERED NOTES**

### **2.1 Transfers of interests in Registered Global Notes**

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note of the same series only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

### **2.2 Transfers of Registered Notes in definitive form**

Subject as provided in Condition 2.3 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the relevant Issuer and the Registrar may from time to time prescribe, the initial such regulations being set out in Schedule 3 to the Agency Agreement. Subject as provided above, the relevant Transfer Agent

will, as soon as reasonably practicable (upon receipt of the relevant request), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

### **2.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Notes under Condition 9, the relevant Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

### **2.4 Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the relevant Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **3. STATUS OF THE NOTES AND THE GUARANTEE**

### **3.1 Status of the Notes**

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

### **3.2 Status of the Guarantee**

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

## **4. NEGATIVE PLEDGE**

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

"Relevant Indebtedness" means any present or future indebtedness (whether being principal, premium or interest) for borrowed money (other than indebtedness for borrowed money with an initial maturity falling 20 years or more after the Issue Date of the

first Tranche of the Notes and having a maximum principal amount outstanding at any time not exceeding the greater of £250,000,000 and 20 per cent. of Adjusted Capital and Reserves (as defined in Condition 12.2) or indebtedness for borrowed money which has a stated maturity not exceeding one year) which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash and which, with the agreement of the relevant Issuer, are quoted, listed, dealt in or traded on a stock exchange or over the counter or other recognised securities market (whether or not distributed by way of private placement).

## 5. REDENOMINATION

### 5.1 Redenomination

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

The election will have effect as follows:

- (a) the Notes shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note equal to the nominal amount of that Note in the Specified Currency, converted into euro at the Established Rate, provided that, if the relevant Issuer determines, with the consent of the Trustee and the Principal Paying Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the relevant Issuer shall promptly notify the Noteholders in accordance with Condition 16, the stock exchange or other relevant authority (if any) on which the Notes are listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Receipts or Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the relevant Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Trustee and the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Trustee and the Principal Paying Agent shall determine and as shall be notified to the Noteholders in accordance with Condition 16;
- (d) if definitive Notes have been issued prior to the Redenomination Date, all unexpired Receipts and Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the relevant Issuer gives notice (the "Exchange Notice") that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such Notes, Receipts and/or Coupons are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes so issued will also become void on that date although those Notes will continue to constitute valid exchange obligations of the relevant Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Trustee and the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;



- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date it will be calculated:
- (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
- (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;
- and, in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 6.1), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 6.1) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding;
- (g) if the Notes are Floating Rate Notes the applicable Final Terms specifies any relevant changes to the provisions relating to interest.

## 5.2 Definitions

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

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

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

“Redenomination Date” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the relevant Issuer in the notice given to the Noteholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union or otherwise participates in European economic and monetary union in a manner with similar effect to such third stage; and

“Treaty” means the Treaty establishing the European Community, as amended.

## 6. INTEREST

### 6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount, is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1.

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;

- (c) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (d) if Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (e) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

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

## **6.2 Interest on Floating Rate Notes**

### **(a) Interest Payment Dates**

Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

- (A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (1) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (2) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is New Zealand dollars, shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

**(i) ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (i), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, each as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the “ISDA Definitions”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (i), (i) “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions; and (ii) “Euro-zone” means the region comprised of Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty.

**(ii) Screen Rate Determination for Floating Rate Notes**

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

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

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

For the purposes of these Conditions:

“Interest Determination Date” shall mean the date specified as such in the Final Terms or if none is so specified:

- (i) if the Reference Rate is the London interbank offered rate (“LIBOR”) (other than Sterling LIBOR), the second London business day prior to the start of each Interest Period;
- (ii) if the Reference Rate is Sterling LIBOR, the first day of each Interest Period;
- (iii) if the Reference Rate is the Euro-zone interbank offered rate (“EURIBOR”), the second day on which the TARGET2 System is open prior to the start of each Interest Period;
- (iv) if the Reference Rate is the Tokyo interbank offered rate (“TIBOR”), the second Tokyo business day prior to the start of each Interest Period;
- (v) if the Reference Rate is the Hong Kong interbank offered rate (“HIBOR”), the first day of each Interest Period;
- (vi) if the Reference Rate is the Prague interbank offered rate (“PRIBOR”), the second Prague business day prior to the start of each Interest Period;
- (vii) if the Reference Rate is the Canadian dealer offered rate (“CAD-BA-CDOR”), the first day of each Interest Period; or
- (viii) if the Reference Rate is the Australian bank bill swap interest rate (“AUD-BBR-BBSW”), the first day of each Interest Period.

“Reference Rate” shall mean (i) LIBOR; (ii) EURIBOR; (iii) TIBOR; (iv) HIBOR; (v) PRIBOR; (vi) CAD-BA-CDOR; or (vii) AUD-BBR-BBSW, in each case for the relevant period, as specified in the applicable Final Terms.

“Relevant Financial Centre” shall mean (i) London, in the case of determination of LIBOR; (ii) Brussels, in the case of a determination of EURIBOR; (iii) Tokyo, in the case of a determination of TIBOR; (iv) Hong Kong, in the case of

a determination of HIBOR; (v) Prague, in the case of a determination of PRIBOR; (vi) Toronto, in the case of a determination of CAD-BA-CDOR; or (vii) Sydney, in the case of determination of AUD-BBR-BBSW.

“Relevant Time” shall mean the time specified in the Final Terms or if none is specified: (i) in the case of LIBOR, 11.00 a.m.; (ii) in the case of EURIBOR, 11.00 a.m.; (iii) in the case of TIBOR, 11.00 a.m.; (vi) in the case of HIBOR, 11.00 a.m.; (v) in the case of PRIBOR, 11.00 a.m.; (vi) in the case of CAD-BA-CDOR, 10.00 a.m.; or (vii) in the case of AUD-BBR-BBSW, 10.10 a.m., in each case in the Relevant Financial Centre.

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

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 5.2(b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 5.2(b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

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

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

- (a) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by

366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (b) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (e) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (e) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (f) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30.

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

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Principal Paying Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter, or, as the case may be, next longer, then the Principal Paying Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.



“Designated Maturity” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

**(f) Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 16 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 16. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(g) Determination or Calculation by Trustee**

If for any reason at any relevant time the Principal Paying Agent defaults in its obligation to determine the Rate of Interest or in its obligation to calculate any Interest Amount in accordance with sub-paragraph (b)(i) or (ii) above as the case may be, and in each case (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent.

**(h) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Principal Paying Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF), the Trustee, the Principal Paying Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF), the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**6.3 Interest on Index Linked Notes**

This Condition 6.3 applies to Index Linked Notes only.

**(a) Interest Payment Dates**

Each Index Linked Note bears interest on its outstanding nominal amount (in the case of Index Linked Notes represented by a Global Note) or the Calculation Amount (in the case of Index Linked Notes in definitive form) from (and including) the Interest Commencement Date at the rate per annum equal to the Rate of Interest, and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

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

- (A) in any case where Specified Periods are specified in accordance with Condition 6.3(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- II. either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and Any Additional Business Centre and which, if the Specified Currency is New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Index Linked Notes will be the product of the rate per annum specified in the applicable Final Terms and the Index Ratio (as determined in accordance with Condition 7.1) rounded to six decimal places (0.000005 being rounded upwards).

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 6.3(b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 6.3(b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is capable of being determined, determine the applicable Rate of Interest and notify the Principal Paying Agent as soon as practicable after determining the same.

The amount of interest payable on each Index Linked Note for any Interest Period (the “Interest Amount”) will be calculated by the Calculation Agent by applying the Rate of Interest to:

- (i) in the case of Index Linked Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Index Linked Notes represented by such Global Note; or
- (ii) in the case of Index Linked Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such product by the Day Count Fraction specified in the applicable Final Terms and:

- (A) defined in Condition 6.1;
- (B) defined in Condition 6.2; or
- (C) in the case of Notes which pay interest on a semi-annual basis, the Day Count Fraction which is a fraction (1) the numerator of which is the number of days from and including the most recent Interest Payment Date (or Interest Commencement Date if such period is before the first scheduled Interest Payment Date) (to but excluding the next Interest Payment Date or, if earlier, the date of payment); and (2) the denominator of which is two times the number of days (including the first and excluding the last) in the Interest Period (the “Index Day Count Fraction”),

and rounding the resulting figure to the nearest sub-unit of the relevant Specified Currency (half of any such sub-unit being rounded upwards or otherwise in accordance with the applicable market convention).

Where the Specified Denomination of an Index Linked Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**(e) Notification of Rate of Interest and Interest Amounts**

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the relevant Issuer, the Trustee, the other Paying Agents and any stock exchange, or other relevant authority, on which the relevant Index Linked Notes are for the time being listed, or by which they have been admitted to listing, and notice thereof to be published in accordance with Condition 16 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each

Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange, or other relevant listing authority, on which the relevant Index Linked Notes are for the time being listed, or by which they have been admitted to listing, and to the Noteholders in accordance with Condition 16. For the purpose of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(f) Determination or Calculation by the Trustee**

If for any reason the Calculation Agent at any time after the Issue Date defaults in its obligation to determine or calculate:

- (i) the Rate of Interest;
- (ii) any Interest Amount in accordance with Condition 6.3(c) above;
- (iii) in relation to Notes redeemable in instalments, the Instalment Amount(s);
- (iv) the Final Redemption Amount; or
- (v) the Early Redemption Amount,

the Trustee shall determine or calculate the same in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 6.3 and to the provisions of Condition 7) and in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Calculation Agent (and, where practicable, in accordance with this Condition).

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.3, whether by the Calculation Agent, the Principal Paying Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF), the Calculation Agent, the Principal Paying Agent, the Trustee, the other Paying Agents and all Noteholders, Receipholders and Couponholders and (in the absence of the aforesaid) no liability to the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF), the Noteholders, the Receipholders or the Couponholders shall attach to the Calculation Agent, the Principal Paying Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**6.4 Accrual of interest**

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

**7. INDEXATION**

This Condition 7 is applicable only if the applicable Final Terms specifies the Notes as Index Linked Notes.

**7.1 Definitions**

In these Conditions:

“Base Index Figure” means (subject to Condition 7.3) the base index figure as specified in the relevant Final Terms;

“Calculation Date” means any date when an Interest Amount or principal amount, as the case may be, falls due;

“CPI” means the U.K. Consumer Price Index (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any);

“CPIH” means the U.K. Consumer Price Index including owner occupier’s housing costs (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any);

“Expert” means a gilt-edged market maker, an independent investment bank or other expert in London appointed by the relevant Issuer;

“Index” or “Index Figure” means, subject as provided in Conditions 7.3, 7.5 and 9.3, either RPI, CPI or CPIH as specified in the relevant Final Terms;

Where RPI is specified as the Index in the relevant Final Terms, any reference to the “Index Figure applicable” to a particular Calculation Date shall, subject as provided in Conditions 7.3, 7.5 and 9.3, and if “3 months lag” is specified in the applicable Final Terms, be calculated in accordance with the following formula:

$$RPI_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (RPI_{m-2} - RPI_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“RPI<sub>m-3</sub>” means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due; and

“RPI<sub>m-2</sub>” means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Where RPI is specified as the Index in the relevant Final Terms, any reference to the “Index Figure applicable” to a particular Calculation Date shall, subject as provided in Conditions 7.3, 7.5 and 9.3, and if “8 months lag” is specified in the applicable Final Terms, mean the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

Where CPI is specified as the Index in the relevant Final Terms, any reference to the “Index Figure applicable” to a particular Calculation Date shall, subject as provided in Conditions 6.3, 6.5 and 8.3, be calculated in accordance with the following formula:

$$CPI_{m-t} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (CPI_{m-(t-1)} - CPI_{m-t})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“CPI<sub>m-t</sub>” means the Index Figure for the first day of the month that is t months prior to the month in which the payment falls due, where the lag period “t” has a value of 2 to 24 as specified in the applicable Final Terms;

Where CPIH is specified as the Index in the relevant Final Terms, any reference to the “Index Figure applicable” to a particular Calculation Date shall, subject as provided in Conditions 6.3, 6.5 and 8.3, be calculated in accordance with the following formula:

$$CPIH_{m-t} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (CPIH_{m-(t-1)} - CPIH_{m-t})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“CPI<sub>m-t</sub>” means the Index Figure for the first day of the month that is t months prior to the month in which the payment falls due, where the lag period “t” has a value of 2 to 24 as specified in the applicable Final Terms;

“Indexed Benchmark Gilt” means the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange that is indexed to the same Index as the Notes and whose average maturity most closely matches that of the Notes as the Expert shall determine to be appropriate;

“Index Ratio” applicable to any Calculation Date means the Index Figure applicable to such month or date divided by the Base Index Figure and rounded to five decimal places (0.000005 being rounded upwards); and

“Reference Gilt” means the Treasury Stock specified in the applicable Final Terms (or, if such stock is not in existence, such other index-linked stock issued by or on behalf of HM Government as the relevant Issuer, on the advice of the Expert, may consider to be the most appropriate reference government stock for the Index Linked Notes);

“RPI” means the U.K. Retail Price Index (for all items) published by the Office for National Statistics (January 1987 = 100) as published by HM Government.

## 7.2 Indexation of Principal

The Final Redemption Amount, the Early Redemption Amount and the Optional Redemption Amount in respect of the Index Linked Notes shall be the nominal amount of the Index Linked Notes multiplied by the Index Ratio applicable to the date on which the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount (as the case may be) becomes payable (as determined in accordance with Condition 7.1), provided that:

- (a) if a Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount is specified in the applicable Final Terms and such amount is greater than the amount of principal in respect of the Notes determined in accordance with this Condition 7.2 (expressed on a per Calculation Amount basis), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) shall be, respectively, the Minimum Final Redemption Amount, Minimum Early Redemption Amount and/or Minimum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and/or
- (b) if a Maximum Final Redemption Amount, Maximum Early Redemption Amount and/or Maximum Optional Redemption Amount is specified in the applicable Final Terms and such amount is less than the amount of principal in respect of the Notes determined in accordance with this Condition 6.2 (expressed on a per Calculation Amount basis), the Final Redemption Amount, Early Redemption Amount and/or Optional Redemption Amount (as applicable) shall be, respectively, the Maximum Final Redemption Amount, Maximum Early Redemption Amount or Maximum Optional Redemption Amount (as applicable) so specified in the applicable Final Terms; and

- (c) the Calculation Agent will calculate the Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount (as the case may be) as soon as reasonably practicable after each time such amount is capable of being determined and will notify the Principal Paying Agent thereof as soon as practicable after calculating the same. The Principal Paying Agent will as soon as practicable thereafter notify the relevant Issuer and any stock exchange on which the Notes are for the time being listed thereof and cause notice thereof to be published in accordance with Condition 16.

### 7.3 Changes in Circumstances Affecting the Index

- (a) Change in Base: If at any time and from time to time the Index is changed by the substitution of a new base for it, then with effect from (and including) the month in respect of which such substitution takes effect:
- (i) the definition of Index and Index Figure in Condition 7.1 shall be deemed to refer to the month and/or year (as applicable) in substitution for January 1987 (where RPI is specified as the Index in the relevant Final Terms) or 2015 (where CPI or CPIH is specified as the Index in the relevant Final Terms) (or, as the case may be, for such other date or month as may have been substituted for it); and
- (ii) the definition of Base Index Figure in Condition 7.1 shall be amended to mean the product of the then existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index immediately prior to such substitution.
- (b) Delay in publication of the Index: If in relation to a particular Interest Period or to the redemption of all or some only of the Notes and otherwise than in circumstances which the relevant Issuer certifies to the Trustee may fall with Condition 7.5 or Condition 9.3 (notwithstanding that the relevant Issuer may subsequently be advised that they do not fall within Condition 7.5 or Condition 9.3), the Index Figure relating to any month (the “calculation month”) which is required to be taken into account for the purposes of the determination of the Index Figure applicable to any date is not published on or before the fourteenth day before the date on which such payment is due (the “date for payment”), the Index Figure for the relevant calculation month shall be:
- (i) the substitute index figure (if any) as is published by the Bank of England or the United Kingdom Debt Management Office (or such other United Kingdom authority as may be appropriate) for the purposes of indexation or payments on the Reference Gilt or the Indexed Benchmark Gilt (as applicable) or, failing such publication, on any one or more of HM Government’s index-linked stocks that is indexed to the same Index as the Notes, as determined by the Expert; or
- (ii) if no such determination is made by the Expert within seven days, the Index Figure last published before the date for payment.

### 7.4 Application of Changes

Where the provisions of Condition 7.3(b) apply, the relevant Issuer shall deliver to the Principal Paying Agent and Calculation Agent a certificate, acting on the sole advice of the Expert, as to the Index Figure applicable to the date for payment which shall be conclusive and binding. If a substitute index is published as specified in Condition 7.3(b)(i) above, a determination made based on that Index shall be final and no further payment by way of adjustment shall be made, notwithstanding that the Index Figure applicable to the date for payment may subsequently be published.

If no substitute index is so published and the index relating to the date for payment is subsequently published then:

- (a) in the case of an Index Linked Note not falling due for redemption on the date for payment of interest or principal (as the case may be), if the index so subsequently published (if published when such Note remains outstanding) is greater or less than the Index applicable by virtue of Condition 7.3(b)(ii), the interest payable on that Note on the Interest Payment Date next succeeding the date of such subsequent publication shall be increased or

reduced to reflect the amount by which the interest or principal (as the case may be) next payable on that Note on the date for payment on the basis of the index applicable by virtue of the preceding paragraph fell short of, or (as the case may be) exceeded the interest or principal (as the case may be) which would have been payable on that Note if the Index subsequently published had been published on or before the fourteenth business day before the date for payment; or

- (b) in the case of any Note falling due for final redemption on the date of payment, no subsequent adjustment to amounts paid will be made.

## **7.5 Cessation of or Fundamental Changes to the Index**

If the Index ceases to be published or any changes are made to it which, in the opinion of the Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the relevant Issuer or the Noteholders and if, within 30 days after its appointment (or such longer period as the Trustee may in its sole discretion agree), the Expert recommends for the purposes of the Index Linked Notes one or more adjustments to the Index or substitute index (with or without adjustments), then provided that such adjustments or substitute index (as the case may be) are not materially detrimental (in the opinion of the Expert) either to the interests of the relevant Issuer or the interests of the Noteholders, as compared to the interests of the relevant Issuer and the Noteholders (as the case may be) as they would have been had the Index continued to be published or such fundamental change in the rules governing the Index had not been made, the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Conditions to the Index shall be construed accordingly and the relevant Issuer shall notify the Noteholders of the adjustments to the Index or the introduction of the substitute index (with or without adjustments) in accordance with Condition 16.

If any payment in respect of the Index Linked Notes is due to be made after the cessation or changes referred to in the preceding paragraph but before any such adjustment to, or replacement of, the Index takes effect, the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor shall (if the Index Figure applicable (or deemed applicable) to the date of payment is not available in accordance with the provisions of Condition 6.1) make a provisional payment on the basis that the Index Figure applicable to the date for payment is the Index last published. In that event or in the event of any payment on the Index Linked Notes having been made on the basis of an index deemed applicable under Condition 7.3(b)(i) above (also referred to below as a “provisional payment”) the Expert subsequently determines that the relevant circumstances fall within this Condition 7.5, then:

- (a) except in the case of a payment on redemption of the Index Linked Notes, if the sum which would have been payable if such adjustments or such substitute index had been in effect on the due date for such provisional payment is greater or less than the amount of such provisional payment, the interest payable on the Index Linked Notes on the Interest Payment Date next succeeding the date on which the relevant Issuer and the Trustee receive such recommendation shall be increased or reduced to reflect the amount by which such provisional payment of interest fell short or, (as the case may be) exceeded, the interest which would have been payable on the Notes if such adjustments or such substituted index had been in effect on that date; or
- (b) in the case of a payment of principal or interest on redemption of the Notes, no subsequent adjustment to amounts paid will be made.

## **7.6 Trustee Action and/or Steps**

The Trustee shall be entitled to assume that no cessation of or change to the Index has occurred until informed otherwise by the relevant Issuer and it will not be responsible for identifying or appointing an Expert. The Trustee may rely absolutely on any determination made or advice given by the Expert without need for further investigation.

## **8. PAYMENTS**

### **8.1 Method of payment**



Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10, and to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto and the relevant Issuer will not be liable to holders for any taxes or duties of whatsoever nature imposed or levied by such laws, agreements or regulations.

## **8.2 Presentation of definitive Bearer Notes, Receipts and Coupons**

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 8.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 8.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 8.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the relevant Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmaturing Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Index Linked Notes) and save as provided in Condition 6.4) should be presented for payment together with all unmaturing Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmaturing Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmaturing Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 10) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

### **8.3 Payments in respect of Bearer Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

### **8.4 Payments in respect of Registered Notes**

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg, are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is New Zealand dollars, shall be Auckland) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note will be made by transfer on the due date to the Designated Account of the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg, are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date"). Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the relevant Issuer, the Guarantor, or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### **8.5 General provisions applicable to payments**

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

Notwithstanding the provisions of Condition 8.1 above, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of Bearer Notes will be made at the specified office of a Paying Agent in the United States if:

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

## **8.6 Payment Day**

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) any Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is New Zealand dollars shall be Auckland) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **8.7 Interpretation of principal and interest**

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

- (a) any additional amounts which may be payable with respect to principal under Condition 10 or under any undertaking or covenant given in addition thereto, or in substitution thereof, pursuant to the Trust Deed;

- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in instalments, the Instalment Amount(s);
- (f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 9.6(c)); and
- (g) any premium and any other amounts which may be payable by the relevant Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 or under any undertaking or covenant given in addition thereto, or in substitution thereof, pursuant to the Trust Deed.

## **9. REDEMPTION AND PURCHASE**

### **9.1 Redemption by Instalments and Redemption at maturity**

- (a) Unless previously redeemed or purchased and in each case cancelled as specified below, each Note (including each Index Linked Note) that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the relevant Final Terms. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date (as defined in Condition 10) relating to such Instalment Amount.
- (b) Unless previously redeemed or purchased and in each case cancelled as specified below, each Note (including each Index Linked Note) will be redeemed by the relevant Issuer at its Final Redemption Amount specified in the applicable Final Terms or, in the case of a Note falling within sub-paragraph (a) above, its final Instalment Amount (subject, in the case of Index Linked Notes to adjustment in accordance with Condition 7.2) in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### **9.2 Redemption for tax reasons**

Subject to Condition 9.6, the Notes may be redeemed at the option of the relevant Issuer in whole, but not in part, at any time (if the Note is neither a Floating Rate Note nor an Index Linked Note) or on any Interest Payment Date (if the Note is either a Floating Rate Note or an Index Linked Note), on giving not less than the minimum period and not more than the maximum period of notice specified in applicable Final Terms (in the event that such periods are not so specified, the minimum period will be not less than 30 days and the maximum period will be not more than 60 days) to the Trustee and the Principal Paying Agent and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable), if the relevant Issuer satisfies the Trustee immediately before the giving of the notice referred to above that on the occasion of the next payment due under the Notes, the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor has or will become obliged to pay additional amounts as provided or referred to in Condition 10 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the relevant Issuer or, as the case may be, the Guarantor (where the relevant Issuer is UUWF) would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

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

Notes redeemed pursuant to this Condition 9.2 will be redeemed at their Early Redemption Amount referred to in Condition 9.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **9.3 Redemption for Index Reasons**

- (a) In the case of Index Linked Notes, if:
- (i) the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Noteholders and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee may in its sole discretion agree), or states to the relevant Issuer and the Trustee that it is unable to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments), as described in Condition 6.5, the relevant Issuer shall, within 14 days of the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall not be more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their nominal amount multiplied by the Index Ratio applicable to the date on which the date fixed for redemption falls, together with accrued interest; or
  - (ii) the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the relevant Issuer and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee may in its sole discretion agree), or states to the relevant Issuer and the Trustee that it is unable to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments), as described in Condition 6.5, the relevant Issuer may at its option, within 14 days of the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall not be more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their nominal amount multiplied by the Index Ratio applicable to the date on which the date fixed for redemption falls, together with accrued interest.

### **9.4 Redemption at the option of the relevant Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the relevant Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms (in the event that such periods are not so specified, the minimum period will be not less than 30 days and the maximum period will be not more than 90 days) to the Noteholders in accordance with Condition 15; (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum

Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 16 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 9.4 and notice to that effect shall be given by the relevant Issuer to the Noteholders in accordance with Condition 16 at least five days prior to the Selection Date.

#### **9.5 Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the relevant Issuer in accordance with Condition 16 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms (in the event that such periods are not so specified, the minimum period will be not less than 30 days and the maximum period will be not more than 90 days), the relevant Issuer will, upon the expiry of such notice, redeem in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar, falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository or common safekeeper, as the case may be, for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

#### **9.6 Early Redemption Amounts**

For the purpose of Condition 9.2 and 9.4 and Condition 12, the Notes will be redeemed at their Early Redemption Amount calculated as follows:

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

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (1) in the case of a Zero Coupon Note other than a Zero Coupon Note payable in euro, on the basis of a 360-day year consisting of 12 months of 30 days each and (2) in the case of a Zero Coupon Note payable in euro, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365).

- (d) In the case of Index Linked Notes, at the outstanding nominal amount thereof, subject to adjustment in accordance with Condition 7.2.

## **9.7 Purchases**

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

## **9.8 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and Notes purchased and cancelled pursuant to Condition 9.7 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **9.9 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 9.1, 9.2, 9.4 or 9.5 above or upon its becoming due and repayable as provided in Condition 12 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 9.6(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Principal Paying Agent, the Registrar or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 16.

## 10. TAXATION

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

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) presented for payment to, or to a third party on behalf of, a holder who would not be liable to such withholding or deduction if such holder had made a declaration of non-residence or similar claim for exemption to any authority of or in the United Kingdom; or
- (d) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day.

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

## 11. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 10) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8.2 or any Talon which would be void pursuant to Condition 8.2.

## 12. EVENTS OF DEFAULT AND ENFORCEMENT

- 12.1 The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to it being



indemnified and/or secured and/or pre-funded to its satisfaction), (but, in the case of the happening of any of the events mentioned in Conditions 12.1(b), (c), (e), (f) and (g), below in relation to the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor and (c) to (g) below (inclusive) in relation to a Material Subsidiary, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the relevant Issuer that the Notes are, and they shall accordingly thereupon become, immediately due and repayable at their Early Redemption Amount, together with accrued interest as provided in the Trust Deed, if any of the following events shall occur and be continuing:

- (a) if default is made by the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor for a period of 14 days or more in the payment of any principal or interest due in respect of the Notes or any of them; or
- (b) if default is made by the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor in the performance or observance of any material obligation, condition or provision binding upon it under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice thereof has been given by the Trustee to the relevant Issuer or, as the case may be, the Guarantor (where the relevant Issuer is UUWF) requiring the same to be remedied; or
- (c) (1) any indebtedness for moneys borrowed (as defined below) of the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor or any Material Subsidiary or (2) any present or future guarantee for, or indemnity in respect of, any indebtedness for moneys borrowed of any person given by the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary where the relevant indebtedness for moneys borrowed when aggregated with all other indebtedness for moneys borrowed in respect of which one or more other events referred to in this paragraph (c) shall have occurred exceeds whichever is the greater of £30,000,000 (or the equivalent in other currencies as determined by the Trustee) and two per cent. of the Adjusted Capital and Reserves:
  - (i) is not paid or repaid or honoured when due or within any applicable grace period; or
  - (ii) is declared to be or becomes enforceable, redeemable or repayable prior to the due date for payment thereof as a result of any actual default by the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary, as the case may be, or as a result of an event of default (howsoever described) in relation thereto, unless such default or event of default is waived or remedied (to the satisfaction of the Trustee) within thirty business days,

except, in any such case, where there is a bona fide dispute as to payment; or
- (d) if an order is made or a resolution is passed for the winding up of, or an administration order is made in relation to, the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary (save, in the case of a Material Subsidiary, (i) with the prior consent of the Trustee or the prior sanction of an Extraordinary Resolution for the purposes of or in connection with an amalgamation or reconstruction, or (ii) a voluntary solvent winding-up where surplus assets are available for distribution); or
- (e) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the undertaking, property and assets of the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary or if a distress, execution or other process is levied or enforced upon or sued out against the whole or any substantial part of the assets of the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary and, in the case of any of the foregoing events, is not discharged within 60 days or such longer period as the Trustee may allow; or
- (f) if the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act 1986; or

- (g) if the relevant Issuer, the Guarantor (where the relevant Issuer is UUWF) or any Material Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in any case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement:
- (i) (where the relevant Issuer is UU) not involving or arising out of the insolvency of UU or a Material Subsidiary and under which all or substantially all of its assets are transferred to UU or a Material Subsidiary or one or more of UU's other Subsidiaries or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Material Subsidiary or Material Subsidiaries provided that this exception (i) shall not apply where the transferor company is UU unless assets comprising the major part by value of the assets owned by UU immediately prior to such transfer are transferred to a single transferee company and contemporaneously with such transfer (y) such transferee company assumes (to the satisfaction of the Trustee) all the obligations of UU as principal debtor in respect of the Notes and (z) UU unconditionally and irrevocably guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by such transferee company as the new principal debtor; or
  - (ii) (where the relevant Issuer is UUWF) not involving or arising out of the insolvency of UUWF, the Guarantor or a Material Subsidiary and under which all or substantially all of its assets are transferred to UUWF, the Guarantor or a Material Subsidiary or one or more of UUWF's or the Guarantor's Subsidiaries or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Material Subsidiary or Material Subsidiaries provided that this exception (ii) shall not apply where the transferor company is UUWF or the Guarantor unless assets comprising the major part by value of the assets owned by the relevant transferor company immediately prior to such transfer are transferred to a single transferee company and contemporaneously with such transfer (1) where the transferor company is UUWF (y) such transferee company assumes (to the satisfaction of the Trustee) all the obligations of UUWF as principal debtor in respect of the Notes and (z) UUWF or the Guarantor unconditionally and irrevocably guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by such transferee company as the new principal debtor and (2) where the transferor company is the Guarantor, such transferee company guarantees (to the satisfaction of the Trustee) the payment of all amounts payable by UUWF as the relevant Issuer in respect of the Notes; or
  - (iii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration on an arm's length basis; or
  - (iv) the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders provided that in no event shall the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor or any Material Subsidiary be deemed to have ceased to carry on the whole or substantially the whole of its business solely by reason of any forced divestiture imposed by any government or regulatory body or by reason of the loss of the Appointment; or
- (h) in the case of Notes issued by UUWF, the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

## 12.2 Definitions

For the purposes of this Condition:

“Accounts” means, to the extent an Issuer has Subsidiary Undertakings, a consolidation of the annual accounts of the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor and (in each case) its Subsidiary Undertakings as prepared by the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor, and audited and reported upon by the Auditors in accordance with United Kingdom generally accepted accounting practices and principles, including International Financial Reporting Standards as adopted by the European Union, as applicable;

“Adjusted Capital and Reserves” means at any time a sum equal to the aggregate of:

- (a) the amount paid up or credited as paid up on the issued share capital of the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor; and
- (b) the amounts standing to the credit of the capital and revenue reserves of the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor and its respective Subsidiary Undertakings (including any share premium account and capital redemption reserve) after adding thereto any balance standing to the credit of the profit and loss account;

all based on the consolidated balance sheet of (where the relevant Issuer is UU) UU or (where the relevant Issuer is UUWF) the Guarantor and, in each case, their respective Subsidiary Undertakings as contained in the then latest Accounts but after:

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

- (x) deducting (if not otherwise excluded) such amount as the Auditors shall consider appropriate in respect of any deferred taxation liabilities on the net amount by which the fixed assets of the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor and their respective Subsidiary Undertakings shall have been written up as a result of any revaluation, and for this purpose a transfer of any assets by the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor to any of their respective Subsidiary Undertakings, or by any of their respective Subsidiary Undertakings to the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor or another of their respective Subsidiary Undertakings, for a consideration in excess of the book value thereof shall be deemed to be a writing up of the book value of such asset as a result of a revaluation;
- (xi) deducting therefrom all amounts attributable (whether by way of share or loan capital or otherwise) to the interests of the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor and their respective Subsidiary Undertakings (other than Excluded Subsidiaries) in Excluded Subsidiaries; and
- (xii) making such other adjustments (if any) as the Auditors may consider appropriate;

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

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

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

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

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

“Group” means (where the relevant Issuer is UU) UU or (where the relevant Issuer is UUWF) the Guarantor and, in each case, their respective Subsidiaries and “member of the Group” shall be construed accordingly;

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

“Material Subsidiary” means (A) if the relevant Issuer is UU, any Subsidiary of the Issuer or (B) if the relevant Issuer is UUWF, any Subsidiary of the Guarantor (but excluding UUWF) and, in each case, not being an Excluded Subsidiary (i) whose gross revenues earned from outside the Group or whose gross assets (in each case consolidated in respect of a Subsidiary which itself has Subsidiaries, and in each case attributable to UU (where the relevant Issuer is UU) or (where the relevant Issuer is UUWF) the Guarantor all as shown in the latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary represent 20 per cent. or more of the consolidated gross revenues or, as the case may be, consolidated gross assets (in

each case attributable to the shareholders of its ultimate parent) of UU (where the relevant Issuer is UU) or (where the relevant Issuer is UUWF) the Guarantor and in each case their respective Subsidiary Undertakings (other than Excluded Subsidiaries) all as shown in the latest Accounts; or (ii) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary under this sub-paragraph (ii) but shall cease to be a Material Subsidiary upon publication of its next audited accounts unless it would then be a Material Subsidiary under (i) above. A report by the Auditors (whether or not addressed to the Trustee) that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

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

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

“Subsidiary” means a subsidiary within the meaning of Section 1159 of the Companies Act 2006; and

“Subsidiary Undertaking” has the meaning ascribed thereto in Section 1162 of the Companies Act 2006 (but, in relation to each Issuer or (where the relevant Issuer is UUWF) the Guarantor, shall exclude any Subsidiary Undertaking whose accounts are not included in the then latest Accounts, or (in the case of a Subsidiary Undertaking which has first become a Subsidiary Undertaking of a member of the Group since the date as at which such Accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

### **12.3 Enforcement**

The Trustee shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of

at least one-quarter in aggregate amount of the Notes then outstanding and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities which it may incur by so doing.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure is continuing.

### **13. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

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

### **14. AGENTS**

The initial Paying Agents are set out above. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

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

- (a) there will at all times be a Principal Paying Agent and, whilst any Registered Notes are outstanding, a Registrar and, whilst any Index Linked Notes are outstanding, a Calculation Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Registrar and Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor is incorporated.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the relevant Issuer and (where the relevant Issuer is UUWF) the Guarantor and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of trust with, any Noteholder, Receiptholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

### **15. EXCHANGE OF TALONS**

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

### **16. NOTICES**

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the Financial Times in London.

The relevant Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee may approve.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that relevant authority or stock exchange so require, such notice will be published in a daily newspaper of general circulation in the places or places required by that competent authority or stock exchange.

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

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

## **17. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the relevant Issuer or the Trustee or (where the relevant Issuer is UUWF) the Guarantor and shall be convened by the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor at the request of Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate or amount of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders, or as a resolution in writing signed by or on behalf of all the Noteholders, shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

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

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

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

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

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

#### **18. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE RELEVANT ISSUER AND (WHERE THE RELEVANT ISSUER IS UUWF) THE GUARANTOR**

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

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

#### **19. FURTHER ISSUES**

The relevant Issuer is at liberty from time to time without the consent of the Noteholders, Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date on which interest starts to accrue and so that the same shall



be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other Series in certain circumstances where the Trustee so decides.

**20. SUBSTITUTION**

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

- (a) of any Subsidiary of UU in place of UU as principal debtor, subject to the irrevocable and unconditional guarantee of UU; or
- (b) of any Subsidiary of UUWF in place of UUWF as principal debtor, subject to the irrevocable and unconditional guarantee of UUWF; or
- (c) of the Guarantor or any other Subsidiary of the Guarantor in place of UUWF as principal debtor subject, in the case of any other Subsidiary of the Guarantor, to the irrevocable and unconditional guarantee of the Guarantor; or
- (d) of any holding company or Subsidiary of the Guarantor as guarantor under the Trust Deed and the Notes subject to such guarantor having the benefit of the Appointment held by the Guarantor.

Any such substitution shall also be subject to the relevant provisions of the Trust Deed.

**21. GOVERNING LAW**

The Trust Deed (including the Guarantee), the Agency Agreement, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection therewith are governed by, and construed in accordance with, English law.

**22. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

**USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the relevant Issuer or (where the relevant Issuer is UUWF) the Guarantor, for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## INFORMATION ON UNITED UTILITIES GROUP PLC

### History of UUG

UUG is a public limited company registered in England and Wales with registered number 06559020. UUG was incorporated and registered on 8 April 2008 under the Companies Act 1985 as a private limited company limited by shares, as United Utilities Newco Limited. On 28 April 2008, UUG was re-registered as a public company and its name was changed to United Utilities Group PLC.

UUG is a holding company and has not traded since incorporation.

On 29 November 2007, the board of directors of UU announced its intention to return approximately £1.5 billion to shareholders. The return of capital comprised the net equity proceeds of approximately £1,050 million from the sale of United Utilities Electricity Limited and a further £450 million from the Group's pre-existing resources in order to create a more efficient capital structure.

The return of capital was implemented on 28 July 2008 by introducing UUG as the holding company of UU through a High Court of England and Wales (the "High Court") approved scheme of arrangement under section 899 of the Companies Act 2006, the issue of ordinary shares and B shares and a subsequent reduction of capital of UUG under section 135 of the Companies Act 1985. Following the implementation of the scheme of arrangement, UUG owns no material assets other than the share capital of UU.

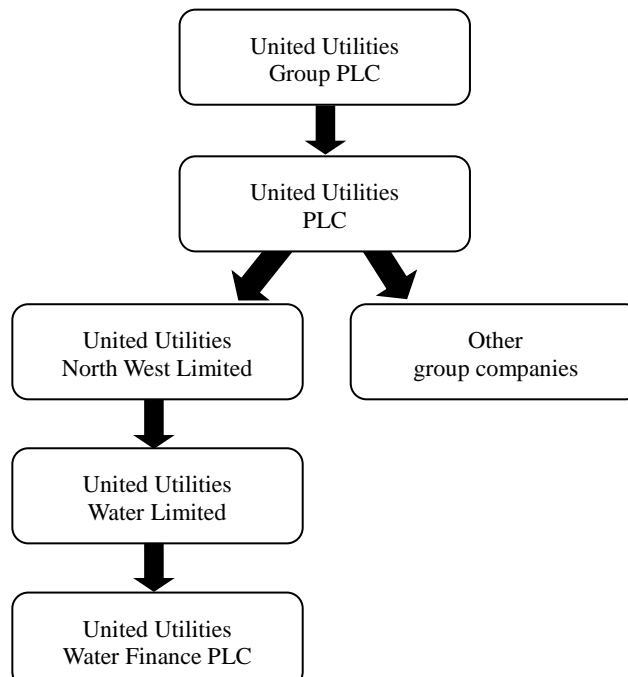
### Description of business

UUG is the holding company of UU and ultimately owns UUW and UUWF. For the avoidance of doubt, UUG is neither an issuer nor a guarantor under the Programme.

Through UUW, the Group owns and manages the licensed water and wastewater network in the North West of England serving approximately 3.2 million homes and businesses.

The ordinary shares of UUG are listed on the London Stock Exchange and are traded in the USA in the form of American Depository Receipts, which trade on an over the counter basis under the symbol UUGRY. With a market capitalisation of £6.8 billion (as at 30 September 2016), UUG is the UK's largest listed water and wastewater business.

### Ownership structure:



### Capital structure and credit ratings

Following the 2014 price review, in which revenues were set for the price control period 2015-2020 (see the subsection entitled “*The 2014 price review (“PR14”)*” below), the UUG board announced that it would aim to maintain efficient access to debt capital markets throughout the economic cycle, and therefore believes that it is appropriate to keep gearing, measured as net debt to RCV, within a target range of 55 per cent. to 65 per cent.

In addition, assuming no significant changes to rating agencies’ methodologies or sector risk assessments, the Group aims to maintain, as a minimum, the existing credit ratings of A3 with Moody’s and BBB+ with S&P for UUG and for debt issued by UUG’s financing subsidiary, UUGF.

As at the date of this Offering Circular, Moody’s long-term corporate credit ratings for UUG and UUG are A3 and Baa1 respectively. S&P’s long-term corporate credit ratings for UUG and UUG are BBB+ and BBB- respectively. UUGF does not have a corporate credit rating. However, Moody’s and S&P have each confirmed that they expect Notes to be rated in line with UUG, reflecting the benefit of the guarantee.

Standard & Poor’s Credit Market Services Europe Ltd (“S&P”) is established in the EU and is registered under the CRA Regulation (462/2013).

Moody’s Investors Service Ltd (“Moody’s”) is established in the EU and is registered under the CRA Regulation (462/2013).

### Board of directors

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

<b>Name</b>	<b>Function</b>
Dr John McAdam	Non-executive chairman; chairman of the nomination committee
Steve Mogford	Chief executive officer
Russ Houlden	Chief financial officer
Alison Goligher	Independent non-executive director
Lord Stephen Carter	Independent non-executive director; chairman of the corporate responsibility committee
Mark Clare	Senior independent non-executive director
Brian May	Independent non-executive director; chairman of the audit and treasury committees
Sara Weller	Independent non-executive director; chairman of the remuneration committee

There is no existing or potential conflict of interest between the directors’ duties to UUG and/or their private interests or other duties.

The business address of each director is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP. This is the registered office of UUG.

## DESCRIPTION OF THE ISSUERS - UNITED UTILITIES PLC

### History of UU

UU is a public limited company registered in England and Wales with registered number 02366616. UU was incorporated on 1 April 1989 under the Companies Act 1985 as North West Water Group PLC.

UU was previously the listed holding company of the Group. However, on 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between UU and UUG (see the subsection entitled “*History of UUG*” above). Following this, UUG is the listed holding company of the Group. UU is the intermediate holding company of the Group.

In order to focus on its core regulated activities, the Group sold United Utilities Electricity Limited in December 2007. United Utilities Electricity Limited owned the licensed electricity distribution network in the North West of England. The Group disposed of the bulk of its non-regulated activities over the period 2007-2010. Following completion of the disposals in November 2010, the Group’s activities now comprise a single segment for financial reporting purposes.

The Group also has a 50 per cent. holding in a joint venture, “WaterPlus”, with Severn Trent and a 35.3 per cent. holding in AS Tallinna Vesi (Tallinn Water).

### Credit ratings

For details of UU’s credit ratings, see the subsection entitled “*Capital structure and credit ratings*” under the heading “*Information on United Utilities Group PLC*” above.

### Board of directors

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

<b>Name</b>	<b>Function</b>
Steve Mogford	Chief executive officer
Russ Houlden	Chief financial officer
Philip Aspin	Group controller
Steven Fraser	Managing director

There is no existing or potential conflict of interest between the directors’ duties to UU and/or their private interests or other duties.

The business address of each director is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP. This is the registered address of UU.

## DESCRIPTION OF THE ISSUERS – UNITED UTILITIES WATER FINANCE PLC

### History of UUWF

UUWF is a public limited company registered in England and Wales with registered number 09227416. UUWF was incorporated on 19 September 2014 under the Companies Act 2006.

UUWF is a wholly owned subsidiary of UUW. The ultimate parent company of UUWF is UUG.

UUWF was incorporated for the purpose of arranging finance for its immediate parent company, UUW. This is achieved by the issuing of Notes under the Programme and the on-lending of the issue proceeds to UUW. Any Notes issued by UUWF are unconditionally and irrevocably guaranteed by UUW.

### Credit ratings

For details of UUWF's credit ratings, see the subsection entitled "*Capital structure and credit ratings*" under the heading "*Information on United Utilities Group PLC*" above.

### Board of directors

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

<b>Name</b>	<b>Function</b>
Russ Houlden	Chief financial officer
Philip Aspin	Group controller
Simon Gardiner	Company secretary
Brendan Murphy	Treasurer

There is no existing or potential conflict of interest between the directors' duties to UUWF and/or their private interests or other duties.

The business address of each director is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP. This is the registered address of UUWF.

## DESCRIPTION OF THE GUARANTOR – UNITED UTILITIES WATER LIMITED

### History of U UW

U UW is a private limited company registered in England and Wales with registered number 02366678. U UW was incorporated on 1 April 1989 under the Companies Act 1985 as North West Water Limited.

U UW is a wholly owned subsidiary of United Utilities North West Limited. United Utilities North West Limited is a wholly owned subsidiary of U U. The ultimate parent company of U UW is U UG.

### Business overview

U UW holds licences to provide water and wastewater services to a population of approximately 7 million people in the North West of England. The area includes the major cities of Manchester and Liverpool but also extends as far north as the Cumbrian–Scottish border and south beyond Crewe.

### Credit ratings

For details of U UW’s credit ratings, see the subsection entitled “*Capital structure and credit ratings*” under the heading “*Information on United Utilities Group PLC*” above.

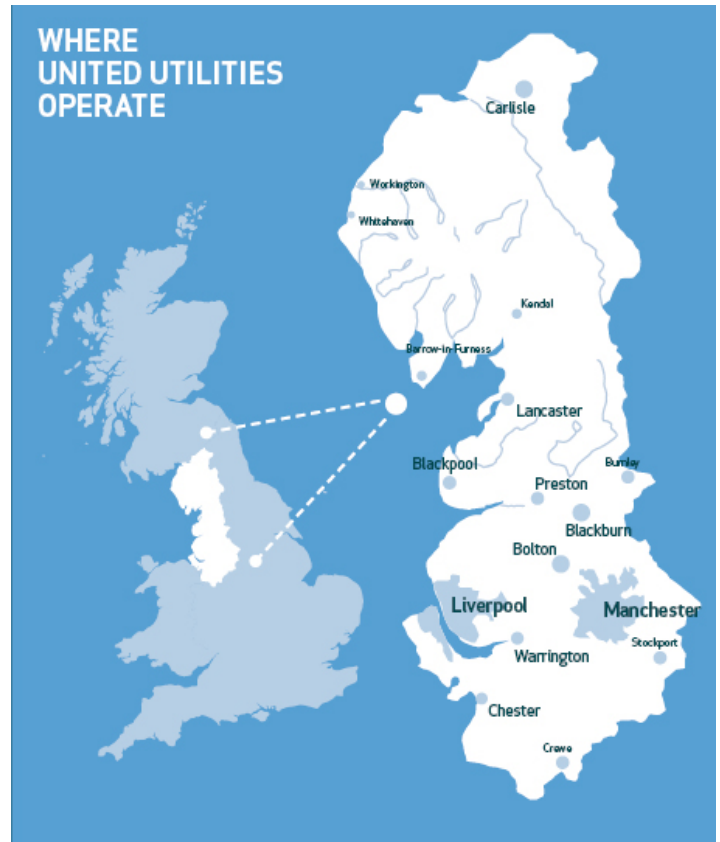
### Industry and market

Every day, over 50 million household and business consumers in England and Wales receive water and wastewater services. The industry was privatised over two decades ago, leading to improvements in the quality of services provided to customers, higher environmental standards and superior quality drinking water. These consumers are served by 10 licensed companies which provide both water and wastewater services to consumers in their respective regions. Additionally, there are licensed companies which provide water-only services and tend to be smaller in size. As each company in the water sector operates as a regional monopoly for its services, they are subject to regulation in terms of both price and performance.

### Key facts

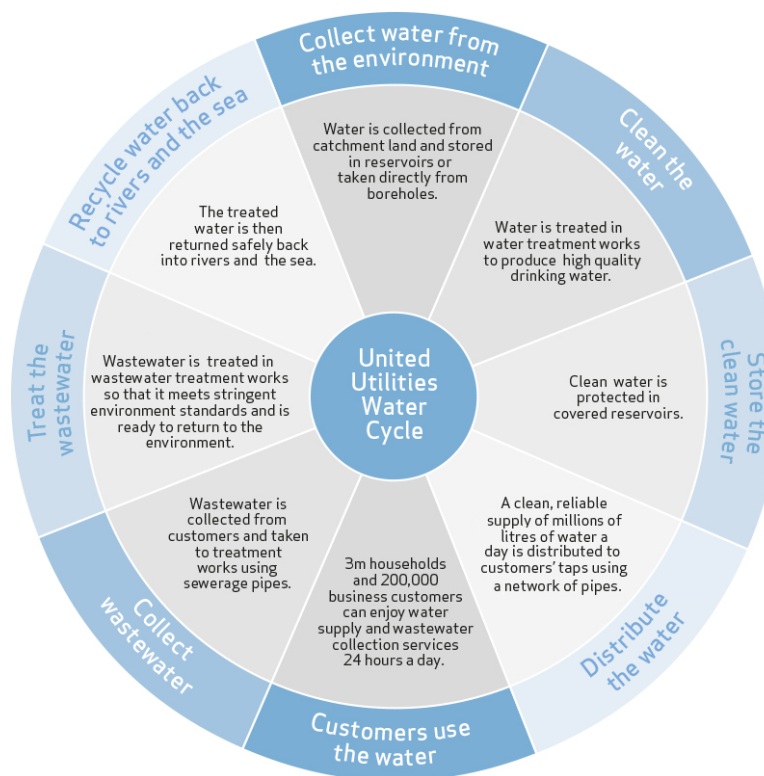
The work of U UW includes:

- Maintaining more than 55,000 hectares of catchment land, helping to protect the quality of the water resources.
- Managing around 120,000 km of water pipes and sewers, helping customers’ lives flow smoothly.
- Operating more than 550 wastewater treatment works, helping to ensure that the water returned to the environment meets all UK and EU requirements.
- Operating more than 90 water treatment works, delivering around 2 billion litres of water to around 3 million households and 200,000 non-household customers every day.
- Maintaining around 200 reservoirs, ensuring customers can enjoy a resilient water supply.



The replacement cost of U UW’s fixed assets is around £90 billion at gross current replacement value (i.e. the estimated amount it would cost for another party to replicate U UW’s assets and networks) as at 31 March 2016. This compares with an RCV of around £10bn. The RCV is the capital base used in setting price limits and has been built up from the total share value immediately after privatisation plus net capital expenditure since then. The RCV being significantly lower than the replacement asset value reflects the fact that water companies at privatisation were sold off at a significant discount to the replacement asset value. U UW is the second largest water and wastewater company based on the size of its asset base, as measured by RCV, and is a natural regional monopoly and as such the bulk of U UW’s activities are subject to price regulation.

U UW uses a combination of technology, treatment plants, water and wastewater networks, and the natural environment to become part of the water cycle, as illustrated in the following diagram:



Household customers pay just over £1 per day on average for the combined water and wastewater services provided by U UW. Following the price determination for 2015–2020 set in December 2014 (see the subsection entitled “*The 2014 price review (“PR14”)*” below), customers are benefitting from below-inflation increases to average household bills for the decade to 2020. For non-household customers, tariffs have been set pending the retail segment being fully opened up to competition in 2017 (see the section entitled “*Competition*” below).

U UW continues to invest heavily for the benefit of its customers and the environment. A capital investment programme of around £3.8 billion was delivered during the five-year period to 2015, improving U UW’s asset base and growing the RCV. Capital investment will continue at high levels in the 2015–2020 period and is expected to remain high beyond 2020 as U UW continues to:

- Upgrade the region’s water and wastewater networks.
- Maintain ageing assets.
- Deliver a cleaner environment.
- Provide high quality water to customers.



- Improve the customers' experience.

## Future Plans

### Vision

UUW's vision is to be the best UK water and wastewater company, providing great service to customers. UUW aims to achieve this by providing the best service to customers in a responsible manner and at the lowest sustainable cost.

### Strategy

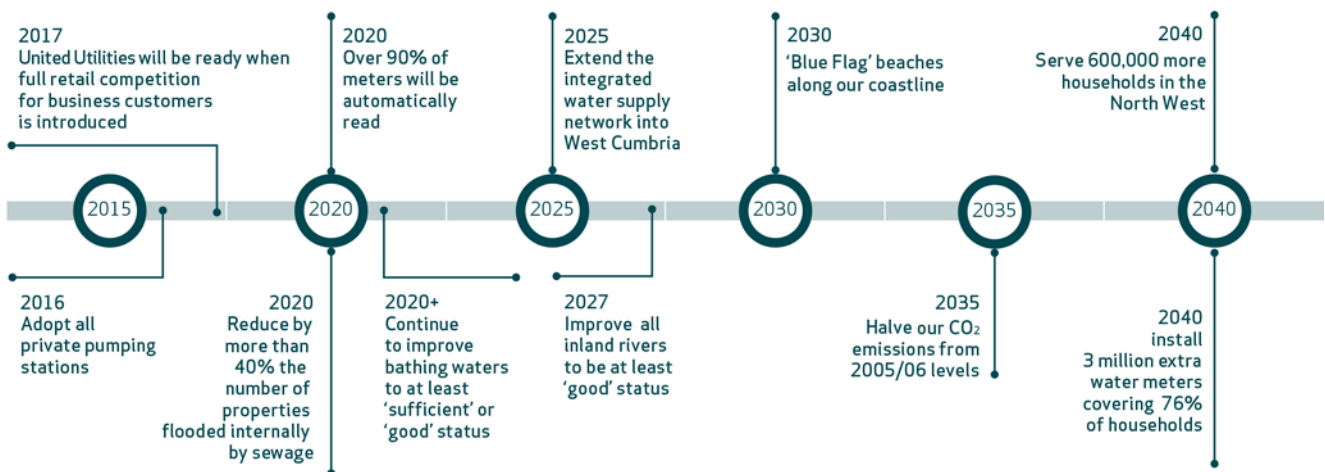
In order to maintain a reliable, high quality water service for customers in the future, it is necessary to look far into the future and anticipate those changes and core issues which are likely to impact on the activities of UUW. This long-term strategy helps to define what needs to be delivered over the shorter term.

Over the next 25 years, UUW anticipates that it will face many challenges and opportunities including:

- Climate change and its implications for water resources and flooding.
- The emergence of a more open, competitive UK water market (see the section entitled "*Competition*" below).
- More rigorous environmental regulations (see the section entitled "*Environmental Regulation*" below).
- The ever-present need to combine affordable bills with a modern, responsive water and wastewater service.

Anticipating these changes and balancing them with customers' priorities is integral to UUW's long-term strategic planning.

Key events within the 25-year strategy of UUW are summarised in the diagram below.

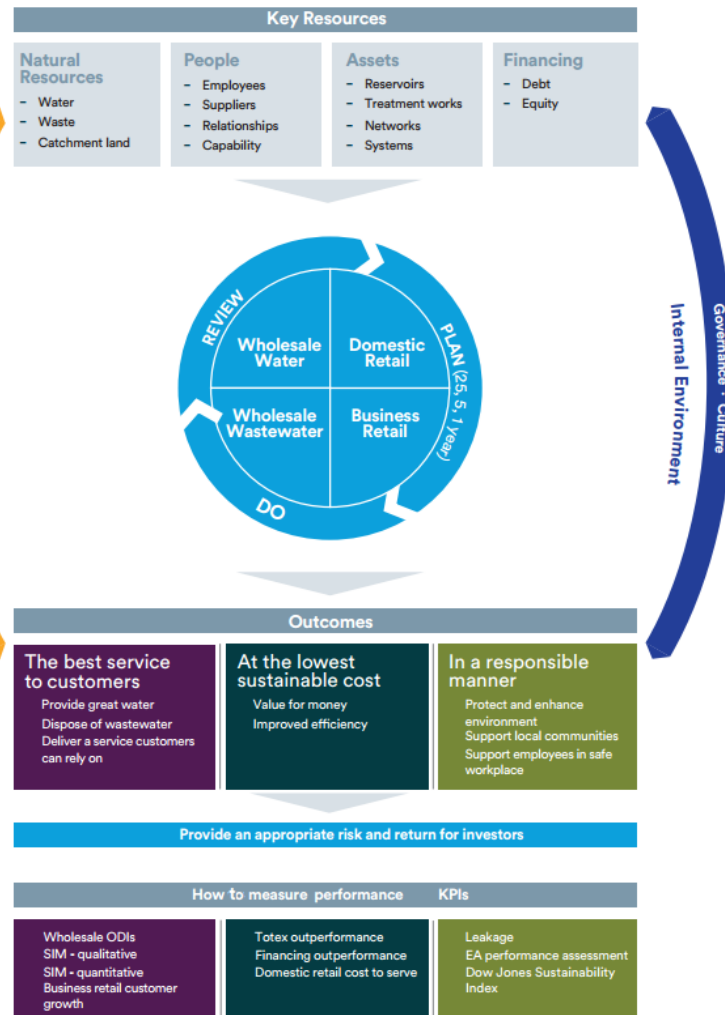


Over 27,000 customers and stakeholders were consulted to ensure their expectations were reflected in UUW's long-term plans. The feedback helped to create the five customer promises which, together with the 11 outcomes outlined in the diagram below, will guide the way in which services are delivered now and long into the future. The 5 customer promises are:

1. To provide great water.
2. To dispose of wastewater.
3. To give value for money.

4. To deliver a service customers can rely on.
5. To protect and enhance the environment.

These customer promises and outcomes are also reflected in the 5-year strategic delivery plan for the period 2015-2020, which retains focus on providing the best service to customers in a responsible manner and at the lowest sustainable cost.



### Key performance indicators (“KPIs”) 2015-2020

As detailed below, the regulatory environment has evolved for 2015–2020, and the KPIs of UUW have evolved to reflect this. With the move to a more outcomes-based approach, the new Outcome Delivery Incentives (the “ODIs”) are key metrics to assess performance across a wide range of operational measures.

The metrics used to assess lowest sustainable costs include the outperformance against the new total expenditure (“totex”) model (replacing separate opex and capex outperformance measures used during 2010-15) and the financing levels set by Ofwat. With the retail household price control now being separated, a new KPI to measure costs in this area has been introduced.

The degree to which actions are viewed as responsible is taken from performance measures set by the industry regulator, the Environment Agency and those which measure global best practice, as defined by the Dow Jones Sustainability Index.

The most significant KPIs are set out below.

Objective/KPI	Definition
<b>Best service to customers</b>	
Wholesale ODI composite	Net reward/(penalty) accrued across UUW's 19 wholesale financial ODIs
Service incentive mechanism (SIM) – qualitative	Ofwat derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the 18 water companies. Each company receives a score in the range of zero to five, with five being the highest attainable score
Service incentive mechanism (SIM) – quantitative	Ofwat derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the 18 water companies. Each company receives a SIM point total, where the lowest score represents the best performance
Business retail customer growth	Amount of additional annualised revenue from winning customers from other water retail providers less the amount of revenue lost from losing customers to other water retail providers
<b>Lowest sustainable cost</b>	
Totex outperformance	Progress to date on delivering our promises to customers within the cumulative 2015-20 wholesale totex final determination allowance
Financing outperformance	Progress to date on financing expenditure outperformance secured versus Ofwat's industry allowed cost of debt of 2.59 per cent. real over the 2015–20 period
Domestic retail cost to serve	Cost to serve in our domestic retail business compared with Ofwat's revenue allowance
<b>Responsible manner</b>	
Leakage – average annual leakage	Average annual water leakage from our network quantified in megalitres per day
Environment Agency performance assessment	Composite assessment produced by the Environment Agency, measuring the absolute and relative performance of the 10 water and wastewater companies across a broad range of areas, including pollution
Dow Jones Sustainability Index rating	Independent rating awarded using sustainability metrics covering economic, environmental, social and governance performance

## Regulators

The water and wastewater industry in the UK is subject to substantial domestic and EU regulation. This regulation places significant statutory obligations on water and wastewater companies with regard, among other factors, to the price of services provided, the quality of drinking water supplied, wastewater treatment and the effects of the companies' activities on the natural environment.

The regulators in the water and wastewater industry are as follows:

- **Ofwat** (The Water Services Regulation Authority) is the economic regulator of the water and sewerage sectors in England and Wales, responsible for ensuring that companies provide customers with a good quality, efficient service at a fair price.
- **The Environment Agency** (the "EA") controls how much water can be drawn from the environment and controls the quality of water returned to rivers and the sea.
- **The Drinking Water Inspectorate** (the "DWI") is responsible for ensuring compliance with the drinking water quality regulations.
- **The Consumer Council for Water** (the "CCW") represents customers' interests relating to price, service and value for money. It also investigates customer complaints.
- **Natural England** is responsible for the protection of designated sites for nature conservation such as Sites of Specific Scientific Interest. Companies are required to manage these sites and to protect and enhance biodiversity.
- **Defra** is the UK Government department responsible for water policy and regulations in England and Wales. It also sets drinking water quality and environmental standards which water companies must meet – these standards are primarily based on EU law.

## Environmental Regulation

Defra is the UK government department responsible for safeguarding the natural environment, supporting the food and farming industry, and sustaining a thriving rural economy. Defra's broad remit means that they play a major role in people's day-to-day life, from the food we eat, and the air we breathe, to the water we drink.

The EA is a non-departmental public body that is part of the Defra family of organisations. The main purpose of the department is to work to create better places for people and wildlife, and support sustainable development.

The EA was established in 1996 to protect and improve the environment.

Within England the EA is responsible for:

- regulating major industry and waste
- treatment of contaminated land
- water quality and resources
- fisheries
- inland river, estuary and harbour navigations
- conservation and ecology

The EA is also responsible for managing the risk of flooding from main rivers, reservoirs, estuaries and the sea.

Sometimes UUW's business activity does operate across the Welsh border. When this occurs the environmental regulatory body is Natural Resources Wales. Natural Resources Wales is the largest Welsh government sponsored body and was formed in April 2013, largely taking over the functions of the Countryside Council for Wales, Forestry Commission Wales and the Environment Agency in Wales, as well as certain Welsh Government functions.

EU environmental legislation as transcribed into UK law will require UUW and other UK water companies to incur additional capital investment to ensure compliance with more stringent standards. UUW is not the sole agent in terms of compliance with more stringent environmental standards and therefore works in partnership with other agencies who also have a role to play, such as the EA, Local Authorities and local interest groups such as the North West's Rivers Trusts.

The revised Bathing Water Directive (2006/7/EC), effective from 2015, sets higher standards for bathing water compliance. Under the previous standards beaches in the North West of England achieved over 90 per cent. bathing water compliance. The new standards are likely to prove very challenging to meet. As one of many contributors to bathing water quality, UUW has planned investment of approximately £170 million (2012/13 prices) over 2015–2020 to assist in attaining compliance with the higher standards, and will work in partnership with other organisations who can contribute to this goal.

The Water Framework Directive (2000/60/EC) sets an objective that EU member states should achieve 'good' status for all surface water by 2027. Considerable capital investment is required to meet this and UUW is planning to spread this investment over the next 12 years, with approximately £158 million (2012/13 prices) scheduled for 2015-2020.

The Habitats Directive (92/43/EC) requires EU member states to maintain biodiversity by protecting natural habitats and certain wild species. For example, one of the key drivers for UUW's planned West Cumbria supply project is to help protect England's largest population of fresh water mussels.

All these Directives are incorporated into UK law so are expected to continue to apply after the Brexit vote, unless there is subsequent legislative change.

## **Economic Regulation**

### **Ofwat**

Ofwat is the economic regulator for the water and sewerage sectors in England and Wales. Ofwat is controlled by a board which consists of the chairman, the chief executive, and a number of other directors, most of whom are non-executive directors. Appointments to the Ofwat board are made by the Secretary of State for Environment, Food and Rural Affairs (the “Secretary of State”) in consultation with the Welsh Assembly Government.

Ofwat’s principal functions are:

- To set prices every five years through a periodic review (and, in some circumstances, review whether prices should be adjusted between price reviews).
- To monitor company performance, including delivery of statutory requirements and agreed service improvements.
- To promote competition in the sector.

Ofwat must comply with its statutory duties as laid out in the Water Industry Act 1991 (as amended by the Water Act 2003) and the Water Act 2014. The Water Act 2014 created a power for the Government to produce a statement of strategic priorities and objectives for Ofwat to follow when carrying out its statutory functions. Ofwat operates within the Government’s overall policy framework. However, Ofwat acts independently of the Government and is not subject to direction with regard to its judgements.

Ofwat must exercise its powers and duties in the manner that it considers is best calculated to fulfil its primary legal duties, being to:

- Protect the interests of consumers, wherever appropriate by promoting effective competition.
- Secure that water company functions are properly carried out.
- Secure that water companies are able to finance their functions, in particular by securing reasonable returns on their capital.
- In relation to English water companies: Secure the long-term resilience of water supply and wastewater systems and secure that water companies take steps to enable them to meet the need for water supplies and wastewater services in the long term.

Ofwat also has secondary legal duties which include obligations to contribute to the achievement of sustainable development, to promote economy and efficiency, to secure that no undue preference or discrimination is shown by water companies in fixing charges or providing services and to protect consumers’ interests in relation to land sales or any unregulated activities of companies.

In addition to the Water Industry Act 1991, Ofwat also exercises powers under competition legislation, most significantly the Competition Act 1998, the Enterprise Act 2002 and under Articles 101 and 102 of the Treaty on the Functioning of the European Union.

### **Licences**

Water companies which operate public water networks hold appointments as water undertakers. Water companies which operate public wastewater networks hold appointments as sewerage undertakers. The conditions of the appointment are set in each company’s licence, which sets out:

- The area in which the licensee company provides services.

- Obligations on charge setting.
- The process for reviewing charges, information provision, financial viability, dealings with associated companies, and competition.
- The process for setting prices at price reviews and revising prices in the periods between price reviews.

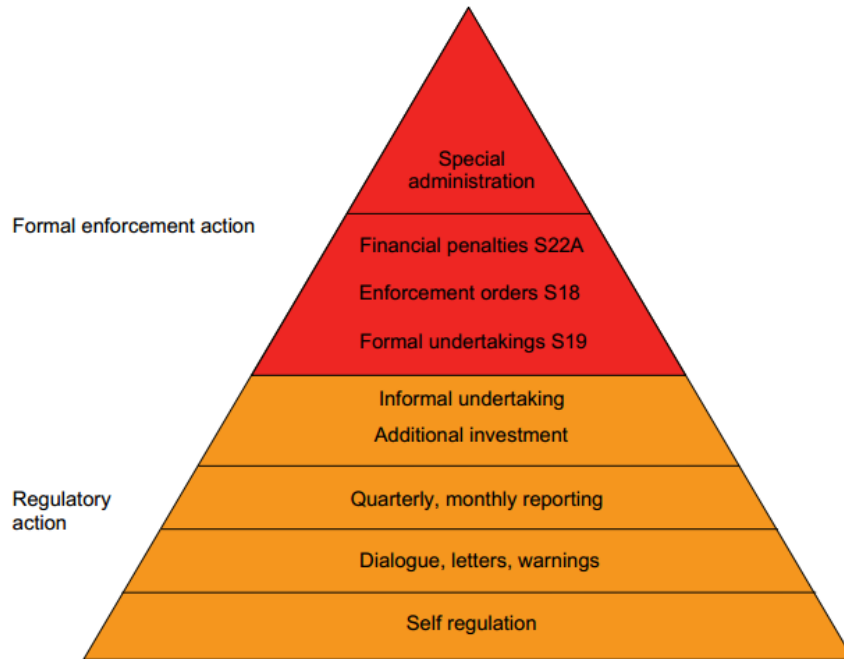
UUW's licence conditions include:

- Provisions relating to the operation of price controls.
- A prohibition on undue discrimination or undue preference in setting charges for water supply or sewerage services.
- Restrictions on the payment of dividends, to ensure that the company's dividend policy will not impair the ability of the regulated business to finance its functions.
- Provisions to ensure that the financial affairs of the regulated business can be separately assessed and reported on.
- Obligations on the licensee to ensure that it has at its disposal sufficient financial and managerial resources to carry out the regulated activities, including a requirement to use all reasonable endeavours to ensure that it, or any associated company, as an issuer of corporate debt on its behalf, maintains at all times an investment grade issuer credit rating.
- Restrictions on the disposal of land.
- Provisions on the payment of fees and the supply of information to Ofwat.
- A provision allowing a licence to be terminated where the Secretary of State has given UUW at least 25 years' notice.
- Provisions relating to water supply licensing competition including provisions requiring compliance with an access code and the Customer Transfer Protocol.
- Provisions prohibiting, subject to certain limited exceptions (including payments to a financing subsidiary), without the regulator's prior consent, the transfer of cash or other assets to an associated company in certain circumstances where the company's investment grade credit rating is threatened.
- Restrictions on dealings with associated companies. The consent of Ofwat is required for certain transactions including transferring certain rights or assets, guaranteeing any liability or lending any funds to an associated company. All transactions with associated companies must be on an arm's length basis without cross subsidy.

Licence conditions can be modified by Ofwat, either with the licensee company's agreement or following reference to the Competition and Markets Authority (the "CMA") for a decision on public interest grounds. Licence modifications can also result, in certain circumstances, from a merger or market investigation reference to the CMA. The Water Act 2014 also allows Ofwat to modify licences where necessary in consequence of changes made by the Water Act 2014.

### **Enforcement and special administration**

If a licensee company does not comply with its obligations, Ofwat can take appropriate action. As Ofwat's hierarchy of action below shows, Ofwat has a range of possible measures. Formal enforcement action is likely only to be required to deal with more serious and/or persistent breaches. For example, in previous industry cases where information has been deliberately misreported to Ofwat, Ofwat has taken formal enforcement action by imposing a financial penalty.



*Source: Ofwat - "Ofwat's approach to enforcement" July 2009*

*References to sections in the diagram above are to sections of the Water Industry Act 1991*

As an example of the operation of the hierarchy of action, Ofwat will not be required to make an enforcement order if it is satisfied that the relevant licensee company has given a formal undertaking to take all appropriate steps for the purpose of securing compliance with the condition or requirement in question and is complying with that undertaking. The requirement to comply with a formal undertaking is a statutory requirement enforceable by Ofwat in circumstances of breach.

A licensee company may face a penalty of up to 10 per cent. of its relevant regulated turnover for breaching licence conditions, prescribed standards of performance or other statutory obligations. The Water Act 2014 extends the time limit for imposing financial penalties from 12 months to five years from the date of contravention. Ofwat has published a statement of the policy which it intends to apply to the imposition of any penalty and the determination of its amount. Under the Water Act 2003, such penalties can be appealed to the High Court on the grounds Ofwat lacks power to impose the specific penalty, that Ofwat has failed to follow the procedure for imposing such penalties or that the dates required for payment of such penalties are unreasonable.

Failure to comply with an enforcement order can lead to court action seeking an injunction by Ofwat and to claims for compensation by any person who suffers loss or damage as a result of the failure to comply. Alternatively, where actual or likely contravention of an enforcement order (or of one of a licensee company's principal statutory duties) is so serious as to make it inappropriate for the licensee company to continue to hold its licence, the Secretary of State may apply to the High Court for the appointment of a special administrator to run the licensee company. Ofwat may also apply to the High Court for the appointment of a special administrator with the consent of the Secretary of State. A special administrator may also be appointed in other circumstances such as where the licensee company is, or is likely to be, unable to pay its debts.

A special administrator has powers similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. A special administrator is appointed only for the purposes of transferring to one or more different companies, as a going concern, so much of the business of the licensee company as it is necessary to transfer in order to ensure the proper carrying out of the water supply or sewerage functions.

Where, on any application for the winding up of a licensee company, the court considers that it would be inappropriate to grant a winding up order, the court is obliged instead to make a special administration order. A licensee company cannot be wound up voluntarily, or have an administration order made in relation to it, unless fourteen days' notice is given to the Secretary of State or Ofwat. Notice must also be given before any step is taken by any person to enforce security over a licensee company's property.

## Price reviews

Ofwat sets price controls for five-year periods through a periodic review. The most recent periodic review took place in December 2014 for the period 2015-2016 to 2019-2020. Allowed revenues are based on forward projections of costs and required outcomes, with allowances made for the cost of capital and taxation. The price review mechanism automatically provides for around 50 per cent. sharing with customers at the next price review of under or overspend on wholesale totex (total expenditure) compared with the level of totex assumed in price-setting. Companies' retention of a proportion of cost savings or overspends provides an incentive to deliver efficiency improvements.

## Interim Determinations and "Shipwreck Clause"

In most cases variance from expected costs or outcomes is viewed by Ofwat either as part of normal business risk and reward, or as being sufficiently small in impact that prices would not need to be adjusted until the next price review. However, if the impact of a variance is sufficiently large, and the cause of the variance is one of a number of predefined factors then an application for a change in price limits can be made outside the normal price review process, through an interim determination of price limits (an "IDoK").

There are two types of IDoK:

- The "conventional" IDoK mechanism is triggered if the sum of all allowed variances passes a "materiality test" by being greater in Net Present Value ("NPV") terms than 10 per cent. of prior year turnover ( $\approx$ £170m). Each individual item must exceed a "triviality" threshold with a NPV greater than 2 per cent. of impacted services turnover ( $>$ £15m).
- A 'Substantial Effects' IDoK, sometimes called the "shipwreck clause", can be triggered by any single event resulting in a NPV impact greater than 20 per cent. of turnover ( $\approx$ £350m). Any event which is outside management control can trigger the "shipwreck clause".

The factors that can be used to trigger a conventional IDoK are limited to three "Relevant Changes of Circumstance" as defined in UUW's licence and a "Notified Item" as defined in Ofwat's 2014 Final Determination. The three current Relevant Changes of Circumstance are:

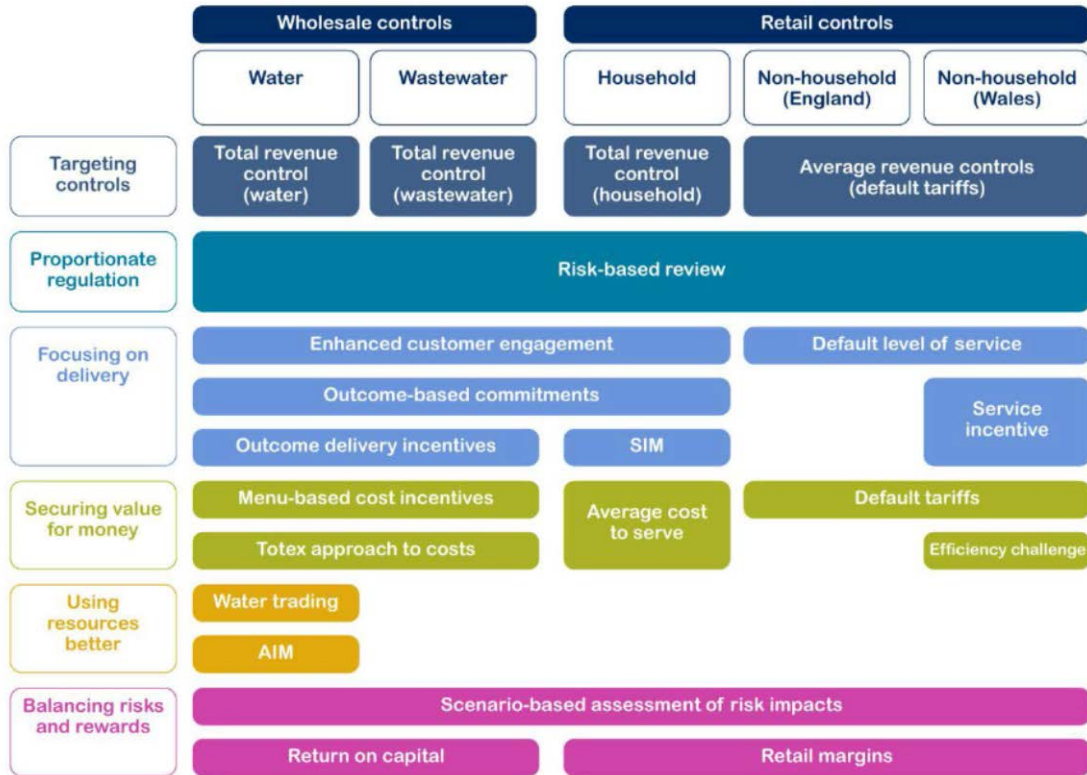
- New, changed or removed legal requirements specific to the water industry.
- Proceeds from the sale of land.
- Failure to deliver agreed outputs.

The Notified Item defined by Ofwat for 2015-2020 is for water business rates, covering variances in actual wholesale water business rate costs from those allowed for in Ofwat's 2014 Final Determination, with a sharing rate of 75 per cent. of cost variations going to the customer and 25 per cent. to the company.



## The 2014 price review (“PR14”)

Ofwat’s framework for setting prices is summarised in the diagram below.



Source: Ofwat - “Setting price controls for 2015-20 – final methodology and expectations for companies’ business plans” July 2013

### Price controls

At PR14 Ofwat has set four separate price controls:

- Wholesale water, covering the physical supply and treatment of water.
- Wholesale wastewater, covering the removal and treatment of wastewater.
- Domestic retail, covering customer-facing activities for household customers (principally customer contact, billing, meter reading and cash collection).
- Business retail, covering customer-facing activities for non-household customers.

Previously there was a single price control for the whole of UuW’s activities. There has also been a specific development in the new price control from limiting changes in bills to instead setting a limit on total revenue.

### Focusing on delivery

PR14 incorporated a significant increase in customer research and stakeholder engagement. Each company has a Customer Challenge Group which was involved in developing the plan, including the outcomes which customers want to see delivered.

There was an objective of moving from detailed outputs and individual projects to higher-level outcomes representing what matters to customers.

Associated with these outcomes are ODIs. There are penalties for not achieving targeted performance and, in some cases, rewards for outperforming against the target. Rewards and penalties are based on the value of the aspect of service to customers. Ofwat also set a Service Incentive Mechanism (“SIM”), with rewards and penalties for relative performance on customer satisfaction with telephone call handling and on the number of complaints received in respect of household customers.

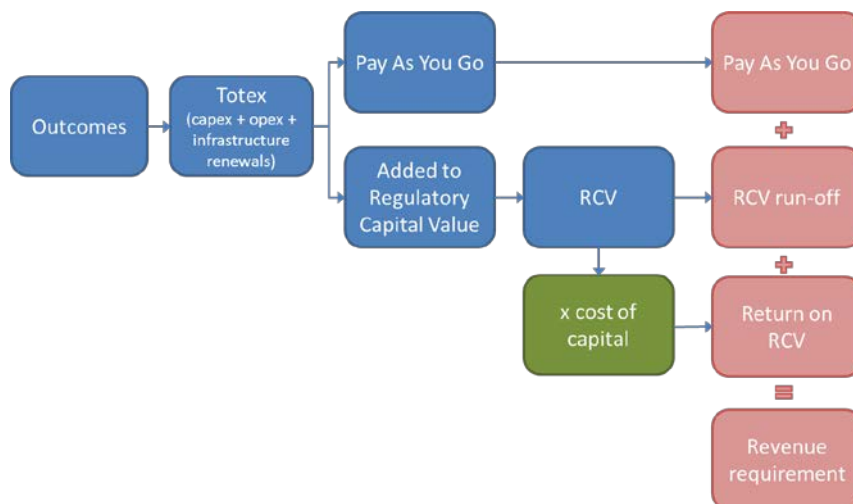
### Securing value for money

At PR14 there was also a switch to basing provision in wholesale price limits on total expenditure, rather than separate allowances for capital expenditure and operating expenditure as well as choices made in respect of:

- How much expenditure would be recovered from customers in the five-year period (“Pay As You Go”), and how much would be added to the RCV (on which companies earn a return via the cost of capital).
- The rate at which the RCV would be depreciated in the five-year period (“RCV run-off”).

These factors formed the principal building blocks of the revenue requirement calculation, which is depicted in the diagram below.

### Wholesale Water and Wastewater Price Control ‘Building Blocks’



The overall cost of capital at PR14 was 3.74 per cent. The build-up of this figure is shown in the table below:

<b>Cost of equity</b>	<b>5.65%</b>
Cost of new debt	2.00%
Cost of embedded debt	2.65%
Allowance for debt fees	0.10%
Ratio of embedded to new debt	75 : 25
<b>Overall cost of debt</b>	<b>2.59%</b>
Gearing (Debt / RCV)	62.5%
<b>Appointee cost of capital</b>	<b>3.74%</b>
Deduction for retail margin	0.14%
<b>Wholesale cost of capital</b>	<b>3.60%</b>

For setting the revenue requirement in respect of each retail price control, a different approach was adopted because of the low capital-intensity of retail services. For household retail costs, Ofwat based allowances on an “average cost to serve” (being the average cost for serving each household customer as benchmarked by Ofwat) plus a net margin in order to provide a reasonable return.

A similar approach was adopted for non-household services, with the price control being in the form of default tariffs for each customer group which set a limit on the charges for that group. There were significant differences in the approach to cost and net margin allocations across companies' non-household retail business plan proposals, so provision was made for a further review before the market is fully opened to competition for all non-household customers in 2017 (see the subsection entitled "Retail reform" below). The non-household retail control had a two-year initial duration, with the further review carried out in 2016. U UW proposed some significant changes to the non-household services PR14 limits. Ofwat has stated in its draft determination of price limits that "we intend to accept these proposals as the basis for the new default tariff caps as they were supported by strong and comprehensive evidence that was proportionate to the bill impacts of the proposals." The final decisions will be published on 15 December 2016.

At the beginning of the 2014 price review process, companies built up their plans in detail, estimating costs of delivering their targeted outcomes. Ofwat made a high-level assessment of whether the proposed expenditure was efficient, using statistical models to compare companies in the sector and setting targets of upper quartile efficiency.

Companies were able to put forward a justification to Ofwat for their proposed level of expenditure, on the basis of evidence of the estimated costs of proposed improvements and/or differences in their operating environment which were not provided for in Ofwat's models. In a number of cases, Ofwat changed their assessment as a result. For household retail costs, the effect of socio-economic factors on bad debt was a significant issue for U UW. In its determination, Ofwat allowed for a special factor claim (revenue uplift) of £99million in U UW's household retail revenue allowance over the five-year period for its higher bad debt costs.

Following Ofwat decisions, companies could adjust their estimates of future expenditure (a "menu choice") – this affects the incentive rates for cost outperformance or underperformance. Any adjustment to companies' allowed revenues resulting from their menu choice will be made as part of the price review in 2019.

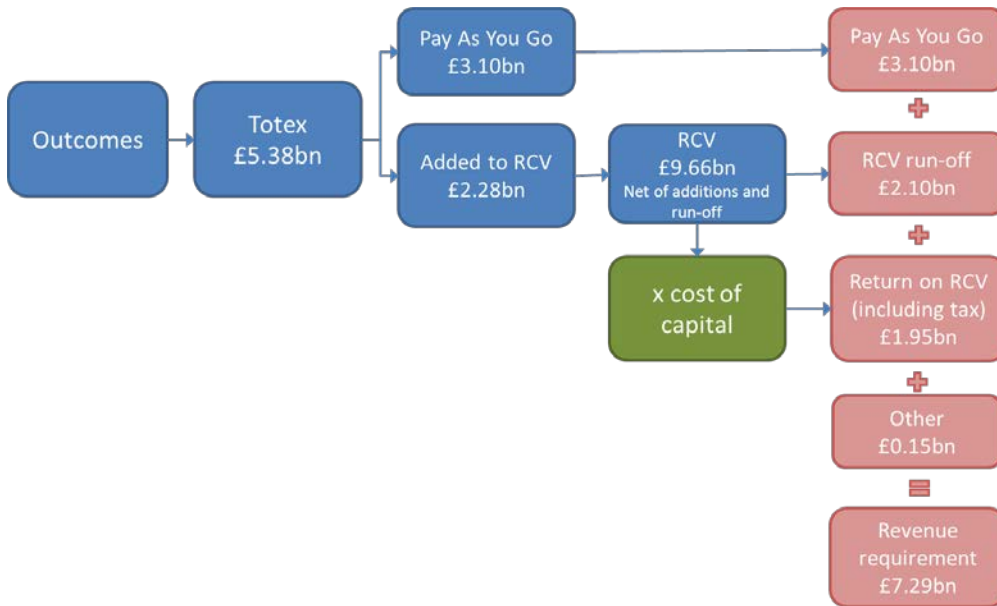
### United Utilities' Determination

Projected average household bills included in the PR14 Determination for water and sewerage services are shown in the table below, with a £9 (2 per cent.) fall in real terms (i.e. prior to the application of inflation) over the period.

PR14 Final Determination	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Average bill (2012-13 prices)	£388	£381	£381	£380	£379	£379

The build-up of the five-year revenue requirement for wholesale water and wastewater services is shown in the diagram below (the category labelled "Other" includes other income, capital contributions and adjustments for 2010-2015 performance).

### UUW Wholesale Water and Wastewater Price Control ‘Building Blocks’



(in 2012-13 prices)

The five-year total expected revenue for the whole of UUW’s regulated activities is shown in the table below.

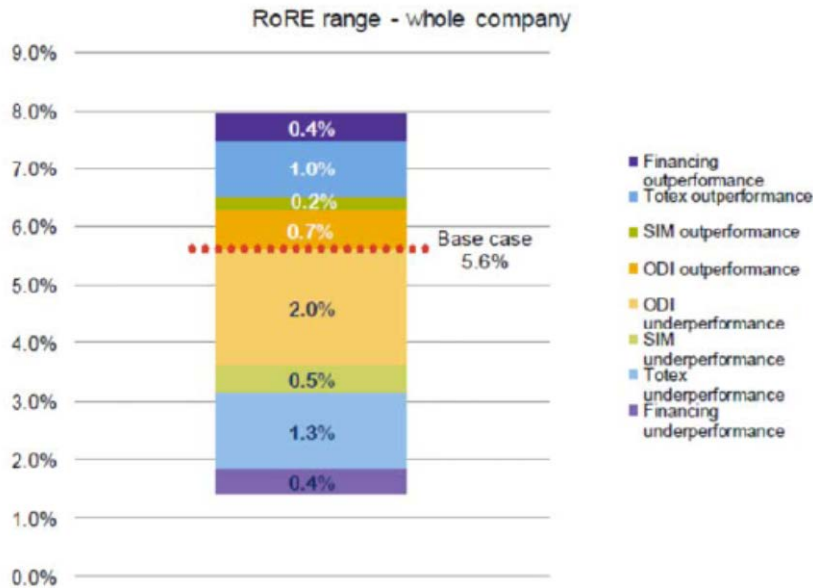
	£m, 5-year total
Wholesale water	3,331
Wholesale waste water	3,954
Retail household	616
Retail non-household	186
<b>Total</b>	<b>8,087</b>

Wholesale figures are in 2012-2013 prices as revenue will be indexed by inflation (as measured by annual movements in the RPI). Retail figures are in nominal prices as revenue will not be indexed by inflation.

UUW has 26 ODI targets for the major aspects of service delivery, such as sewer flooding, interruptions to supply, leakage and the delivery of major supply scheme in West Cumbria. Most of these ODIs involve the incurring of penalties if targets are not delivered and, in some cases, also involve potential rewards for outperformance. These ODIs are summarised below.

	Outcome Delivery Incentive		
	Reward and penalty	Penalty only	Non-financial incentive
Wholesale water	6	3	3
Wholesale waste water	3	6	1
Household retail	1	1	2
<b>Total</b>	<b>10</b>	<b>10</b>	<b>6</b>

Company performance may vary from that assumed in Ofwat’s final determination, depending on performance against the ODIs on costs and on financing. The chart below shows the potential range of performance shown by Ofwat, in terms of return on regulatory equity (“RoRE”), as a result of variations in performance on these factors, using notional financing assumptions.



Source: Ofwat -“Final price control determination notice: company-specific appendix – United Utilities,” December 2014

### Future price reviews

In July 2015, Ofwat launched its “Water 2020” consultation on the future regulatory framework, including its approach to the next price review and its proposals for market development. In December 2015, Ofwat consulted on its initial proposals on the role of markets and the consequent changes in the regulatory framework, including the structure of price controls.

Initial decisions were announced in May 2016, although there will be further consultations. Key decisions made in May 2016 include:

- The water price control to be separated into a water resources control and a “network plus” control (covering the remainder of the water wholesale business).
- The wastewater control to be separated into a sludge (now called “bioresources”) control and a “network plus” control (covering the remainder of the wastewater wholesale business).
- The RCV to March 2020 will be protected but investment beyond 2020 in bioresources and water resources will be exposed to competition.
- The basis of the indexation of prices and the RCV will change from RPI to CPI but there will be transitional arrangements for the 2020-2025 regulatory period to enable company financing to adjust to the new measure of inflation and help companies to manage the impact on bills.
- Encouraging companies undertaking capital investment projects with a whole life cost in excess of £100m to run a direct procurement tender process.
- Clearer definition of the relative roles of national decisions by Ofwat and local engagement with stakeholders and customers.

Ofwat also consulted in September on the approach to setting the cost of debt for PR19, including a proposal to index the cost of new debt, which means that the forecast errors from estimating the cost of new debt at the price review are corrected and that customers would bear risk around changes in the market rates over the price review period. As part of the same consultation, Ofwat also invited feedback on a potential approach to setting the cost of equity whereby differentiated equity returns are available depending upon the level of risk and ambition in a company’s business plan.

Further consultations are expected:

- In November 2016, on measuring performance; and
- In summer 2017, on the PR19 price setting methodologies.

### **Competition**

The UK Government and Ofwat are aiming to increase the extent of competition in the water sector, with the objectives of increasing efficiency and innovation, delivering sustainable and secure water supplies, improving the water environment and generating improved service and greater choice for customers.

### **Retail reform**

The Water Act 2014 has enabled all non-household water and sewerage customers in England to switch supplier from 1 April 2017. This includes businesses, charities and public sector customers. This reform is expected to create a market of about 1.3 million customer sites in England. Previously, the ability to switch supplier has only applied to water customers, and only to very large users – those consuming more than five million litres per year. In comparison, in Scotland full retail competition for non-household customers has existed from 2008. Wales is to retain its existing volume threshold of 50 million litres per year.

The Water Act 2014 also provides a mechanism for incumbent water and sewerage companies to voluntarily exit from the non-household retail market, but only with the consent of the Secretary of State.

The Open Water Programme was set up by the UK Government to deliver the competitive non-household retail market in England. As part of the programme, Market Operator Services Limited has been established to support the efficient operation of the market. It is working with Defra, Ofwat and the water companies to deliver the central IT systems to enable registration, customer switching and settlement between wholesalers and retailers. It will also design the market operator and support a range of market transition activities. Companies are working on developing their wholesale and retail processes, data and systems to meet market reform requirements. The framework which is being implemented is similar to that which has been in place in Scotland since 2008.

UU has entered into a joint venture agreement with Severn Trent, whereby UU and Severn Trent are combining their non-household water and wastewater retail businesses, principally comprising billing and customer service activities, into a joint venture located in Stoke-on-Trent under the name Water Plus.

Non-household customers are protected by default tariffs, which set a maximum price. Companies made initial proposals for these at PR14 but had the opportunity to review these in 2016. UUW's revised proposals have been accepted in full by Ofwat.

In November 2015, the UK Government published 'A better deal', its plan to boost competition in a number of markets. The report said that "Ofwat will provide an assessment by summer 2016 of the costs and benefits of extending retail competition to household water customers. Following this, the UK Government will work with water companies to begin the transition to household retail competition before the end of this Parliament". In July 2016, Ofwat published and consulted on its emerging findings on the costs and benefits, and in September 2016 published its final assessment. The decision of whether and how to open the domestic retail market to competition will be made by the UK Government.

### **Upstream reform**

Changes under the Water Act 2014 also make it easier for new providers of water sources and sewage and sludge treatment services to enter the 'upstream' market (i.e. those wholesale activities). The upstream reforms will require close working between the water industry, regulators and customer representatives. To allow sufficient time for this, the main upstream reforms will not be implemented until the next price review period which will set charges for 2020–2025.

The Water Act 2014 specifically provides for:

- Extension of access rights to water companies' treatment and storage systems rather than just the mains and pipes as is currently the case. This will allow alternative suppliers, such as landowners with spare water resources, to input water into any part of the network.
- Changes to the system governing 'access' prices that new licensees must pay incumbent water companies for using their network to make it easier for new entrants to earn sufficient margin to be able to compete with incumbent water companies.

Alongside these changes, the UK Government is aiming to legislate for reform of the system for the licensing of water abstraction with a view to implementation in the early 2020s. The changes proposed include linking the amount of allowed abstraction more closely to how much water is available, and making the trading of bulk water supplies quicker and easier.

Ofwat's decisions in its May 2016 PR19 publication included the proposed approach to encouraging competition. The proposals include:

- Initiatives to encourage bidding to provide water supplies to other companies, as part of the Water Resource Management Plan process.
- A proposed approach to access prices, which will ensure that prices for access to company water distribution networks are lowest where water resources are most scarce.
- Initiatives to encourage competition in providing bioresources services, including publication of more information about potential competition opportunities and a separate price control for bioresources.
- Protection for past investment in water resources and bioresources.

### **Merger reform**

The Water Act 2014 also includes changes to the UK merger control regime in respect of companies operating in the sector. Previously, any proposed merger between water and/or water and sewerage companies, where one or all of the companies have an annual turnover of £10m or more, was automatically referred by the CMA for in-depth investigation. The new provisions enable the CMA to decide not to make a merger reference where either:

- It concludes that the merger is unlikely to prejudice Ofwat's ability to make comparisons between water businesses; or
- It concludes that customer benefits (such as lower prices) will outweigh the prejudicial effect on Ofwat's ability to make comparisons between water businesses.

Before making such a decision, the CMA must consult with Ofwat.

The CMA is also able, having consulted with Ofwat, to accept "undertakings in lieu" from the merging companies, rather than make a reference. These undertakings would focus on delivery of customer benefits in compensating for the loss of a comparator.

The Water Act 2014 also includes a duty on the CMA to keep the current £10m merger turnover threshold under review and to advise the Secretary of State on whether the threshold is still appropriate. The Secretary of State can change the threshold by secondary legislation.

### **Board of directors**

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

<b>Name</b>	<b>Function</b>
Dr John McAdam	Independent non-executive director and chairman

Steve Mogford	Chief executive officer
Russ Houlden	Chief financial officer
Steven Fraser	Managing director
Alison Goligher	Independent non-executive director
Lord Stephen Carter	Independent non-executive director
Mark Clare	Senior independent non-executive director
Brian May	Independent non-executive director
Sara Weller	Independent non-executive director

There is no existing or potential conflict of interest between the directors' duties to U UW and/or their private interests or other duties.

The business address of each director is Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP. This is the registered address of U UW.



**MATERIAL CONTRACTS**

The Issuers and the Guarantor have not entered into any contracts (being contracts not entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which either Issuer or the Guarantor or another member of the Group has an obligation or entitlement which is material to the relevant Issuer's or (where the relevant Issuer is UUWF) the Guarantor's ability to meet its obligations to security holders in respect of securities to be issued under the Programme.

## TAXATION

### UNITED KINGDOM TAXATION

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuers' understanding of current United Kingdom law and published HM Revenue & Customs ("HMRC") practice relating only to the withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes and is subject to changes therein and thereof (possibly with retrospective effect) and does not purport to constitute legal or tax advice. Prospective Noteholders who may be unsure as to their tax position should seek their own professional advice.**

Payments of interest on the Notes may be made without deduction of or withholding for or on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be listed on a "recognised stock exchange", as defined in section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. 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 London Stock Exchange. Provided, therefore, that the Notes carry a right to interest and the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom income tax in the case of Notes the maturity of which is less than 365 days provided that such Notes do not form part of a scheme of arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, and subject to the availability of another exemption, an amount must generally be withheld on account of United Kingdom income tax at the basic rate (currently 20 per cent.) from any payments of interest on the Notes that has a United Kingdom source. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a direction to the relevant Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Where interest has been paid under deduction for or on account of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted under an appropriate provision in any applicable double taxation treaty.

If the Guarantor makes any payments in respect of interest on the Notes (or in respect of other amounts due from the Issuers under the Notes), such payments may be subject to deduction of or withholding for or on account of United Kingdom income tax, subject to such relief as may be available under the terms of any applicable double taxation treaty. Such payments by the Guarantor may not be eligible for the exemptions described above.

### FOREIGN ACCOUNT TAX COMPLIANCE ACT

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event that any withholding were to be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person would be required to pay additional amounts as a result.

## **SUBSCRIPTION AND SALE**

The Dealers have in a programme agreement dated 15 November 2016 (as supplemented and/or amended and/or restated from time to time) (the “Programme Agreement”), agreed with the Issuers and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes”. In the Programme Agreement, the Issuers (failing which, where the Issuer is UUWF, the Guarantor) have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **Selling Restrictions**

#### *United States*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to certain persons in offshore transactions in reliance on Regulation S under the Securities Act.

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

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

### **Index Linked Notes only**

The Index Linked Notes have not been and will not be, registered under the Securities Act and trading in the Index Linked Notes has not been approved by the CFTC under the CEA. No Index Linked Notes may at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person.

Offers, sales, re-sales or deliveries of the Index Linked Notes or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades or deliveries of the Index Linked Notes, or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. Persons, may constitute a violation of United States law governing commodities trading.

### **Public Offer Selling Restriction under the Prospectus Directive**

Unless the Final Terms in respect of any Notes specifies “EEA Retail Investor Selling Restriction” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"); and
- (b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Notes specifies "EEA Retail Investor Selling Restriction" as "Not Applicable", in relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and
- the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### ***United Kingdom***

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree 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 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantor; 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 Notes in, from or otherwise involving the United Kingdom.

### ***Germany***

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

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “FIEA”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***General***

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

None of the relevant Issuers, the Guarantor, the Trustee nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

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

- (a) a resolution of the Board of Directors of United Utilities PLC, dated 26 May 1998 and by a resolution of the Financing Committee of United Utilities PLC, dated 5 October 1998; and
- (b) a resolution of the Board of Directors of North West Water Finance PLC, dated 5 October 1998; and
- (c) United Utilities Water PLC was duly authorised to join the Programme in place of North West Water Finance PLC and to issue Notes hereunder by a resolution of the Board of Directors of United Utilities Water PLC dated 13 September 2001; and
- (d) United Utilities Water Finance PLC was duly authorised to join the Programme and to issue Notes hereunder by the UU Approval and the UUW Approval, (each as defined below) and by a resolution of the Board of Directors of United Utilities Water Finance PLC dated 13 November 2014.

This update of the Programme was duly authorised by:

- (a) a resolution of the Board of Directors of UU to delegate certain powers by power of attorney, dated 26 April 2016;
- (b) a power of attorney, dated 26 April 2016;
- (c) a certificate of approval, made under the Power of Attorney of the Board of Directors of UU, dated 10 November 2016 (the “UU Approval”);
- (d) a resolution of the Board of Directors of UUWF to delegate certain powers by power of attorney, dated 26 April 2016;
- (e) a power of attorney, dated 26 April 2016;
- (f) a certificate of approval made under the Power of Attorney of the Board of Directors of UUWF, dated 10 November 2016;
- (g) a resolution of the Board of Directors of UUW to delegate certain powers by power of attorney, dated 26 April 2016;
- (h) a power of attorney, dated 26 April 2016; and
- (i) a certificate of approval, made under the Power of Attorney of the Board of Directors of UUW, dated 10 November 2016 (the “UUW Approval”).

Additionally, issues of Notes by either Issuer will require authorisation.

### Third Party Information

Where information in this Offering Circular has been sourced from third parties, this information has been accurately reproduced and as far as the Issuers and the Guarantor are aware and are able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

### Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and admitted to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of one or more Global Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or around 17 November 2016.

### **Documents Available**

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available from the registered office of each Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the Memorandum and Articles of Association of each of the Issuers and the Guarantor;
- (b) the consolidated statutory annual audited financial statements of UU in respect of the financial years ended 31 March 2015 and 31 March 2016, the statutory annual audited financial statements of UUWF in the financial year ended 31 March 2015 and 31 March 2016, the consolidated statutory annual audited financial statements of the Guarantor in respect of the financial years ended 31 March 2015 and 31 March 2016, in each case together with the audit reports prepared in connection therewith;
- (c) the most recently published audited annual financial statements of each of the Issuers and the Guarantor and the most recently published unaudited interim financial statements (if any) of each of the Issuers and the Guarantor in each case together with any audit or review reports prepared in connection therewith;
- (d) the Agency Agreement, the Trust Deed and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Offering Circular;
- (f) any future offering circulars, prospectuses, information memoranda and supplements to this Offering Circular including Final Terms and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

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

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of each of UU and its consolidated group since 31 March 2016 and there has been no material adverse change in the financial position or prospects of each of UU and its consolidated group since 31 March 2016.

There has been no significant change in the financial or trading position of U UW and its consolidated group since 31 March 2016 and there has been no material adverse change in the financial position or prospects of U UW and its consolidated group since 31 March 2016.

There has been no significant change in the financial or trading position of U UWF since 31 March 2016 and there has been no material adverse change in the financial position or prospects of U UWF since 31 March 2016.

### **Litigation**

In February 2009, United Utilities International Limited (“UUIL”) was served with notice of a multiparty ‘class action’ in Argentina related to the issuance and payment default of a US\$230 million bond by Inversora Eléctrica de Buenos Aires S.A. (“IEBA”), an Argentine project company set up to purchase one of the Argentine electricity distribution networks which were privatised in 1997. UUIL had a 45 per cent shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will vigorously resist the proceedings given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

In March 2010, Manchester Ship Canal Company (“MSCC”) issued proceedings seeking, amongst other relief, damages alleging trespass against U UW in respect of U UW’s discharges of water and treated effluent into the canal. Whilst the matter has not reached a final conclusion, the Supreme Court has found substantively in U UW’s favour on a significant element of the claim. The High Court has now upheld U UW’s position on the remainder of the proceedings, although MSCC has now issued proceedings to introduce additional matters for determination.

Except as set out above in this section titled “Litigation” there are no other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) of which UU, U UW or any of UU’s or U UW’s consolidated groups are aware in the last 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of UU, U UW or any of UU’s or U UW’s consolidated groups.

The Group is engaged in litigation in the ordinary course of its operations, such as contract disputes, disputes over easements/wayleaves and other similar property matters, bill collections, personal injury claims and workers’ compensation claims. The Group does not believe that such litigation, either individually or in aggregate, is material. The Group maintains insurance and, to the extent that the amounts in dispute may not be covered by such insurance, maintains provisions in those situations where management deems it appropriate in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

### **Auditors**

KPMG LLP audited the financial statements of UU and the Guarantor in accordance with International Standards on Auditing (UK and Ireland) for the years ended 31 March 2016 and 31 March 2015 and issued unqualified reports thereon. KPMG LLP audited the financial statements of U UWF in accordance with International Standards on Auditing (UK and Ireland) for the years ended 31 March 2016 and 31 March 2015 and issued unqualified reports thereon. KPMG LLP has no material interest in the Issuers.

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

As of 16 July 2013, KPMG Audit Plc, St James’ Square, Manchester M2 6DS, was replaced by KPMG LLP as the Issuers’ external auditor.

### **Financial Information**



The UU Financial Statements for each of the years ended 31 March 2016 and 31 March 2015 were audited in accordance with IFRS as adopted by the EU.

The UUWF Financial Statements for each of the years ended 31 March 2016 and 31 March 2015 were audited in accordance with UK GAAP, including FRS 101 Reduced Disclosure Framework.

The Financial Statements for the Guarantor for each of the years ended 31 March 2016 and 31 March 2015 were audited in accordance with IFRS as adopted by the EU.

### **Contracts (Rights of Third Parties) Act 1999**

The Contracts (Rights of Third Parties) Act 1999 (the “Act”) was enacted on 11 November 1999 and provides, inter alia, that persons who are not parties to a contract governed by the laws of England and Wales may be given enforceable rights under such contract.

### **Post-issuance information**

The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.

### **Dealers transacting with the Issuer and the Guarantor**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuers, the Guarantor and their affiliates in the ordinary course of business.

### **Index Linked Notes**

Payments of principal and interest in respect of Index Linked Notes will be calculated by reference to an Index Ratio, derived from: (i) the U.K. Retail Price Index (“RPI”) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace RPI or (“RPI Linked Notes”), (ii) the U.K. Consumer Price Index (“CPI”) (for all items) published by the Office for National Statistics (2015 = 100) or any comparable index which may replace CPI (“CPI Linked Notes”) or (iii) the U.K. Consumer Price Index including owner occupier’s housing costs (“CPIH”) (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace CPIH (“CPIH Linked Notes”).

As can be seen from the worked example below, payments of both interest and principal under Index Linked Notes are directly governed by the performance of the relevant Index. If the Index Ratio decreases, then payments will be lower. If the Index Ratio increases, then payments will be higher.

### **Background to the Indices**

RPI is one of the most familiar general purpose domestic measures of inflation in the UK. RPI has been used as a measure of inflation since 1947 and measures the average change from month to month in the prices of goods and services purchased by most households in the UK. The spending pattern on which the RPI is based is revised each year, mainly using information from official expenditure and food surveys.

RPI is compiled by the UK Office of National Statistics (“ONS”) using a large and representative selection of separate goods and services for which price movements are regularly measured in various areas throughout the UK. If prices rise compared to the previous month, the RPI goes up and if prices fall compared to the previous month, the RPI goes down. It takes two or three weeks for the ONS to compile the index, so each month’s RPI figure is published during the following month, (e.g. the figure relating to July will be published in August). The RPI figures used in the calculation of payments of interest on, and the redemption amount of, the RPI Linked Notes are numerical representations of where prices on a list of items bought by an average family stand at a point in time, in relation to their past values.

More information on RPI, including past and current levels, can be found at the following website: [www.statistics.gov.uk](http://www.statistics.gov.uk).

CPI is a measure of inflation in the United Kingdom and is produced to international standards and is in line with European Regulations. The CPI is the inflation measure which has been increasingly used by the Government and has been the Bank of England's target for inflation since December 2003. Approximately 180,000 separate price quotations are used each month in compiling CPI. It takes two or three weeks for the Office for National Statistics to compile the index, so they publish each month's CPI figure during the following month, i.e. the figure relating to January will be published in February.

CPIH is a measure of UK consumer price inflation that includes owner occupiers' housing costs ("OOH"). These are the costs of housing services associated with owning, maintaining and living in one's own home. OOH does not include costs such as utility bills, minor repairs and maintenance, which are already included in the index. CPIH uses an approach called rental equivalence to measure OOH. Rental equivalence uses the rent paid for an equivalent house as a proxy for the costs faced by an owner occupier. It takes two or three weeks for the Office for National Statistics to compile the index, so they publish each month's CPI figure during the following month, i.e. the figure relating to January will be published in February.

Information about the past and further performance and volatility of CPI and CPIH can be found at the following website: <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Consumer+Price+Indices>

### **Calculation of interest and redemption amounts on Index Linked Notes**

Payments of principal and interest on Index Linked Notes will be adjusted to take into account changes in the Index from the Base Index Figure specified in the applicable Final Terms.

In respect of each Tranche of Index Linked Notes, a rate of interest will be specified in the applicable Final Terms. The interest amount due on each Interest Payment Date (such dates to be specified in the applicable Final Terms) will be that rate multiplied by the ratio which reflects the change in the Index between the Base Index Figure and the Index figure relating to a particular month or date (as specified in the applicable Final Terms) prior to the relevant Interest Payment Date.

Subject to any early redemption of Index Linked Notes, such Index Linked Notes will be redeemed on their specified Maturity Date at a Final Redemption Amount specified in the applicable Final Terms, provided that:

- (a) if the Index figure applicable to the relevant month or date, as the case may be, in or on which such payment falls to be made is higher than the Base Index Figure, an additional amount reflecting such increase in the Index will also be paid (subject to any maximum redemption amount specified in the applicable Final Terms); and
- (b) if the Index figure applicable to the relevant month or date, as the case may be, in or on which such payment falls to be made is lower than the Base Index Figure, the amount payable on redemption of the Index Linked Notes will be reduced to reflect such decrease in the Index (subject to any minimum redemption amount specified in the applicable Final Terms).

### **Index figure applicable**

The Index Figure applicable for RPI Linked Notes relating to a particular month or date will be the figure either 3 months or 8 months prior to the particular month or date (3 months or 8 months to be specified in the applicable Final Terms). The Index Figure applicable for CPI Linked Notes or CPIH Linked Notes relating to a particular month or date will be the figure "t" months prior to the particular month or date ("t" months to be specified in the applicable Final Terms). If an 8 month period is specified as the Index Figure applicable for RPI Linked Notes, it will be the first day of the month that is 8 months prior to the month in which the relevant payment falls due. If a 3 month period is specified as the Index Figure applicable for RPI Linked Notes, or if CPI or CPIH is specified as the Index, the Index Figure applicable will be determined using the formula which is calculated by the linear interpolation between the relevant reference Index applicable to the first calendar day of the month in which the relevant day falls and the relevant reference Index applicable to the first calendar day of the month immediately following (set out in Condition 7.1). The example below, setting out how payments of interest and principal are calculated (as adjusted for inflation), is based on RPI Linked Notes on a 3 month period. Except for the determination of the Index Figure applicable, the calculations would work in the same way for all Index Linked Notes.

### **Worked example: Interest on RPI Linked Notes with a 3 month period**

Set out below is a worked example illustrating how payments of interest in relation to a Series of Index Linked Notes might be calculated. The real rate of interest offered on a Series of Index Linked Notes (i.e. the rate before taking inflation into account) is fixed when the first Tranche of such Series of Index Linked Notes is issued (the “Real Rate of Interest” in the examples below). For the purposes of the example below, this Real Rate of Interest is 1 per cent. (before any adjustments for inflation). This amount will be adjusted upwards or downwards to take into account the effect of inflation or deflation as indicated below. In the example below, the Issuer will pay interest in two half-yearly instalments until the Index Linked Notes mature, which is why the Real Rate of Interest in the examples below is being divided by 2.

In the example below, the interest amount due on each Interest Payment Date will be adjusted to take into account a change in inflation. To calculate any inflation adjustment that might apply, two inflation index “fixing” figures are required – one that relates to the start of the Index Linked Note’s life (i.e. the “Base Index Figure”) and one that relates to the relevant Interest Payment Date. The “fixing” figures for RPI Linked Notes can be taken either 3 months or 8 months prior to the relevant issue date or relevant Interest Payment Date (commonly referred to as a “lag” period), and the “lag” period will be specified in the applicable Final Terms. The “lag” period for CPI Linked Notes and CPIH Linked Notes can be any number of months (“t”) between 2 and 24 months, as specified in the applicable Final Terms.

In the example below, both the Base Index Figure and the Index Figure applicable to any relevant Interest Payment Date are taken 3 months prior to the relevant issue date and the relevant Interest Payment Date respectively (such 3 month period being referred to as the Relevant Period), and the interest amount due on each Interest Payment Date will be adjusted to take into account the effect of inflation between the Base Index Figure (being a figure of 257.62903, which is calculated using linear interpolation between the Index figure (in this example, RPI) relating to September 2014, which is 3 months prior to the issue date of the first Tranche of the Series of RPI Linked Notes in this example, i.e. December 2014, and the Index figure relating to October 2014, which is 2 months prior to the issue date of the first Tranche of the Series of RPI Linked Notes in this example (as set out in Condition 7.1)) and the Index Figure applicable to the first Interest Payment Date (being a figure of 257.37, which is calculated using linear interpolation between the Index figure relating to March 2015, which is 3 months prior to the first Interest Payment Date, i.e. June 2015, and the Index figure relating to April 2015, which is 2 months prior to the first Interest Payment Date (as set out in Condition 7.1)), and is calculated as follows:

$$\text{Calculation Amount of the Relevant Notes} \times \frac{\text{Real Rate of Interest}}{2} \times \frac{\text{Index Figure applicable to the first Interest Payment Date}}{\text{Base Index Figure}}$$

Interest amounts are calculated with reference to each Calculation Amount as set out in the applicable Final Terms.

As an example, if an Investor owns £100,000 face value of RPI Linked Notes issued on 10 December 2014 for which the Real Rate of Interest is 1 per cent. and the Calculation Amount is £1,000, the interest amount per Calculation Amount each Investor will receive on the first Interest Payment Date on 10 June 2015 will be:

$$£1000 \times \frac{1\%}{2} \times \frac{\text{RPI interpolated between March and April 2015}}{\text{Base RPI interpolated between September and October 2014}}$$

$$= £1000 \times 0.01 \times \frac{1}{2} \times \frac{257.37}{255.62903} = £5.03$$

As the face value of RPI Linked Notes held by the Investor in this example is equal to the Calculation Amount multiplied by 100, the actual amount this Investor will receive on the first Interest Payment Date on 10 June 2015 will be £5.03 x 100 = £503.00.

#### **Worked example: Redemption on RPI Linked Notes with a 3 month period**

Set out below is a worked example illustrating how repayment of principal in relation to a Series of Index Linked Notes might be calculated. The Index Linked Notes will be redeemed either (a) on their specified Maturity Date as specified in the applicable Final Terms at the Final Redemption Amount specified in the applicable Final Terms (in this example, at 100 per cent. of the nominal amount), or (b) in certain limited circumstances described in the Terms and Conditions of the Index Linked Notes (see, for example, Condition 9.3 on page 64 of this Offering Circular) upon expiry of the notice required by the Terms and Conditions, at 100 per cent. of their nominal amount, in the case of each of (a) and (b) above, plus or minus an additional amount to take into account the effect of inflation or deflation. To calculate any inflation adjustment that might apply, two inflation index “fixing” figures are required – one that relates to the start of the Index Linked Note’s life (i.e. the “Base Index Figure”) and one that relates to the relevant Maturity Date or early redemption date, as applicable, of the Index Linked Notes. The “fixing” figures for RPI Linked Notes can be taken either 3 months or 8 months prior to the relevant issue date or relevant Maturity Date, or early redemption date, as applicable (commonly referred to as a “lag” period), and the “lag” period will be specified in the applicable Final Terms. The “lag” period for CPI Linked Notes or CPIH Linked Notes can be any number of months (“t”) between 2 and 24 months, as specified in the applicable Final Terms.

In the example below, the Final Redemption Amount of the Index Linked Notes is not subject to a maximum or minimum redemption amount as may be specified for any given issue of Index Linked Notes in the applicable Final Terms.

In the example below, both the Base Index Figure and the Index Figure applicable to the relevant redemption date used in the example below are taken 3 months prior to the issue date and the example redemption date respectively (such 3 month period being referred to as the “Relevant Period”), and the final amount due on the redemption of the RPI Linked Notes will be adjusted to take into account the effect of inflation between the Base Index Figure (being a figure of 257.62903, which is calculated using linear interpolation between the Index figure (in this example, RPI) relating to September 2014, which is 3 months prior to the issue date of the first Tranche of the Series of RPI Linked Notes in this example, i.e. December 2014, and the Index figure relating to October 2014, which is 2 months prior to the issue date of the first Tranche of the Series of RPI Linked Notes in this example (as set out in Condition 7.1)) and the Index Figure applicable to the redemption date (being a figure of 292.91613, which is calculated using linear interpolation between the Index figure relating to September 2019, which is 3 months prior to the redemption date in this example, i.e. December 2019, and the Index figure relating to October 2019, which is 2 months prior to the redemption date in this example (as set out in Condition 7.1)).

Where the Final Redemption Amount of any Index Linked Note is specified in the applicable Final Terms as being 100 per cent. of the nominal amount of the Index Linked Notes, the amount payable to an Investor on the redemption of any such Note will be:

$$\text{Calculation Amount of the Relevant Notes} \times \frac{\text{Index Figure applicable to the Redemption Date}}{\text{Base Index Figure}}$$

The amount so payable to an Investor is calculated with reference to each Calculation Amount as set out in the applicable Final Terms.

As an example, if an Investor owns £100,000 face value of the RPI Linked Notes issued on 10 December 2014 and the Calculation Amount is £1,000, the amount per Calculation Amount each Investor will receive on redemption of the Notes on 10 December 2019 will be:

$$\begin{aligned} & \text{£1000} \times \frac{\text{RPI interpolated between September and October 2019}}{\text{Base RPI interpolated between September and October 2014}} \\ & = \text{£1000} \times \frac{292.91613}{257.62903} = \text{£1136.97} \end{aligned}$$

As the face value of RPI Linked Notes held by the Investor in this example is equal to the Calculation Amount multiplied by 100, the actual amount this Investor will receive on redemption of the Notes on 10 December 2019 will be  $\text{£}1136.97 \times 100 = \text{£}113,697.00$ .

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