



## **WESSEX WATER SERVICES FINANCE Plc**

*(Incorporated in England and Wales with limited liability under registered number 3704265)*

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**£350,000,000**

**5.75 per cent. Guaranteed Bonds due 2033**

**unconditionally and irrevocably guaranteed by**

**WESSEX WATER SERVICES LIMITED**

*(Incorporated in England and Wales with limited liability under registered number 2366648)*

**Issue price: 99.114 per cent.**

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Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the £350,000,000 5.75 per cent. Guaranteed Bonds due 2033 of Wessex Water Services Finance Plc (the "Bonds" and the "Issuer", respectively) to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the "London Stock Exchange") for the Bonds to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange.

Interest on the Bonds is payable annually in arrear on 14th October in each year at the rate of 5.75 per cent. per annum, except that the first payment will be made on 14th October, 2004 in respect of the period from, and including, 15th October, 2003 to, but excluding, 14th October, 2004, as described under "Terms and Conditions of the Bonds — Interest". Payments of principal of, and interest and premium (if any) on, the Bonds will be made without withholding or deduction on account of United Kingdom taxes, to the extent described under "Terms and Conditions of the Bonds — Taxation".

The Bonds mature on 14th October, 2033. The Bonds are subject to redemption at the option of the Issuer, (a) in whole but not in part at their outstanding principal amount together with accrued interest in the event of certain changes affecting taxes of the United Kingdom or (b) in whole or in part at the amounts set out in Condition 6(c). See "Terms and Conditions of the Bonds — Redemption and Purchase". Upon the occurrence of certain events, as described under "Terms and Conditions of the Bonds — Redemption at the Option of Bondholders", the holders of the Bonds may require the Issuer to redeem or, at its option, purchase (or procure the purchase of) the Bonds at their principal amount (plus accrued interest, if any).

The Bonds will initially be represented by a temporary global bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 15th October, 2003 (the "Closing Date"). The Temporary Global Bond will be exchangeable for interests in a permanent global bond (the "Permanent Global Bond" and, together with the Temporary Global Bond, the "Global Bonds"), without interest coupons, on or after a date which is expected to be 26th November, 2003 upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable for definitive Bonds in bearer form in denominations of £1,000, £10,000 and £100,000 each, with interest coupons attached, in the limited circumstances set out in the Permanent Global Bond.

Moody's Investors Services Limited, Standard & Poor's Ratings Services, a division of The McGraw Hill Companies and Fitch Ratings Ltd have assigned ratings of Baa1, BBB+, BBB+, respectively, in respect of the Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

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**Barclays Capital**

**Dresdner Kleinwort Wasserstein**

13th October, 2003

*This document comprises listing particulars approved by the UK Listing Authority as required by the Financial Services and Markets Act 2000 (the "FSMA") prepared for the purpose of giving information with regard to the Issuer, Wessex Water Services Limited ("WWSL" or the "Guarantor") and its subsidiaries (together the "Group") and the Bonds. A copy of this document has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 83 of the FSMA.*

*The Issuer accepts responsibility for the information contained in this Offering Circular. The Guarantor accepts responsibility for the information relating to it contained in this Offering Circular. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each of which has 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.*

*No person has been authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or any Manager (as defined under "Subscription and Sale"). This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Managers to subscribe for or purchase, any of the Bonds. Neither the delivery of this Offering Circular nor any subscription, sale or purchase made in connection herewith shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Group since the date hereof.*

*The Managers and HSBC Trustee (C.I.) Limited (the "Trustee") have not separately 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 Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Bonds or their distribution.*

*This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, the Trustee or the Managers that any recipient of this Offering Circular should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor.*

*The distribution of the Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Trustee and the Managers to inform themselves about, and to observe, any such restrictions.*

*The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on offerings and sales of Bonds and on distribution of this Offering Circular, see "Subscription and Sale".*

*In this Offering Circular, references to "£", "pounds", "sterling", "pence" or "p" are to the lawful currency of the United Kingdom.*

## Table of Contents

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	<i>Page</i>
Terms and Conditions of the Bonds .....	4
Use of Proceeds .....	19
Summary of Provisions relating to the Bonds while in Global Form. ....	20
Wessex Water Services Finance Plc. ....	22
Capitalisation and Indebtedness of Wessex Water Services Finance Plc .....	23
Wessex Water Services Limited. ....	24
Capitalisation and Indebtedness of Wessex Water Services Limited .....	29
United Kingdom Taxation .....	30
Subscription and Sale .....	32
General Information. ....	33

IN CONNECTION WITH THE ISSUE OF THE BONDS, BARCLAYS BANK PLC OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE CLOSING DATE. HOWEVER THERE MAY BE NO OBLIGATION ON BARCLAYS BANK PLC OR ANY AGENT OF ITS TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

## Terms and Conditions of the Bonds

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*The following is the text of the Terms and Conditions of the Bonds which (subject to amendment) will be endorsed on each Bond in definitive form if issued:*

The £350,000,000 5.75 per cent. Guaranteed Bonds due 2033 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) are constituted by a trust deed (the "Trust Deed") dated 15th October, 2003 between Wessex Water Services Finance Plc (the "Issuer"), Wessex Water Services Limited (the "Guarantor") as guarantor and HSBC Trustee (C.I.) Limited (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a resolution of the board of directors the Issuer passed on 8th October, 2003 and the guarantee of the Bonds was authorised by resolutions of the board of directors of the Guarantor passed on 17th September, 2003 and 8th October, 2003 and by a resolution of a duly authorised committee of the board of directors of the Guarantor passed on 8th October, 2003. The Bonds will 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 Bonds to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and of an agency agreement (the "Paying Agency Agreement") dated 15th October, 2003 between the Issuer, the Guarantor, HSBC Bank plc as principal paying agent (the "Principal Paying Agent", which expression shall include any successor in such capacity), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents) and the Trustee are available for inspection during normal business hours by the Bondholders and the holders of the interest coupons appertaining to the Bonds (the "Couponholders" and the "Coupons" respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the "Talons") and the holders of the Talons) at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement.

Unless defined elsewhere in these Terms and Conditions, words and expressions used in these Terms and Conditions shall have the meanings given to them in Condition 18.

### **1. Form, Denominations and Title**

The Bonds are in bearer form, serially numbered, in the denominations of £1,000, £10,000 and £100,000 each with Coupons and one Talon attached on issue. Title to the Bonds and the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.

The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond or Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership, trust or any interest in it or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon).

### **2. Guarantee and Status**

- (a) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Bonds and the Coupons. Its obligations in that respect (the "Guarantee") are contained in the Trust Deed.
- (b) The Bonds and the Coupons are direct, unconditional and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and, subject as aforesaid, rank and will rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and subject to Condition 3, at all times rank at least equally with all their respective other outstanding unsecured and unsubordinated obligations, present and future.

### 3. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) each of the Issuer and the Guarantor will ensure that no Relevant Indebtedness of the Issuer, the Guarantor, any Principal Subsidiary or any other person and no guarantee by the Issuer, the Guarantor or any Principal Subsidiary of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a "Security Interest") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer, the Guarantor or any Principal Subsidiary unless, before or at the same time as the creation of the Security Interest, the Issuer and/or the Guarantor shall take any and all action necessary to ensure that:

- (a) all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed or, as the case may be, the Guarantor's obligations under the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Trustee; or
- (b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed or, as the case may be, the Guarantor's obligations under the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders,

save that the Issuer, the Guarantor or any Principal Subsidiary may create or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by the Issuer, the Guarantor or any Principal Subsidiary in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Bonds, the Coupons and the Trust Deed as aforesaid) where (1) such Relevant Indebtedness is of a maximum aggregate amount outstanding at any time not exceeding the greater of £150,000,000 and 15 per cent. of the Capital and Reserves or (2) such Security Interest is provided by or in respect of a company becoming a Subsidiary of the Guarantor after 15th October, 2003 and where such Security Interest exists at the time that company becomes a Subsidiary of the Guarantor (provided that such Security Interest was not created in contemplation of that company becoming a Subsidiary of the Guarantor and the principal amount secured at the time of that company becoming a Subsidiary of the Guarantor is not subsequently increased).

### 4. Interest

Each Bond bears interest from (and including) 15th October, 2003 (the "Closing Date") at the rate of 5.75 per cent. per annum payable annually in arrear on 14th October in each year (each an "Interest Payment Date"), except that the first such payment to be made on 14th October, 2004 shall be in respect of the period from, and including, 15th October, 2003 to, but excluding, 14th October, 2004 and shall amount to £57.34 per £1,000, £573.43 per £10,000 and £5,734.29 per £100,000 principal amount of the Bonds. All amounts of interest due on each Bond will be rounded upwards, if necessary, to the nearest penny.

Each Bond will cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal in respect of such Bond is improperly withheld or refused or unless default is otherwise made in respect of such payment, in which event interest shall continue to accrue as provided in the Trust Deed.

If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of (i) the actual number of days in the period from and including the date on which interest begins to accrue (the "Accrual Date") to but excluding the date on which it falls due, divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

### 5. Payments and Exchanges of Talons

Payments of principal in respect of the Bonds will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bonds and payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupons, in each case at the specified office of any of the Paying Agents. Payments of interest due

other than on an Interest Payment Date will be made only upon presentation and surrender of the relevant Bond as aforesaid.

Payments will be made at the specified office of any Paying Agent, at the option of the holder, by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Bondholders or the Couponholders in respect of such payments.

Each Bond should be presented for redemption (including exercise of the Bondholders' option pursuant to Condition 7) together with all relative unmatured Coupons which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons (being Coupons which would otherwise fall due for payment after the relevant due date for redemption or, as the case may be, the Put Date (as defined in Condition 7(c))). Upon the date on which any Bond becomes due and repayable, all unmatured Coupons appertaining to the Bond (whether or not attached) shall become void and no payment shall be made in respect of such Coupons and all unmatured Talons (if any and whether or not attached) appertaining to the Bond shall become void and no further Coupons will be issued in respect thereof.

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

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

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which, so long as the Bonds are admitted to official listing on the London Stock Exchange, shall be London or such other place as the UK Listing Authority may approve; and
- (c) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 (including the Directive on the taxation of savings income adopted by the ECOFIN Council on 3rd June, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, the Issuer will ensure (so long as there is such a Member State) that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

## **6. Redemption and Purchase**

- (a) Unless previously redeemed or purchased and cancelled as provided below, each Bond will be redeemed by the Issuer at its principal amount on 14th October, 2033.
- (b) If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division 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 after 15th October, 2003, the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (and such amendment or change has been evidenced by the delivery by the Issuer or, as the case may be, the Guarantor to the Trustee (who shall, in the absence of manifest error, accept such

certificate as sufficient evidence thereof) of a certificate signed by two directors of the Issuer or, as the case may be, the Guarantor on behalf of the Issuer or, as the case may be, the Guarantor stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it), the Issuer may, at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds at their principal amount together with interest (if any) accrued to but excluding the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay such additional amounts were a payment in respect of the Bonds or, as the case may be, the Guarantee then due.

Upon the expiry of any such notice as is referred to above (and subject as provided above), the Issuer shall be bound to redeem the Bonds at their principal amount together with interest (if any) accrued to but excluding the date of redemption.

- (c) The Issuer may at its option, having given not less than 30 nor more than 90 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem the Bonds in whole or in part (but, if in part, in a principal amount of £5,000,000 or integral multiples thereof) at the price which shall be the higher of the following:

- (i) their principal amount; and
- (ii) that price (the "Redemption Price"), expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the second dealing day prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the 4¼ per cent. Treasury Stock 2032 or, if such stock is no longer in issue, of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by Barclays Bank PLC (or such other person(s) as the Trustee may approve). Any reference in these Terms and Conditions to principal shall, where applicable, be deemed to be a reference to the Redemption Price. The "Gross Redemption Yield" on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for calculating Gilt Prices from Yields*" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8/6/1998) (as supplemented, amended or replaced from time to time) or on such other basis as the Trustee may approve,

together with interest (if any) accrued to but excluding the date of redemption.

Notices of redemption will specify the date fixed for redemption, the applicable redemption price and, in the case of partial redemption, the serial numbers of the Bonds called for redemption, the serial numbers of any Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds to remain outstanding after redemption. Upon the expiry of any notice of redemption delivered in accordance with this Condition 6(c) the Issuer shall be bound to redeem the Bonds called for redemption in accordance with this Condition 6(c). Any partial redemption of the Bonds shall be on the basis of selection by drawings (the method of such drawings to be approved by the Trustee).

- (d) The Issuer, the Guarantor or any other Subsidiary of the Guarantor may at any time purchase Bonds (together with unmatured Coupons appertaining thereto) in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor, in each case as the beneficial owner shall not entitle the holder to vote at any meetings of the Bondholders and shall

be deemed not to be outstanding for the purposes of Conditions 7(b), 10, 11 or 15(a) or otherwise as provided in the Trust Deed.

- (e) All Bonds which are redeemed by the Issuer will forthwith be cancelled (together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds) and may not be reissued or resold. Bonds purchased by the Issuer, the Guarantor or any other Subsidiary of the Guarantor may be held or reissued or resold or surrendered for cancellation, unless purchased pursuant to Condition 7, in which case such Bonds (together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds) will forthwith be cancelled as aforesaid.

## **7. Redemption at the Option of Bondholders**

- (a) If, at any time while any of the Bonds remains outstanding:
  - (i) the Appointment is terminated except in respect of such part of its area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act; or
  - (ii) the Issuer ceases to be a Subsidiary of the Guarantor; or
  - (iii) a Restructuring Event occurs and (subject as provided below):
    - (A) within the Restructuring Period, either:
      - (i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade in respect of such Restructuring Event also occurs; or
      - (ii) if at such time there are no Rated Securities, a Negative Rating Event in respect of such Restructuring Event also occurs; and
    - (B) an Independent Financial Adviser shall have certified in writing to the Issuer, the Guarantor and the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Bondholders (a "Negative Certification"),

then, unless at any time the Issuer shall have given a notice under Condition 6(b) or under Condition 6(c) in respect of the Bonds, the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the "Put Option") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bond on the Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Bondholders, the foregoing provisions shall cease to have any further effect in relation to such Restructuring Event.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Bondholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Bonds or other unsecured and unsubordinated debt of the Guarantor (or of the Issuer or any other Subsidiary of the Guarantor which, in any such case, is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3 or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any certification by an Independent Financial Adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interests of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer, the Guarantor and the Bondholders.

- (b) Promptly upon, and in any event within 14 days after, the Issuer or the Guarantor becoming aware that a Put Event has occurred, the Issuer or, as the case may be, the Guarantor shall, and at any time upon the



Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure for exercising the Put Option.

- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day in London and in the place of such specified office falling within the period (the "Put Period") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 7. Each Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the "Put Date") being the fifteenth day after the date of expiry of the Put Period. Upon the Put Date, all unmatured Coupons appertaining to the Bond (whether or not attached) shall become void and no payment shall be made in respect of such Coupons and all unmatured Talons (if any and whether or not attached) appertaining to the Bond shall become void and no further Coupons will be issued in respect thereof. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies an account with a bank in London in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable. For the purposes of these Terms and Conditions and the Trust Deed, receipts issued pursuant to this Condition 7 shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.
- (d) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 7 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.
- (e) The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event or such other event has occurred. The Trust Deed also provides that in determining whether or not a Restructuring Event has occurred, the Trustee may rely solely on an opinion given in a certificate signed by two directors of the Issuer or the Guarantor.

## 8. Taxation

All payments in respect of the Bonds and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in or of, the United Kingdom having power to tax, unless the withholding or deduction of such Taxes is required by law. In the event that such withholding or deduction of such Taxes is required by law, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (a) to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days, assuming, whether or not such is in fact the case, such last day to be a Presentation Date; or
- (c) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of beneficial ownership of the Bond or Coupon or of non-residence or other similar claim for exemption to the relevant tax authority or paying agent or any other relevant person; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26th-27th November, 2000 (including the Directive on the taxation of savings income adopted by the ECOFIN Council on 3rd June, 2003) or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14.

Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

## 9. Prescription

Claims against the Issuer and the Guarantor in respect of principal and interest shall be prescribed and become void unless the relevant Bond or Coupon which for this purpose shall not include Talons is presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect thereof. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Condition 5.

## 10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall subject to being indemnified to its satisfaction (but, in the case of the happening of any of the events mentioned in sub-paragraphs (b), (c), (e), (f), (g) and (h) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed) if any of the following events shall have occurred (unless such event has been remedied to the satisfaction of the Trustee):

- (a) if default is made for a period of 15 days or more in the payment of any principal of or interest on the Bonds or in the payment of the purchase price due in respect of any Bond pursuant to Condition 7; or
- (b) if the Issuer or the Guarantor fails to perform or observe any of its other obligations under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer or the Guarantor, as the case may be, in writing that it considers such failure to be incapable of remedy in which case no such

notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer or the Guarantor, as the case may be, specifying such failure and requiring the same to be remedied; or

- (c) if (i) any other indebtedness for borrowed money of the Issuer, the Guarantor or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default howsoever described or (ii) any such indebtedness for borrowed money is not paid when due (or, as the case may be, within any originally applicable grace period) or (iii) the Issuer, the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer, the Guarantor or any Principal Subsidiary for any indebtedness for borrowed money of any person or for any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds £15,000,000 (or its equivalent in other currencies (as determined by the Trustee)) or, if greater, 1.5 per cent. of the Capital and Reserves, and for the purposes of this sub-paragraph (c), "indebtedness for borrowed money" shall exclude Project Finance Indebtedness; or
- (d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer or the Guarantor, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (e) if (i) any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary (other than the Issuer), save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or the Guarantor or any other of their respective Subsidiaries (other than an Excluded Subsidiary) or (B) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders or (ii) a petition is presented under section 24 of the Water Industry Act (and is not dismissed within 60 days) or a special administration order is made under section 24 or section 25 of the Water Industry Act in respect of the Guarantor; or
- (f) if the Issuer, the Guarantor or any Principal Subsidiary shall cease to carry on the whole or, in the opinion of the Trustee, substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) in respect of a Principal Subsidiary, not involving or arising out of the insolvency of such Principal Subsidiary and under which all or, in the opinion of the Trustee, substantially all of its assets are transferred to another member or members of the Group (other than an Excluded Subsidiary) or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (ii) in respect of a Principal Subsidiary, under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by such Principal Subsidiary on an arm's length basis or (iii) in respect of the Issuer, the Guarantor or any Principal Subsidiary, the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (g) if the Issuer, the Guarantor or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent

court or shall enter into any composition or other similar arrangement with its creditors generally under section 1 of the Insolvency Act 1986; or

- (h) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer, the Guarantor or any Principal Subsidiary or in relation to the whole or, in the opinion of the Trustee, a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or, in the opinion of the Trustee, a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 60 days (or such longer period as the Trustee may in its absolute discretion permit); or
- (i) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

For the purposes of sub-paragraph (g) above, section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£350,000". Neither the Issuer, the Guarantor nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (g) above if any such demand as mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Trustee under this Condition.

#### **11. Enforcement**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons but it shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

#### **12. Substitution**

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of the Guarantor or any other Subsidiary of the Guarantor (other than an Excluded Subsidiary) subject to (a) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution and (b) certain other conditions set out in the Trust Deed being complied with.

#### **13. Replacement of Bonds and Coupons**

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

#### **14. Notices**

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language daily newspaper with general circulation in Europe. Any notice shall be deemed to have been given on the date of publication or, if so published more than once, on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

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

#### **15. Meetings of Bondholders, Modification, Waiver and Authorisation**

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Terms and Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that at any meeting, the business of which includes modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.
- (b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to 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 which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest or an error which is, in the opinion of the Trustee, proven.
- (c) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- (d) Any modification, waiver or authorisation referred to in paragraph (b) above and any substitution under Condition 12 shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

#### **16. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee may rely without liability to Bondholders on a certificate signed by two directors of the Issuer or the Guarantor, as the case may be, or a report of the Auditors, whether or not addressed to it and whether or not the directors or Auditors, as the case may be, have any liability to it in respect of the same.

#### **17. Further Issues**

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds or notes either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the

outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other further bonds or notes may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series in certain circumstances where the Trustee so decides.

## 18. Definitions

For the purposes of these Terms and Conditions:

“Appointment” means the Instrument of Appointment dated 1st September, 1989 under section 11 of the Water Act 1989 (now section 6 of the Water Industry Act) as in effect on 15th October, 2003 appointing the Guarantor as a water undertaker and sewerage undertaker for the areas described therein.

“Auditors” means the auditors for the time being of the Issuer or, as the case may be, the Guarantor or, in the event of their being unable or unwilling promptly to carry out any action requested of them pursuant to the provisions of these Terms and Conditions or the Trust Deed, such other firm of accountants or financial advisers as may be nominated or approved by the Trustee for the purpose.

“Business Day” means, in relation to any place, a day on which commercial banks and foreign exchange markets generally settle payments in that place.

“Capital and Reserves” means the aggregate of:

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

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with generally accepted accounting principles in the United Kingdom, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Group since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors may consider appropriate. A certificate signed by two directors of the Guarantor or a report by the Auditors as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on all parties whether or not addressed to each such party.

“Excluded Subsidiary” means any Subsidiary of 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 indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of such asset is subject to any recourse whatsoever to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in sub-paragraph (ii) of the definition of Project Finance Indebtedness; and
- (iii) which has been designated as such by the Guarantor by written notice to the Trustee,

provided that the Guarantor may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.

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

"indebtedness for borrowed money" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit, or (iii) any 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.

"Independent Financial Adviser" means an independent financial adviser appointed by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed) or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of a Restructuring Event and the Trustee is indemnified to its satisfaction against the costs of such adviser, appointed by the Trustee following consultation with the Issuer.

"K" has the meaning provided in the Appointment.

A "Negative Rating Event" shall be deemed to have occurred if (i) the Issuer does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or any other unsecured and unsubordinated debt of the Guarantor (or of the Issuer or of any Subsidiary of the Guarantor which, in any such case, is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more from a Rating Agency or (ii) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).

"Presentation Date" means a day which:

- (i) is or falls after the relevant due date, but, if the due date is not or was not a Business Day in London, is or falls after the next following such Business Day; and
- (ii) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment and, in the case of payment by transfer to a sterling account with a bank in London as referred to in these Terms and Conditions, in London.

"Principal Subsidiary" at any time shall mean any Subsidiary of the Guarantor (not being an Excluded Subsidiary or any other Subsidiary of the Guarantor the whole of whose indebtedness for borrowed money (other than indebtedness for borrowed money owed to another member of the Group) is Project Finance Indebtedness):

- (i) whose (a) profits on ordinary activities before tax or (b) net assets (in each case consolidated in respect of a Subsidiary which itself has Subsidiaries and in each case attributable to the Guarantor) represent 15 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or consolidated net assets of the Group respectively (in each case attributable to the Guarantor), in each case as calculated by reference to the then latest audited consolidated or, if none, unconsolidated financial statements of such Subsidiary and the then latest audited consolidated financial statements of the Group provided that:
  - (A) if the latest audited consolidated accounts of the Group show (x) a net loss for the relevant financial period then there shall be substituted for the words "profits" the words "turnover" for the purposes of this definition and/or (y) negative assets at the end of the relevant financial period then there shall be substituted for the words "net assets" the words "total assets" for the purposes of this definition; and
  - (B) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors; or

- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary (and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (ii) (but without prejudice to the provisions of sub-paragraph (i) above), upon publication of its next audited financial statements).

A certificate signed by two directors of the Guarantor or a report by the Auditors that, in their opinion, a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest or proven error, be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Bondholders and the Couponholders whether or not addressed to each such party.

“Project Finance Indebtedness” means any present or future indebtedness incurred to finance the ownership, acquisition, development and/or operation of an asset, whether or not an asset of a member of the Group:

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

A “Put Event” occurs:

- (i) if the Appointment is terminated except in respect of such part of its area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act; or
- (ii) the Issuer ceases to be a Subsidiary of the Guarantor; or
- (iii) in the case of the occurrence of a Restructuring Event, on the date of the last to occur of (aa) such Restructuring Event, (bb) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (cc) the relevant Negative Certification.

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



"Rating Agency" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc or any of its Subsidiaries and their successors, Moody's Investors Service Limited, Inc. or any of its Subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed).

A "Rating Downgrade" shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category (from BB+/Ba1 to BB/Ba2 or such similar lowering).

"Relevant Indebtedness" means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, 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 person issuing the same) are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market other than such notes, bonds, debentures, debenture stock, loan stock or other securities which, on issue, had a maturity of not less than 30 years, but shall in any event not include Project Finance Indebtedness.

"Restructuring Event" means the occurrence of one or both of the following events:

- (i) any material rights, benefits or obligations of the Guarantor as a water undertaker or sewerage undertaker arising under the Appointment or the Water Industry Act as in force on 15th October, 2003 or any material terms of the Appointment are modified (whether or not with the consent of the Guarantor and whether pursuant to the Water Industry Act or otherwise) unless two directors of the Guarantor have certified in good faith to the Trustee that such modified rights, benefits, obligations or terms are not materially less favourable to the business of the Group and to the business of the Guarantor (provided that an adjustment to K shall not fall within this paragraph (i); or
- (ii) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying the duties or powers of the Secretary of State for the Environment (or any successor) and/or the Director General of Water Services (or any successor) (including, without limitation, any such legislation removing, reducing or qualifying such duties or powers under or pursuant to sections 2, 9 or 24 of the Water Industry Act) in each case as compared to those in force on 15th October, 2003 unless two directors of the Guarantor have certified in good faith to the Trustee that such removal, reduction or qualification is unlikely to have a material adverse effect on the financial condition of the Group and the Guarantor.

"Restructuring Period" means:

- (i) if at any time a Restructuring Event occurs there are Rated Securities, the period of 60 days starting from and including the day on which that Restructuring Event occurs; or
- (ii) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 60 days following the later of (aa) the date on which the Issuer or the Guarantor shall seek to obtain a rating as contemplated in the definition of Negative Rating Event prior to the expiry of the 14 days referred to in that definition and (bb) the date on which a Negative Certification shall have been given to the Issuer, the Guarantor and the Trustee in respect of that Restructuring Event.

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

"Subsidiary Undertaking" shall have the meaning given to it by section 258 of the Companies Act 1985 (but, in relation to the Guarantor, shall exclude any undertaking (as defined in the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Guarantor or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

“Water Industry Act” means the Water Industry Act 1991 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

Any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

#### **19. Governing Law**

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

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

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

### Use of Proceeds

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The net proceeds of the issue of the Bonds, expected to amount to approximately £344,711,500 will be used by the Guarantor for refinancing existing indebtedness and for general corporate purposes.

## Summary of Provisions relating to the Bonds while in Global Form

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

### 1. Exchange

The Temporary Global Bond is exchangeable in whole or in part (free of charge to the holder) for interests in the Permanent Global Bond on or after a date which is expected to be 26th November, 2003 upon certification as to non-U.S. beneficial ownership in the form set out in the Trust Deed. The Permanent Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the definitive Bonds described below (a) if the Permanent Global Bond is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Issuer and the Trustee is available, or (b) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of the United Kingdom which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two directors of the Issuer is delivered to the Trustee. Thereupon (in the case of (a) above) the holder of the Permanent Global Bond (acting on the instructions of a person having a beneficial interest in the Permanent Global Bond) or the Trustee may give notice to the Issuer, and (in the case of (b) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

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

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

### 2. Payments

No payment will be made on the Temporary Global Bond unless, on or after 26th November, 2003, exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Permanent Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Permanent Global Bond to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed on the appropriate schedule to the Permanent Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds. Payments of interest on the Temporary Global Bond (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership, unless such certification has already been made.

### 3. Notices

So long as the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Terms and Conditions provided that, so long as the Bonds are admitted to listing by the UK Listing Authority and admitted to trading on the London Stock Exchange, the requirements of the UK Listing

Authority have been complied with. Any such notice shall be deemed to have been given to the Bondholders on the second day after the day on which such notice is delivered to the clearing system(s) as aforesaid.

#### **4. Prescription**

Claims against the Issuer and the Guarantor in respect of principal and interest on the Bonds while the Bonds are represented by a Global Bond shall be prescribed and become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

#### **5. Cancellation**

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

#### **6. Trustee's Powers**

While the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of a clearing system, the Trustee may, in considering the interests of Bondholders, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond(s) and may consider such interests as if such accountholders were the holder(s) of the Global Bond(s).

#### **7. Put Option**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of a clearing system, the option of the Bondholders provided for in Condition 7 may be exercised by the holder of the relevant Global Bond giving a duly completed redemption notice in the form obtainable from any of the Paying Agents to the Principal Paying Agent of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition. Whilst the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of a clearing system, redemption notices shall be given in accordance with the standard procedures of the relevant clearing system.

#### **8. Call Option**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of a clearing system, no drawing of Bonds will be required under Condition 6(c) in the event that the Issuer exercises its call option in Condition 6(c) in respect of less than the aggregate principal amount of Bonds outstanding. In such event, the standard procedures of the relevant clearing system shall operate to determine which interests in the Global Bond(s) are to be subject to such option.

### **Incorporation and business**

The Issuer was incorporated as a public limited company with limited liability in England and Wales on 28th January, 1999 under the Companies Act 1985 (as amended) and registered in England with registered number 3704265. The Issuer is a wholly-owned subsidiary of the Guarantor.

As at the date of this Offering Circular, the authorised share capital of the Issuer is £50,000 divided into 50,000 ordinary shares of £1 each, each of which has been issued and paid up as to 26p.

The Issuer was incorporated for the sole purpose of issuing capital market instruments on behalf of the Guarantor, on-lending the proceeds of the issue of any instrument to the Guarantor and matters ancillary thereto.

### **Directors**

The Directors of the Issuer, each of whom are Executive Directors, and their principal activities outside the Group are as follows:

<i>Executive Directors</i>	<i>Position</i>	<i>Principal activities outside the Group</i>
Colin F Skellett	Chairman	See Wessex Water Services Limited — Directors
T Keith Harris	Director	

The business address of each of the above is Claverton Down Road, Claverton Down, Bath BA2 7WW.

## Capitalisation and Indebtedness of Wessex Water Services Finance Plc

The following is a summary statement of the audited capital and reserves and indebtedness of the Issuer, Wessex Water Services Finance Plc, as at 30th June, 2003, which has not been adjusted to reflect the issue of the Bonds:

	<i>30th June, 2003</i>
	<u>£'000</u>
<b>Capital and Reserves</b>	
Authorised:	
50,000 ordinary shares of £1 each	
Issued and allotted:	
50,000 ordinary shares of £1 each paid up as to 26p	13.0
Profit and loss account — retained loss	<u>0.0</u>
Shareholders' Funds	<u>13.0</u>
<b>Indebtedness</b>	<u>£m</u>
Outstanding Bonds	<u>348.6</u>
Total Indebtedness	<u>348.6</u>

Notes:

1. This indebtedness of the Issuer is unsecured. All of the Issuer's indebtedness has been guaranteed by Wessex Water Services Limited.
2. There are no material contingent liabilities or guarantees as at 30th June, 2003.
3. Save as disclosed above, there has been no material change in capital and reserves and in the indebtedness, contingent liabilities or guarantees of the Issuer since 30th June, 2003.

## Introduction

Wessex Water Services Limited ("WWSL"), a wholly-owned subsidiary of Wessex Water Limited was incorporated on 1st April, 1989 under the Companies Act 1985 as a private company limited by shares and supplies water and wastewater services to an area of approximately 10,000 square kilometres that includes Bristol, Dorset, Somerset, most of Wiltshire and parts of Gloucestershire, Hampshire and Devon. WWSL supplies up to 370 million litres of water each day to 1.2 million customers through 11,260 kilometres of water mains and treats and disposes of wastewater from 2.5 million customers through 16,000 kilometres of sewers.

In December 2002 the water regulator OFWAT published its assessment of relative operational efficiency which showed WWSL in OFWAT's top efficiency band. Water resources have remained at levels resulting in WWSL recently completing its twenty-seventh consecutive year without any restrictions on water use. For the regulatory year ended 31st March, 2003 operational costs were almost 30 per cent. lower, in real terms, than in the regulatory year to 31st March, 1993.

## Regulation

Wessex Water Limited took over the rights and liabilities of the Wessex Water Authority on 1st September, 1989 on privatisation of the water industry in England and Wales. Licences were granted to the water and wastewater companies specifying the geographical area to be served for a 25 year term commencing 1st September, 1989. The licence of WWSL can be revoked by the Secretary of State by 25 years' notice, although it may be terminated or transferred prior to the end of this period in certain circumstances specified in the licence or the Water Industry Act 1991.

WWSL is regulated by the Director General of Water Services (the "Director"), the Secretary of State and the Environment Agency. The regulatory framework is based on a price cap formula which permits limited price increases based on the percentage change of the General Index of Retail Prices ("RPI") plus an adjustment factor ("K") which incorporates efficiency targets, quality standards and enhancements to service levels and security of supply. The Director has a duty under the Water Industry Act 1991 to allow WWSL sufficient income to finance its activities.

On 25th November, 1999 the Director announced the results of his latest periodic review to establish price limits for the period 1st April, 2000 through to 31st March, 2005. The Director imposed a 12 per cent. price cut for WWSL for 2000/2001, before adjustment for inflation. The announcement included level prices through to March 2003 with annual price increases in 2003/2004 of 3.8 per cent. and in 2004/2005 of 4.7 per cent., before adjustment for inflation.

The process for the next periodic review for the five year period commencing on 1st April, 2005 is already underway and WWSL submitted its draft business plan to the Director on 15th August, 2003. The final outcome of the next periodic review should be known in November 2004.

## The Environment

As a water undertaker, WWSL is required to comply with drinking water standards specified in regulations issued by the Secretary of State in respect of a number of substances.

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

## Capital Investment

During the year ended 31st March, 2003, WWSL invested approximately £169 million on capital projects, an increase of approximately £29 million on the previous year. This has enabled WWSL to meet its regulatory targets. It is anticipated that WWSL will in addition spend approximately £350 million before 31st March, 2005. This will bring the total amount for the period 1st April, 2000 to 31st March, 2005 to almost £800 million.



### **Conserving Water**

Leakage reduction continues to form a major part of WWSL's strategy to secure the balance between available resources and demands. During the year ending 31st March, 2003 WWSL met its target of reaching the economic level of 75 megalitres per day. WWSL aims to remain at the economic level of leakage in 2003/2004.

### **Financing**

As of 31st March, 2003 net debt stood at £1,008 million. With a Regulatory Asset Base ("RAB") of £1,474 million (as of the same date) the ratio of debt to RAB was 68%.

### **Wessex Water Limited**

On 21st May, 2002 Wessex Water Limited was acquired by YTL Utilities (UK) Limited, a wholly owned subsidiary of YTL Power International Berhad ("YTL") of Malaysia.

YTL is a Malaysian based investment holding company listed on the Kuala Lumpur Stock Exchange. YTL owns and operates two combined cycle gas fired power plants in Malaysia with a total installed capacity of 1212MW. These power plants were the first IPP projects developed in Malaysia and among the first in all Asia.

In addition to its Malaysian power generation interests, YTL holds a one-third stake in ElectraNet SA the company which owns and operates the South Australian electricity transmission network.

Wessex Water Limited has four principal business interests: WWSL, Bristol Wessex Billing Services Limited a billing joint venture with Bristol Water, Wessex Water Enterprises Limited a non-regulated activities company and SC Technology AG (trading as Swiss Combi) which operates sludge drying plants in Europe.

Wessex Water Limited's consolidated turnover and profit before tax for the financial year ended 30th June, 2003 were £287.7 million and £69.5 million, respectively. Its operating margin as at 30th June, 2003 stood at 39.1 per cent.

### **Special Administration Regime**

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

During the period of a special administration order, a WASC is managed in such a way as to achieve the purposes of such an order and in a manner that seeks to protect the respective interests of members and creditors of a WASC. However, the effect of other provisions of the Water Industry Act 1991 is ultimately to subordinate members' and creditors' rights in favour of the purposes of the special administration order.

### **Water Bill**

There is currently before parliament a Water Bill which, if enacted in its current form, will (*inter alia*) establish a new regulatory authority, the Water Services Regulation Authority (the "WSRA"), and a separate body corporate to be known as the Consumer Council for Water (the "Council"). The Water Bill provides for abolition of the Director and for the transfer of his functions to the WSRA and of his property, rights and liabilities to the WSRA and the Council. In its current form, the Water Bill also tightens the regulatory framework applying to WASCs and gives the WSRA the power to impose financial penalties on a WASC which contravenes any condition of its appointment or fails to meet prescribed performance standards under the Water Industry Act 1991. There can be no assurance, however, that the Water Bill will be enacted in its current form or at all.

## Directors

The Board of Directors of the Guarantor and their principal functions and principal activities outside the Group are as follows:

<i>Executive Director</i>	<i>Position</i>	<i>Principal activities outside the Group</i>
Colin F Skellett	Chairman and Chief Executive	Managing Director of Wessex Water Enterprises Limited, Chief Executive of Wateraid, Executive Chairman of Water UK, Chairman of Regen SW, Director of Wessex Spring Water Limited, Wessex Water Engineering Services Limited, Wessex Logistics Limited, Avalon Building Services Limited, Wessex Property Services Limited, Wessex Water Trustee Company Limited, YTL Services Limited, Aquator Limited, Wessex Water Limited, Wessex Water Commercial Limited, UK Water International Limited, Water Management International Limited, Wessex Engineering Services Limited, YTL Engineering Limited, Bristol Wessex Billing Services Limited, Dwr Gwalia Cyfyngedig, YTL Utilities (UK) Limited, Initiative for Bath & North East Somerset Ltd and YTL Events Limited.
Samuel M Allen	Director of Operations	Director of Greater Bristol Foundation and Wessex Engineering Services Limited.
J Gareth Jones	Director of Environment and Quality	Director of Environment of Water UK, WTI, The Western Partnership for Sustainable Development, Sustainability South West and Envolve Partnerships for Sustainability.
T Keith Harris	Director of Finance and Regulation	Director of Finance and Regulation of Wessex Water Limited, Wessex Water Enterprises Limited, Wessex Water Commercial Limited, Wessex Water Trustee Company Limited, Avalon Billing Services Ltd and Wessex Property Services Limited, Financial Director of Bristol Wessex Billing Services Limited, Director of Norton Radstock Regeneration Company and Wessex Engineering Services Limited, Finance Director of Wessex Water Pension Scheme Trustee Limited.

<i>Non-Executive Directors</i>	<i>Position</i>	<i>Principal activities outside the Group</i>
Peter Costain		Director of Pearl Group Limited, A.M.P. (U.K.) Public Limited Company, London Life Holdings Limited, National Provident Life Limited, NPI Limited, Pearl Assurance Public Limited Company, AMP(NPI) Holdings Limited, NP Life Holdings Limited, and Wessex Water Pension Scheme Trustee Limited.
Mrs Lesley C Bennett		Director of Malmesbury River Valleys Trust and North Wiltshire Council for Voluntary Service.
Francis Yeoh Sock Ping		Managing Director of YTL, YTL Corporation Berhad and Syarikat Pembinaan Yeoh Tiong Lay Sdn Berhad and Director of YTL Cement Berhad, YTL e-Solutions Berhad, YTL Land & Development Berhad, Express Rail Link Sdn Bhd and ElectraNet Pty Ltd. Member of the Malaysian Business Council, the Malaysian Pacific Basin Economic Council, the Malaysian Industry-Government Group for High Technology and the Commonwealth Partnership for Technology Management and the Malaysian South-South Association. International Council Member of The Asia Society.
Yeoh Seok Hong		Director of YTL and YTL Corporation Berhad, YTL e-Solutions Berhad, YTL Land & Development Berhad, Express Rail Link Sdn Bhd and ElectraNet Pty Ltd.
Mrs Karen Morgan OBE		Director of Wateraid, The Patrons of the West of England Academy and AT Bristol Limited, Public Servant of The Musicspace Trust, Director/Public Servant of Bristol Old Vic Theatre School Limited.

<i>Non-Executive Directors</i>	<i>Position</i>	<i>Principal activities outside the Group</i>
P Louis M Sherwood		Director of Rok Property Solutions PLC, Clerical Medical and General Life Assurance Society, Clerical Medical Investment Group, Halifax PLC, HBOS Financial Services Limited, SMV Investments, Clifton Down Charitable Trust Limited, The Clifton (Bristol) Trustee Company, Bristol Urological Institute, HBOS PLC, HBOS Insurance and Investment Group Limited, Insight Investment Management Limited, Clerical Medical Managed Funds Limited, Halifax Financial Services (Holdings) Limited, Halifax Life Limited and Insight Investment B.V., Chairman HTV West of The Hanover Foundation, The Bristol Cultural Development Partnership, At Bristol Limited and The Harbourside Foundation.
Mark Yeoh Seok Kah (Alternate Director in respect of Francis Yeoh Sock Ping)		Director of YTL, YTL Corporation Berhad, YTL e-Solutions Berhad, YTL Land & Development Berhad, YTL Hotels & Properties Sdn Bhd and Express Rail Link Sdn Berhad. Represents YTL Corporation Berhad on the Board of Directors of the Eastern & Oriental Express Limited.

The business address of each of the above is Claverton Down Road, Claverton Down, Bath BA2 7WW.

## Capitalisation and Indebtedness of Wessex Water Services Limited

The following is a summary statement of the audited capital and reserves and indebtedness of the Guarantor, Wessex Water Services Limited, as at 30th June, 2003:

### Capital and Reserves

	<i>30th June, 2003</i>
	<i>(£ million)</i>
Authorised:	
81,350,000 ordinary shares of £1 each	
Issued, allotted and fully paid:	
81,350,000 ordinary shares of £1 each	81.3
Profit and loss account	299.0
Shareholders' Funds	<u>380.3</u>

### Indebtedness

Bank overdraft	1	0.5
Indebtedness owing to Wessex Water Services Finance Plc	1	348.6
Unsecured loans:		
Amounts falling due within one year	1	22.9
Amounts falling due after more than one year	2	605.0
Obligations under hire purchase and finance leases:		
Amounts falling due within one year	1	1.0
Amounts falling due after more than one year	1	46.6
Total Indebtedness		<u>1,024.6</u>

#### Notes:

1. This indebtedness is not guaranteed.
2. Of this amount, £175 million is guaranteed by Wessex Water Limited.
3. The indebtedness of the Guarantor is unsecured.
4. There are no material contingent liabilities or guarantees as at 30th June, 2003.
5. Save as disclosed above, there has been no material change in the share capital, indebtedness, contingent liabilities or guarantees of the Guarantor since 30th June, 2003.

The following is of a general nature and applies only to persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers, collective investment schemes and persons connected with the Issuer) to whom special rules may apply. Prospective Bondholders or Couponholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

### A. Interest on the Bonds

#### 1. *Payment of interest on the Bonds*

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the "Act"). The London Stock Exchange is a recognised stock exchange. Under an Inland Revenue published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and admitted to trading by the London Stock Exchange. Accordingly, provided that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

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

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

Bondholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual, or who pays amounts payable on the redemption of Bonds to or receives such amounts for the benefit of an individual. Information so obtained may, in certain circumstances, be provided by the Inland Revenue to the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

#### 2. *EU Savings Directive*

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The proposals are anticipated to take effect from 1st January, 2005.

#### 3. *Further United Kingdom Income Tax Issues*

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

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or

agency in connection with which the interest is received or to which the Bonds are attributable (or where that Bondholder is a company, unless that Bondholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Bonds are attributable).

**B. United Kingdom Corporation Tax Payers**

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

**C. Other United Kingdom Tax Payers**

**1. *Taxation of Chargeable Gains***

For Bondholders within the charge to United Kingdom capital gains tax, the Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by such a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax.

2. Notwithstanding paragraph C1 above, the Bonds may constitute "relevant discounted securities" for the purposes of Schedule 13 to the Finance Act 1996. If this is the case, individual Bondholders who are within the charge to United Kingdom income tax in respect of the Bonds will be liable to United Kingdom income tax on any gain made on the sale or other disposal (including redemption) of the Bonds, but will not be able to claim relief from income tax in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Bonds.

**3. *Accrued Income Scheme***

If the Bonds are not relevant discounted securities, on a disposal of Bonds by a Bondholder within the charge to the United Kingdom income tax, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Chapter II of Part XVII of the Act.

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

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

## Subscription and Sale

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Barclays Bank PLC and Dresdner Bank AG London Branch (together the "Managers") have, pursuant to a Subscription Agreement dated 13th October, 2003 (the "Subscription Agreement"), jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe for the Bonds at the issue price of 99.114 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a combined selling, management and underwriting commission of 0.625 per cent. of such principal amount. The Managers have agreed to repay certain amounts payable by the Issuer in connection with the issue. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Bonds.

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

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

Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Each Manager has represented and agreed that: (a) it has not offered or sold and will not offer or sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part (VI) of the FSMA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSMA; (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and (c) 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 of the Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.



## General Information

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### Listing

The admission of the Bonds to the Official List will be expressed as a percentage of their principal amount, exclusive of accrued interest. It is expected that official listing will be granted on or about 15th October, 2003, subject only to the issue of the Temporary Global Bond. Prior to official listing, dealings in the Bonds will be permitted by the London Stock Exchange in accordance with its rules.

### Legend

Bonds and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

### Clearing systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code 017848984. The ISIN is XS0178489844.

### Approvals and Authorisations

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

The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 8th October, 2003 and the giving of the guarantee by the Guarantor was authorised by resolutions of the board of directors of the Guarantor passed on 17th September, 2003 and 8th October, 2003 and a resolution of a duly authorised committee of the board of directors of the Guarantor passed on 8th October, 2003.

### Financial Information

The Guarantor intends to meet with Bondholders once a year to provide, *inter alia*, an update on the financial position of the Issuer and the Guarantor.

### No significant or material change

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer, the Guarantor or the Group since 30th June, 2003 and, since 30th June, 2003, save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Issuer or the Guarantor or the Group.

### Litigation

Neither the Issuer nor the Guarantor nor any other member of the Group is or has been involved in any legal or arbitration proceedings, including any proceedings which are pending or threatened of which the Issuer or the Guarantor is aware which may have, or have had in the 12 months preceding the date of this document, a significant effect on the financial position of the Issuer, the Guarantor or the Group.

### Auditors

The auditors of the Issuer are KPMG Audit Plc, Registered Auditor, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the financial years ended on 30th June, 2003, 30th June, 2002 (6 month accounts) and 31st December, 2001.

The auditors of the Guarantor are KPMG Audit Plc, Registered Auditor, who have audited the Guarantor's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the financial years ended on 30th June, 2003, 30th June, 2002 (6 month accounts) and 31st December, 2001.

**Documents available for Inspection**

Copies of the following documents may be inspected during usual business hours on any week day (Saturdays, Sundays and public holidays excepted) at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, during the period of 14 days from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer and the Guarantor;
- (b) the audited annual report and accounts of the Issuer for the financial years ended 30th June, 2003, 30th June, 2002 (6 month accounts) and 31st December, 2001;
- (c) the audited annual report and accounts of the Guarantor for the financial years ended 30th June, 2003, 30th June, 2002 (6 month accounts) and 31st December, 2001;
- (d) the Subscription Agreement; and
- (e) drafts (subject to modification) of the Trust Deed, incorporating the forms of the Temporary Global Bond, the Permanent Global Bond, the definitive Bonds and the Coupons, and the Paying Agency Agreement.

**REGISTERED OFFICE OF THE ISSUER AND THE GUARANTOR**

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London E14 5AG

**TRUSTEE**

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St. Helier  
Jersey JE4 9PF

**PRINCIPAL PAYING AGENT**

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Pepys Street  
London EC3N 4DA

**PAYING AGENT**

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