

Prospectus



**SEVERN TRENT UTILITIES FINANCE PLC**

*(incorporated with limited liability in England and Wales with registered number 2914860)*

as an Issuer

**SEVERN TRENT PLC**

*(incorporated with limited liability in England and Wales with registered number 2366619)*

as an Issuer

**SEVERN TRENT WATER LIMITED**

*(incorporated with limited liability in England and Wales with registered number 2366686)*

as the Guarantor of Notes issued by Severn Trent Utilities Finance Plc

**€6,000,000,000**

**Euro Medium Term Note Programme**

Under this €6,000,000,000 Euro Medium Term Note Programme (the "Programme"), Severn Trent Plc ("Severn Trent") and Severn Trent Utilities Finance Plc ("STUF" and together with Severn Trent, the "Issuers" and each an "Issuer") may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined herein).

The payments of all amounts payable in respect of Notes issued by STUF will be unconditionally and irrevocably guaranteed by Severn Trent Water Limited ("STWL" or the "Guarantor").

Application has been made to the United Kingdom Financial Conduct Authority (the "UK Listing Authority") in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended ("FSMA") for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Except where the context otherwise requires, references in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). Admission to the Official List together with admission to trading on the London Stock Exchange's regulated market constitute official listing on the London Stock Exchange.

**Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.**

The Programme has been rated: Baa1 (in respect of Notes issued by Severn Trent) and A3 (in respect of Notes issued by STUF) by Moody's Investors Service Limited and BBB- (in respect of Notes issued by Severn Trent) and BBB+ (in respect of Notes issued by STUF) by Standard & Poor's Credit Market Services Europe Limited. Each of Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). As such, each of Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://esma.europa.eu/page/list-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be specified in the applicable Final Terms, and will not necessarily be the same as the rating assigned to the relevant Issuer or, if applicable, the Guarantor. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Notes issued under the Programme will have a minimum denomination of €100,000 (or its equivalent in any other currency as at the date of the issue of the relevant Notes).

*Arranger*

**The Royal Bank of Scotland**

*Dealers*

**Barclays  
Citigroup**

**BNP PARIBAS  
HSBC**

**The Royal Bank of Scotland**

The date of this Prospectus is 21 June 2013

*This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "Prospectus Directive").*

*The Issuers and the Guarantor (the "Responsible Persons") accept responsibility for the information contained in this Prospectus and, in respect of a Tranche of Notes, for the information contained in the applicable Final Terms for such Tranche. To the best of the knowledge of the Issuers and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The Notes may be issued on a continuing basis to one or more of Barclays Bank PLC, BNP Paribas, Citigroup Global Markets Limited, HSBC Bank plc and The Royal Bank of Scotland plc and any additional dealer appointed under the Programme from time to time by an Issuer (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.*

*Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in the applicable final terms (the "Final Terms") which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.*

*The only persons authorised to use this Prospectus in connection with an offer of Notes are the Issuers, the Guarantor and the persons named in the applicable Final Terms as the relevant Dealers or Managers.*

*Copies of Final Terms will be available from the registered office of the Issuers and the specified office of each of the Paying Agents (as defined below), see "Terms and Conditions of the Notes".*

*This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference"). This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.*

*This Prospectus supersedes any prospectus or offering circular with respect to the Programme issued prior to the date hereof. Any Notes issued under the Programme on or after the date of this Prospectus are issued subject to the provisions described herein, but this Prospectus does not affect the terms of any Notes issued prior to the date hereof.*

*None of the Dealers, Paying Agents or the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers, Paying Agents or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuers or the Guarantor in connection with the Programme. None of the Dealers, Paying Agents or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuers or the Guarantor in connection with the Programme.*

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

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

*Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers and the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers, the Paying Agents and the Trustee expressly do not undertake to review the financial condition*

or affairs of the Issuers or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a "Temporary Global Note") or, if so specified in the applicable Final Terms, a permanent global note (a "Permanent Global Note") which, in either case, will (i) if the Global Notes are intended to be issued in new global note ("NGN") form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the "Common Safekeeper") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"); and (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depository (the "Common Depository") for Euroclear and Clearstream, Luxembourg.

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Guarantor, the Trustee, the Paying Agents and the Dealers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, unless expressly provided in the applicable Final Terms, no action has been taken by the Issuers, the Guarantor, the Trustee, the Paying Agents or the Dealers which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Japan – see "Subscription and Sale".

**The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement; (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio; (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency; (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.**

**Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.**

All references in this Prospectus to "US dollars" are to United States dollars, all references to "Sterling" and "£" are to pounds sterling and all references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union ("EU"), as amended.

In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the "Stabilising Manager(s)") (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action

may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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## DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference in, and form part of, this Prospectus:

- the audited consolidated annual financial statements of Severn Trent for the two financial years ended 31 March 2013 (pages 76 to 127 (inclusive) of the Annual Report and Accounts 2013) and 31 March 2012 (pages 74 to 127 (inclusive) of the Annual Report and Accounts 2012) respectively (including the notes thereto and the auditors' reports prepared in connection therewith);
- the audited non-consolidated annual financial statements of STUF for the two financial years ended 31 March 2013 (pages 5 to 18 (inclusive) of the Report and financial statements for the year ended 31 March 2013) and 31 March 2012 (pages 4 to 14 (inclusive) of the Report and financial statements for the year ended 31 March 2012) respectively (including the notes thereto and the auditors' reports prepared in connection therewith);
- the audited non-consolidated annual financial statements of STWL for the financial year ended 31 March 2013 (pages 35 to 79 (inclusive) of the Report and financial statements for the year ended 31 March 2013) and the audited non-consolidated and consolidated annual financial statements of STWL for the financial year ended 31 March 2012 (pages 35 to 62 (inclusive) of the Report and financial statements for the year ended 31 March 2012) respectively (including the notes thereto and the auditors' reports prepared in connection therewith); and
- the terms and conditions contained in previous: (i) base prospectuses dated 19 June 2012 (pages 59 to 89 (inclusive)), 1 July 2011 (pages 34 to 59 (inclusive)), 30 July 2010 (pages 32 to 57 (inclusive)), 22 July 2009 (pages 31 to 56 (inclusive)), 31 July 2008 (pages 31 to 56 (inclusive)), 3 August 2007 (pages 28 to 51 (inclusive)), 4 August 2006 (pages 27 to 49 (inclusive)); and (ii) offering circulars dated 8 October 2004 (pages 19 to 41 (inclusive)), 25 July 2003 (pages 19 to 41 (inclusive)), 21 January 2003 (pages 19 to 41 (inclusive)) and 19 December 2001 (pages 19 to 41 (inclusive)),

each of which has previously been published or is published simultaneously with this Prospectus and has been filed with the UK Listing Authority, save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

See "General Information - Documents available" in respect of where copies of documents incorporated by reference are available for inspection. The "Documents Incorporated By Reference" will also be available on Severn Trent's website at [www.severntrent.com](http://www.severntrent.com).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any part of a document referred to herein that is not incorporated by reference is either not relevant for an investor or is otherwise covered elsewhere in this Prospectus.

This Prospectus contains references to certain websites. No such website, nor any information contained on any such website, is incorporated in this Prospectus, and such websites and information do not form part of this Prospectus.

### Supplemental Prospectuses

Following the publication of this Prospectus a supplement may be prepared by the Issuers and the Guarantor and approved by the UK Listing Authority in accordance with Section 87G of FSMA. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document

which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

The Issuers and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue and offer of Notes in compliance with section 87G of the FSMA. The Issuers have given an undertaking to the Dealers that they shall supply to each Dealer such number of copies of such supplement hereto or such new Prospectus as such Dealer may reasonably request.

## OVERVIEW OF THE PROGRAMME

The following Overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this overview.

Issuers:	Severn Trent Plc Severn Trent Utilities Finance Plc
Guarantor:	Severn Trent Water Limited, in respect of Notes issued by STUF
Description:	Euro Medium Term Note Programme
Arranger:	The Royal Bank of Scotland plc
Dealers:	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited HSBC Bank plc The Royal Bank of Scotland plc  (and any other Dealers appointed in accordance with the Programme Agreement).
Agent:	HSBC Bank plc
Trustee:	The Law Debenture Trust Corporation p.l.c.
Listing and Admission to Trading:	Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg.
Programme Size:	Up to €6,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuers and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of the negative pledge) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
Status of the Guarantee:	Notes issued by STUF will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under each Guarantee will be direct, unconditional and (subject to the provisions of the negative pledge) unsecured obligations of the Guarantor and will rank <i>pari passu</i> and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.
Form of Notes:	Each Tranche of Notes will be in bearer form and will be initially issued in the form of a Temporary Global Note or, if so specified in the applicable Final Terms, a Permanent Global Note which, in either case, will (i) if the Global Notes are intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg; and (ii) if the Global Notes are



not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a Common Depository for Euroclear and Clearstream, Luxembourg.

Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
Maturities:	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Types of Notes:	The following types of Note may be issued: (i) Notes which bear interest at a fixed rate or a floating rate; (ii) Notes which do not bear interest; and (iii) Notes which bear interest, and/or the redemption amount of which is, calculated by reference to the United Kingdom Retail Prices Index. In addition, Notes which have any combination of the foregoing features may also be issued.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer (and indicated in the applicable Final Terms).
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"><li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li><li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li><li>(iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer (and indicated in the applicable Final Terms).</li></ul> <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
RPI-Linked Notes:	The Programme provides for the issue of Notes in respect of which the amount of interest payable ("RPI-Linked Interest Notes") and/or the amount to be repaid upon redemption of the Notes ("RPI-Linked Redemption Notes" and, together with RPI-Linked Interest Notes, "RPI-Linked Notes") may be calculated by reference to the United Kingdom Retail Prices Index.
Other provisions in relation to Floating Rate Notes and RPI-Linked Interest Notes:	<p>Floating Rate Notes and RPI-Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and RPI-Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer (and indicated in the applicable Final Terms).</p>
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes

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

Notes having a maturity of less than one year are subject to restrictions on their redemption value and distribution, see "Selling Restrictions" below.

**Put Event:**

Notes with a maturity of more than 20 years will be subject to a Put Event. If, at any time while any such Note remains outstanding, a Put Event occurs, then (other than in certain circumstances described in Condition 6(e)) the holder of such Note will, upon the giving of a Put Event Notice (as defined in Condition 6(e)), have the option to require the relevant Issuer to redeem the Note on the Put Date (as defined in Condition 6(e)) at the Event Put Amount (as indicated in the applicable Final Terms), together with interest accrued up to (but excluding) the Put Date.

A Put Event occurs if (i) the appointment of STWL as in effect on the date of this document as the water undertaker and sewerage undertaker for the areas described in the Instrument of Appointment dated August 1989 made by the Secretary of State under sections 11 and 14 of the Water Act 1989 (now section 6 of the Water Industry Act 1991) is terminated other than in respect of such part of its area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act 1991 or (ii) a Restructuring Event (as defined in Condition 6(e)) occurs and, within the Restructuring Period (as defined in Condition 6(e)), certain other conditions described in Condition 6(e) occur or (iii) in the case of Notes issued by Severn Trent only, STWL ceases to be a Subsidiary of Severn Trent.

**Denominations:**

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

The minimum denomination of Notes issued under the Programme is €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

**Taxation:**

All payments in respect of the Notes will be made without any withholding or deduction for or on account of withholding taxes imposed by the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom, having power to tax, save as may be required by law. In the event that any such withholding or deduction is required by law, the relevant Issuer or, as the case may be, the Guarantor, will, save in certain limited circumstances provided in Condition 7, be required to pay an additional amount in respect of the amount so withheld or deducted.

**Negative Pledge:**

The terms of the Notes will contain a negative pledge provision which restricts the ability of the relevant Issuer and, if applicable, the Guarantor to create or permit to subsist certain security interests (such as mortgages, charges, liens or other encumbrances) over the whole or any part of its undertaking or assets to secure payment of relevant indebtedness (being indebtedness in the form of bonds, notes, loan stock or similar securities which are quoted or traded on a stock exchange or other recognised securities market, but excluding certain project finance indebtedness), or guarantees or indemnities in respect

thereof, unless the Notes are accorded the same security or such other arrangements are made as the Trustee deems to be not materially less beneficial to the Noteholders or the Noteholders otherwise approve by an Extraordinary Resolution.

Rating:

The Programme has been rated: Baa1 (in respect of Notes issued by Severn Trent) and A3 (in respect of Notes issued by STUF) by Moody's Investors Service Limited and BBB- (in respect of Notes issued by Severn Trent) and BBB+ (in respect of Notes issued by STUF) by Standard & Poor's Credit Market Services Europe Limited. Each of Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited is established in the European Union and is registered under the CRA Regulation. As such, each of Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be specified in the applicable Final Terms, and will not necessarily be the same as the ratings assigned to the relevant Issuer or, if applicable, the Guarantor.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Governing Law:

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

Selling Restrictions:

Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale") including the following restrictions applicable at the date of this Prospectus.

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes.

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted by way of business in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of FSMA unless they are issued to a limited class of professional investors and have a redemption value of at least £100,000 or its equivalent, see "Subscription and Sale".

## RISK FACTORS

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

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

*Unless otherwise defined in this section, capitalised terms shall have the meanings given in the sections entitled "Description of Severn Trent Plc", "Description of Severn Trent Utilities Finance Plc", "Description of Severn Trent Water Limited", "Form of Applicable Final Terms", "Terms and Conditions of the Notes" and "Clearing and Settlement".*

*Prospective investors should consider, among other things, the following:*

### **Factors that may affect the Issuers' and the Guarantor's ability to fulfil their obligations under Notes issued under the Programme and under the Guarantee**

Unless otherwise specified by reference to the Guarantor or a particular Issuer, the risks apply in the Group context, and are also applicable on an individual basis to the Guarantor and each of the Issuers.

Through its business operations the Group (as defined in "Terms and Conditions of the Notes") is exposed to a number of commercial risks and uncertainties, which could have a material adverse effect on the Group's businesses, financial condition, operations and reputation, as well as the value and liquidity of the Group's securities. Not all of these factors are within the Group's control and, in addition, other factors besides those listed below may have an adverse effect on the Group. Any of the foregoing factors could have an adverse impact on the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

### ***Compliance requirements, particularly changes in law or regulation in the countries, and relating to the types of business, in which the Group operates, could have an adverse effect on the Group's business operations***

The Group's businesses are subject to various laws and regulations in the UK and internationally.

Regulatory decisions in relation to the Group's businesses, for example on the structure of the water industry worldwide, on whether licences, appointments, approvals or permits to operate are renewed or modified, whether market developments have been implemented satisfactorily, on the level of permitted charges or revenues for the Group's businesses or whether there has been any breach of the terms of a licence, appointment, approval, permit or other obligation, could have an adverse impact on the results of the Group's operations, cash flows, financial condition and the ability to develop those businesses in the future.

Regulatory authorities may, from time to time, make enquiries of companies within their jurisdiction regarding compliance with laws or regulations governing their operations. In addition to regulatory compliance proceedings, the Group's businesses could become involved in a range of third party proceedings relating to, for example: land use, environmental protection and water quality. Amongst others, these may include civil actions by third parties for infringement of rights, nuisance claims or other matters.

Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous. The government has published a draft Water Bill in July 2012 setting out planned changes to legislation, including in relation to competition and market reform (see

below, "Description of Severn Trent Water Limited – Competition" and "Description of Severn Trent Water Limited – Government and Regulatory Developments").

Various government environmental protection and health and safety laws and regulations govern the Group's businesses. These laws and regulations concern, amongst other things, water abstraction, the quality of drinking water supplied, wastewater treatment and the effects of discharges into and other activities on the environment, biodiversity and human health and safety. In addition, the Group's businesses are required to obtain various environmental permits from regulatory agencies which stipulate site specific parameters for the operation of those businesses. These laws and regulations and permitting requirements are liable to change and have tended to become more stringent over time both in relation to their requirements and in the levels of proof required to demonstrate compliance. While the Group believes it has taken account of the future capital and operating expenditure necessary to achieve and maintain compliance with current laws and regulations and foreseeable changes in them, it is possible that new or stricter standards could be imposed or existing legislation amended, compliance with which may adversely impact its operations and increase the Group's operating costs or capital expenditure (see "Description of Severn Trent Water Limited – Environment and Public Health Regulation").

The Water White Paper (as defined below) has proposed the introduction of a new water abstraction regime. Although this new regime is not intended to be fully in place until the mid to late 2020s, the Water White Paper (as defined below) also indicates that more immediate action will be taken by the Environment Agency or Natural Resources Wales to address unsustainable abstractions using their existing regulatory powers. This may result in more or stricter future limitations on abstraction licences and/or increased abstraction charges payable by STWL (see "Description of Severn Trent Water Limited – Environmental and Public Health Regulation").

If STWL fails to comply with applicable laws or regulations, including in relation to its Appointment, or has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10 per cent. of relevant turnover for each infringement), prosecution or the imposition of an enforcement order requiring STWL to incur additional capital or operating expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of an Appointment or other licence or the appointment of a special administrator in relation to the company.

In December 2012 Ofwat consulted on proposed changes to the price control conditions of the Appointment. As set out in further detail in "Description of Severn Trent Water Limited – Regulatory Environment", these proposals have now been accepted by the industry and are expected to take effect prior to determination of price controls for AMP 6. The proposed modifications introduce important and substantial changes to the existing price control regime for water companies and in some respects may be regarded as less favourable to companies than under the existing regime.

These developments in compliance and regulatory requirements could have an adverse impact on the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

***The results of the Group's operations are influenced by a number of factors including: obtaining support from Ofwat for STWL business plans for 2015 to 2020; achieving its current business plans for regulated and unregulated business; and business performance, including the ability to outperform STWL regulatory targets and deliver anticipated cost and efficiency savings***

The Group's results are significantly influenced by the service levels, regulatory targets and price determinations set by Ofwat with respect to STWL, as well as Ofwat's assessment of STWL's delivery against these.

The price determinations periodically made by Ofwat limit the prices STWL can charge its customers. Under the terms of STWL's Appointment, Ofwat is required to review STWL's price limits every five years. The price limits were last reviewed and reset during 2009 for the five year period from 1 April 2010. There are provisions for changes to the price limits between price reviews under certain circumstances (see "Description of Severn Trent Water Limited – Economic Regulation"). The conditions of STWL's Appointment, including any condition relating to the prices

STWL can charge its customers, can be modified by Ofwat either with STWL's agreement or following reference to the Competition Commission on public interest grounds.

Between December 2011 and December 2012, Ofwat consulted on proposed changes to the price control conditions of the appointment (Conditions B and C) of every water or water and sewerage undertaker. The proposals would have (amongst other things) removed the existing requirement that Ofwat regulate charges by setting the K factor every five years and given Ofwat flexibility to decide on the nature, form, number and duration of the applicable controls at each review. The proposed modifications would also have enabled Ofwat to control not only prices, but also revenue and costs, to apply different controls to different parts of an undertaker's regulated business, to apply different controls for different periods, and to apply controls with or without linkage to RPI or any other measure of inflation. Companies rejected the proposals and Ofwat undertook further discussions with the companies over the course of summer 2012.

Revised proposals were issued by Ofwat on 26 October 2012, which would have maintained separate controls for wholesale and retail activities and continued to seek flexibility to set different controls over prices and/or revenues and/or costs for different parts of the regulated business and for different time periods. This would have been subject to a requirement for a single control in respect of wholesale activities (or alternatively, in the case of water and sewerage companies, one control in relation to water services and one in relation to sewerage services) which would have been linked to RPI (although this would not necessarily have applied to any retail price control). The revised proposals would have enabled Ofwat from time to time to designate any activities as falling outside the scope of wholesale activities (and hence outside the wholesale linkage with RPI), subject to a materiality threshold. The majority of companies rejected the proposals and Ofwat undertook further discussions with the companies.

Following extensive discussions with the industry, Ofwat issued revised proposals for licence modifications in December 2012 by way of a further consultation (the "December 2012 Proposals"). Ofwat announced on 24 January 2013 that it had received 20 responses to this consultation, all of which had accepted the proposals. Ofwat has indicated that it will therefore proceed to make the proposed amendments to companies' licences.

The December 2012 Proposals introduce important and substantial changes to the existing price control regime for water companies. The main features of the December 2012 Proposals include the following:

- Ofwat will be able to set separate price controls in respect of "wholesale" and "retail" activities at the 2014 and subsequent price reviews.
- In respect of wholesale activities, Ofwat will continue to set a single price control which will continue to be expressly linked to RPI and will refer to an adjustment factor K, although this may be calculated on a different basis from that which has been used in previous final determinations. The wholesale price control will continue to be set on a five-yearly basis with the next price control applying from the 1 April 2015.
- In respect of retail activities Ofwat will be able to set multiple price controls. Retail price controls will not be required to refer to RPI or any other measure of inflation. Ofwat will be able to set different controls for different durations up to a maximum of five years (although it indicated during the consultation that it intends to set retail controls for five years for the period beginning 1 April 2015).
- For both wholesale and retail activities, Ofwat will be able to set controls in respect of either the charges levied (as is the case at present), the revenue which may be derived from the activities in question (a revenue cap), or a combination of both.
- Companies will have an obligation to levy charges "in a way best calculated to comply with" the Price Control or Price Controls determined by Ofwat.
- Within the terms of the relevant definitions of wholesale and retail activities, Ofwat will have the power to designate (or re-designate) activities as either wholesale or retail activities during a price control period or at a price review and thereby move such activities to another existing price control. Where such a designation occurs otherwise than in

conjunction with a price review, that designation can only be appealed to the Competition Commission as part of the next price review.

Once implemented, the modifications will apply to price controls in respect of periods beginning on or after 1st April 2015. The price limits are scheduled to be reviewed and reset during 2014 for the five-year period commencing 1 April 2015 (i.e. AMP 6) and it is therefore expected that price limits for AMP 6 will be set in accordance with the modified price control provisions.

In January 2013, Ofwat published its consultation paper on the framework for PR14 entitled 'Setting price controls for 2015-20 – framework and approach'. Within the document Ofwat outlined its proposals for assessing companies' business plans at PR14. Ofwat is seeking to move towards a more risk-based regulatory approach to encourage companies to take greater ownership and accountability of their plans whilst delivering long term sustainable and innovative solutions. As detailed above, a key feature proposed for the first time at PR14 is setting four separate price controls for companies' regulated business – for retail water and sewerage for household and non-household customers and for wholesale water and sewerage services. Another new key feature is using customer engagement in the form of customer challenge groups (the Severn Trent Water Forum) to really challenge what is at the heart of companies' business plans to ensure that they are delivering the best results for customers to meet their needs and wants. In addition to this, Ofwat is also proposing to adopt a new approach to setting efficiencies using new models and total expenditure (totex) and increased use of incentives (rewards and penalties) for delivery of outcomes. STWL supports the changes Ofwat is proposing, but recognises that they could increase the amount of uncertainty surrounding the business planning process.

Implicit within the most recent price limits set by Ofwat are assumptions concerning STWL's future operating expenditure and the achievement of operating cost savings. If these efficiencies are not achieved this may be reflected in less favourable outcomes in future profitability and cashflows or in Ofwat's future price determinations.

For AMP 5, Ofwat has introduced a new comparative incentive mechanism (the service incentive mechanism "SIM") to reward or penalise water and sewerage companies' service performance, replacing the overall performance assessment ("OPA"). The SIM compares companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon STWL's relative performance under the SIM it could receive a reduced or increased revenue allowance when price limits are next reset in 2014.

Earnings from the Group's businesses will be affected by the Group's ability to meet or better its regulatory targets set by Ofwat, the Environment Agency, Natural Resources Wales, the Drinking Water Inspectorate and other regulators. To meet these targets, the Group must continue to improve management systems, processes and operational performance. In addition, earnings from the Group's regulated business also depend on meeting service quality standards set by regulators. To meet these standards the Group must improve service reliability and customer service. Increased anticipated earnings from the Group's non-regulated businesses will be affected by the Group's ability to deliver growth strategy for these businesses. If the Group does not meet these targets and standards, both its results and its reputation may be adversely affected, and penalties could be imposed.

In addition, the Group is subject to other risks which are largely outside its control, such as energy costs, impact of climate change, weather (including drought and floods) or unlawful acts of third parties, including terrorist attacks, sabotage or other intentional acts which may also physically damage its business or otherwise significantly affect corporate activities and, as a consequence, affect the results of the Group's operations.

The service levels, regulatory targets and price determinations set by Ofwat and other factors could have an adverse impact on the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

***The failure of the Group's assets, processes or systems could affect its ability to carry out critical operations and could have a significant impact on its financial position and its reputation***

The Group may suffer a major failure in any of its assets which could arise from a failure to deliver the capital investment programme for its businesses or to maintain the health of its systems. Delivery of the capital investment programme may be adversely affected by: a decline in operating cashflows, the non-availability of external debt financing and other sources of capital, at a cost similar to that assumed by Ofwat; and other factors, including adverse legacy effects of earlier capital investments (such as increased maintenance or enhancement costs) and failure to adequately deliver specified outputs. Any failure of any of its assets could cause the Group to be in breach of the terms of a licence, appointment, approval, permit or other obligation and even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming the Group's reputation. Some of the Group's businesses control and operate water and sewerage networks and undertake maintenance of the associated assets with the objective of providing a continuous service. The failure of a key asset or other exceptional circumstances (such as energy shortages, human error, malicious intervention and labour disputes) could cause a significant interruption to the supply of services, which may have an adverse effect on the Group's operating results or financial position. In addition water supplies may, among other things, be subject to contamination, including contamination from the development of naturally occurring compounds and pollution from man-made sources and these may have an adverse effect on the Group's operating results or financial position. The Group could be fined for breaches of statutory or other obligations or held liable to third parties (including for human exposure to hazardous substances or other environmental damage), or be required to provide an alternative water supply of equivalent quality, which could increase costs. The Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes may be adversely affected as a result of such failure of the Group's assets, processes or systems.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that any of; the Issuers; the Guarantor or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List and that STWL will be unable to comply with its obligations as an appointed representative of a supervised firm regulated by the Financial Conduct Authority.

***Increased competition in the water industry could result in a reduced customer base and market share and could adversely affect the Group's profitability and its financial position***

Competition activity under the water supply licensing (WSL) regime has to date been minimal, despite the reduction in the eligibility threshold from 50MI to 5MI per annum and other changes including abolishing the statutory cost principle which governed how charges were allocated between undertakers and licensees and adopting a quicker, more streamlined application process for network access. However, the Water White Paper (as defined below) published in December 2011 outlined several other proposals for extending the regime which have not yet been implemented, but which could see a significant increase in future competition activity. These include extending the current water-only supply regime to include sewerage services, reducing the eligibility threshold further to zero and lifting the inter-area trading ban in June 2013 to allow licensees operating in an undertaker's area to switch its customers for the first time. The draft Water Bill in 2012 incorporates provisions to implement these proposals. Activity around inset appointments has been increasing, mainly through insets serving new housing developments. In line with changes to the WSL regime, Ofwat has also made changes to the inset regime, which could see an increase in the number of inset appointments granted. The increasing competition could adversely affect the Group's profitability and its financial position therefore the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes may be adversely affected.

***External factors, including financial market factors, could adversely impact the Group's financial position including through effects on the Group's pension schemes***

The Group's financial position and business results could be adversely affected if its existing funding arrangements are materially altered.



The main risks faced by the Group in its treasury operations relate to external conditions in the banking and capital markets or in the credit rating of the water industry as a whole. These factors could result in the Group not being able to service its existing debt, refinance its indebtedness as it falls due, raise new money to finance its activities in the future and enter into derivative contracts to manage the Group's financial risks. In addition the Group could face materially higher interest rates and suffer a financial loss.

A compounding challenge arises from the relationship between the RCV of STWL and the RPI. The RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this.

This may lead to pressure on gearing and other key financial ratios, which may have an adverse impact on the credit ratings of STWL, and increase the cost or limit the availability of credit. In the extreme, STWL may be required to increase its equity base by either reducing its dividend payments or raising new equity capital.

The global economic environment continues to present difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to the Group's businesses.

Management has limited control over future energy or chemical costs, abstraction charges, levels of customer bad debt or taxes. Changes in these costs from the current levels could materially affect the Group's future profitability and/or financial position, and so financial ratios.

Pension assets and liabilities (pre-tax) of £1,724.3 million and £2,108.0 million, respectively, are held in the Group's balance sheet as at 31 March 2013. Movements in equity markets, interest rates and life expectancy could materially affect the level of surpluses and deficits in the schemes and could prompt the need for the Group to make additional pension contributions in the future. The key assumptions used to value the Group's pension liabilities are set out in Note 27 to the audited annual financial statements of Severn Trent for the financial year ended 31 March 2013.

The impact of the financial market factors on the Group's financial position including through effects on the Group's pension schemes may adversely affect the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

### ***Special administration***

The Water Industry Act 1991 contains provisions enabling the Secretary of State or Ofwat (with the permission of the Secretary of State) to secure the general continuity of water supply and sewerage services by petitioning the High Court for the appointment of a special administrator in certain circumstances (for example, where STWL is in breach of its principal duties under that Act or of the provisions of a final or confirmed provisional enforcement order (and in either case the breach is serious enough to make it inappropriate for STWL to continue to hold its Appointment) or is unable, or is likely to be unable, to pay its debts). In addition, a petition by a creditor of STWL to the High Court for the winding-up of STWL might result in the appointment of a special administrator where the court is satisfied that it would be appropriate to make such a winding-up order if the company were not a company holding an appointment under the Water Industry Act 1991. The duties and functions of a special administrator differ in certain important respects from those of an administrator of a company which is not an appointed water or sewerage company.

During the period of the special administration order, STWL has to be managed by the special administrator for the purposes of the order and in a manner which protects the interests of shareholders and creditors. While the order is in force, no steps may be taken to enforce any security over the property of STWL except with the consent of the special administrator or the leave of the court.

If a special administration order is made in respect of STWL, there can be no assurance that STWL's creditors will be able to recover amounts due to them in full. Also, the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes would be adversely affected.

### **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

#### ***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

#### *RPI-Linked Notes*

RPI-Linked Notes may be issued on terms that the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of the Notes will be calculated by reference to movements in the United Kingdom Retail Prices Index ("RPI") during a reference period. RPI may go down as well as up.

Where Notes are issued, in respect of which the amount of interest payable is subject to adjustment by reference to RPI, a decrease in the RPI over the reference period will reduce the interest amount for the relevant interest payment. In a deflationary environment, the annual interest received may be lower than the specified rate of interest.

Where the amount payable upon redemption of the Notes is subject to adjustment by reference to RPI, a decrease in the RPI over the reference period may reduce the amount to be repaid upon redemption of the Notes to less than the principal amount of the Notes, unless the applicable Final Terms specifies a minimum redemption amount which is equal to or higher than the principal amount of the Notes.

#### *Fundamental Changes to the Index*

The formula used by the Office for National Statistics for calculating RPI may change over time. Such a change in the methodology for calculating RPI may affect the actual RPI figure. Consequently, the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of RPI-Linked Notes may increase, or decrease, as a result of such a change to the RPI figure.

Condition 5(g)(ii) provides that in the case of a fundamental change to the coverage or the basic calculation of the Index (including RPI) in certain specified circumstances, adjustments to such Index may be made, or a substitute index (with or without adjustments) may be agreed.

At the time of issue of any RPI-Linked Notes, the applicability or non-applicability of Condition 5(g)(ii) in the case of a fundamental change to the Index may have a positive or negative impact on the amount of interest payable on each interest payment date and/or the amount to be repaid upon redemption of RPI-Linked Notes. Each investor should consider carefully, and seek independent financial advice on, the impact of such changes on their investment.

#### *Notes subject to optional redemption by the relevant Issuer*

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### *Fixed/Floating Rate Notes*

Fixed/floating rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the relevant Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since that

Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

### ***Risks related to the market generally***

#### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

### ***Risks relating to the Notes generally***

#### *The Notes are not protected by the Financial Services Compensation Scheme*

Unlike a bank deposit, the Notes are not protected by the Financial Services Compensation Scheme (the "FSCS"). As a result, the FSCS will not pay compensation to an investor in the Notes upon the failure of the relevant Issuer. If the relevant Issuer and, if applicable, the Guarantor goes out of business or becomes insolvent, Noteholders may lose all or part of their investment in the Notes.

#### *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Further, if an investor chooses to sell its Notes in the open market at any time prior to maturity of the Notes, the price the investor will receive from a purchaser may be less than its original investment, and may be less than the amount due to be repaid at maturity of the Notes if the investor were to hold onto the Notes until then. Factors that will influence the price received by investors who choose to sell their Notes in the open market may include, but are not limited to, market appetite, inflation, the period remaining to maturity of the Notes, prevailing interest rates and the financial position of the relevant Issuer and, if applicable, the Guarantor.

#### *Notes where denominations involve integral multiples: definitive Notes*

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more integral multiples of a smaller amount there above, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

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

*If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, the Issuers and the Guarantor cannot assure the Noteholders that this would not adversely affect payments on the Notes*

It is possible that prior to the maturity of the Notes the United Kingdom may become a participating member state in the European Economic and Monetary Union and the euro may become the lawful

currency of the United Kingdom. In that event: (i) all amounts payable in respect of any Notes denominated in pounds sterling may become payable in euro; (ii) applicable provisions of law may allow or require each Issuer to re-denominate such Notes into euro and take additional measures in respect of such Notes; and (iii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom would have on investors in the Notes.

#### *EU Savings Directive*

Under Directive 2003/48/EC on the taxation of savings income (the "Directive"), each Member State of the European Union is 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 or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) 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). A number of non-European Union countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the relevant Issuer, nor the Guarantor, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuers are required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### *U.S. Foreign Account Tax Compliance Withholding may affect payments on the Notes*

Whilst the Notes are in global form and held within Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together, the "ICSDs"), in all but the most remote circumstances, it is not expected that FATCA (as defined in "Taxation" below) will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuers' and, if applicable, the Guarantor's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as bearer holder of the Notes) and the Issuers and, if applicable, the Guarantor, therefore have no responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

#### *Modification, waivers and substitution*

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

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Terms and Conditions or of any of the provisions of the Trust Deed or (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default (as those terms are defined in the Trust Deed) shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes or, where the Issuer is STUF, the substitution of another company as guarantor under any Notes, in the circumstances described in Condition 18 of the Terms and Conditions of the Notes subject in each case to being secured and/or indemnified to its satisfaction.

#### *Change of law*

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

#### *Credit ratings may not reflect all risks*

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

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms.

## FORM OF THE NOTES

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

- (i) if the Global Notes are intended to be issued in new global note ("NGN") form, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Tranche to a common safekeeper (the "Common Safekeeper") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"); and
- (ii) if the Global Notes are not intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Tranche to a common depository (the "Common Depository") for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not US persons or persons who have purchased for resale to any US person, as required by US Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code, (see "Subscription and Sale" for further information).

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

Payments of principal, interest (if any) and any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, Coupons and Talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event. Notes having Specified Denominations consisting of a minimum Specified Denomination plus one or more integral multiples of a smaller amount there above will only be exchangeable for definitive Notes upon an Exchange Event. For these purposes, "Exchange Event" means that (i) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available or (ii) the relevant Issuer or, as the case may be, (where the relevant Issuer is STUF) the Guarantor has or will become subject to adverse tax consequences which (A) are the result of any legislative change in the United Kingdom or Luxembourg (as the case may be) and (B) would not be suffered were the

Notes in definitive form and a certificate to such effect is given by two Directors of the relevant Issuer or, as the case may be, (where the relevant Issuer is STUF) the Guarantor, to the Trustee. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Agent (as defined in "Terms and Conditions of the Notes") requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than one year and on all Coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or Coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or Coupons.

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

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the relevant Issuer, the Agent and the Trustee.

In respect of Notes represented by a global Note issued in NGN form, the nominal amount of such Notes shall be the aggregate amount from time to time entered in the records of both Euroclear and Clearstream, Luxembourg. The records of Euroclear and Clearstream, Luxembourg shall be conclusive evidence of the nominal amount of such Notes and a statement issued by Euroclear and/or Clearstream, Luxembourg shall be conclusive evidence of the records of such parties at that time.

Each of the Issuers has entered into an agreement with Euroclear and Clearstream, Luxembourg (the "ICSDs") in respect of any Notes issued in NGN form that the Issuer may request be made eligible for settlement with the ICSDs (the "ICSD Agreements"). The ICSD Agreements set out that the ICSDs will, in respect of any such Notes, inter alia, maintain records of their respective portion of the issue outstanding amount and will, upon an Issuer's request, produce a statement for such Issuer's use showing the total nominal amount of its customer holding of such Notes as of a specified date.

The Issuers will procure that, at the time of issue of each Tranche of Notes, the ICSDs are notified whether or not such Notes are intended to be held in a manner which would allow Eurosystem eligibility. Such notification will confirm whether the Notes are to be issued in NGN form. The fact that Notes are intended to be held in a manner which would allow Eurosystem eligibility simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon

issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

If, in respect of any Tranche of Notes, the applicable Final Terms specifies that the Global Note may be exchanged for definitive Notes in circumstances other than upon the occurrence of an Exchange Event, such Notes will be issued with only one Specified Denomination or all Specified Denominations of such Notes will be an integral multiple of the lowest Specified Denomination, as specified in the applicable Final Terms.



## FORM OF FINAL TERMS

[Date]

**[Severn Trent Plc (incorporated with limited liability in England and Wales with registered number 2366619)/Severn Trent Utilities Finance Plc (incorporated with limited liability in England and Wales with registered number 2914860)]**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**[Guaranteed by Severn Trent Water Limited] under the €6,000,000,000 Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "Conditions") set forth in the Prospectus dated [date] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer [, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing on Severn Trent's website at [www.severntrent.com](http://www.severntrent.com) [and] during normal business hours at [address] and copies may be obtained from [address].

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "Conditions") set forth in the [Offering Circular][Prospectus] dated [original date] which are incorporated by reference in the Prospectus dated [date] and are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive" (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU) and must be read in conjunction with the Prospectus dated [date] which constitutes a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer [,the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated [date]. The Prospectus is available for viewing on Severn Trent's website at [www.severntrent.com](http://www.severntrent.com) [and] during normal business hours at [address] and copies may be obtained from [address].

- |    |       |  |  |
|----|-------|--|--|
| 1. | (i)   | Issuer:  | [Severn Trent Plc/Severn Trent Utilities Finance Plc]  |
|    | (ii)  | Guarantor:   | [Not Applicable]/[Severn Trent Water Limited]  |
| 2. | (i)   | Series Number:   | [ ]  |
|    | (ii)  | Tranche Number:  | [ ]  |
|    | (iii) | Date on which the Notes will be consolidated and form a single Series: | The Notes will be consolidated and form a single Series with [ ] on [the Issue Date/exchange of the Temporary Bearer Global Note for interests in the Permanent Bearer Global Note, as referred to in paragraph [ ] below, which is expected to occur on or about [ ]][Not Applicable] |
| 3. |       | Specified Currency or Currencies:                                      | [ ]  |
|    | (i)   | Series:  | [ ]  |

- (ii) Tranche: [ ]
4. Aggregate Nominal Amount:
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount of the Tranche [plus accrued interest from [ ]]
6. (i) Specified Denominations: [ ] / [€100,000] [and integral multiples of [ ] in excess thereof up to and including [ ]]. No Definitive Notes will be issued with a denomination above [ ]
- (ii) Calculation Amount: [ ]
7. [(i)] Issue Date [ ]
- [(ii)] Interest Commencement Date: [[ ]/Issue Date/Not Applicable]
8. Maturity Date: [[ ]/Interest Payment Date falling in or nearest to [ ]]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[RPI-Linked Interest]
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount  
[RPI-Linked Redemption]
11. Change of Interest Basis or Redemption/Payment Basis: []/[Not Applicable]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Index Redemption Event]
13. [Date Board and Committee approval for insurance of Notes obtained [ [ ] [and [ ], respectively]]/[Not Applicable]]

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

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semiannually/quarterly/[ ]]] in arrear]
- (ii) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- (iii) Fixed Coupon Amount(s): [ ] per Calculation Amount
- (iv) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]/[Not Applicable]
- (v) Day Count Fraction: [30/360/Actual/Actual (ICMA)]

- (vi) Determination Date(s):  in each year/[Not Applicable]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:  [None/
15. **Floating Rate Note Provisions**  [Applicable/Not Applicable]
- (i) Period(s)/Specified Interest Payments Dates:  [ ]
- (ii) Business Day Convention:  [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iii) Additional Business Centre(s):  [ ]/[Not Applicable]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined:  [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):  [ ]
- (vi) Screen Rate Determination:  [Applicable/Not Applicable]
- Reference Rate:  [ ] month [LIBOR/EURIBOR]
  - Interest Determination Date(s):  [ ]
  - Relevant Screen Page:  [ ]
  - ISDA Determination:  [Applicable/Not Applicable]
  - Floating Rate Option:  [ ]
  - Designated Maturity:  [ ]
  - Reset Date:  [ ]
- (vii) Margin(s):  [+/-] [ ] per cent. per annum
- (viii) Minimum Rate of Interest  [ ] per cent. per annum
- (ix) Maximum Rate of Interest:  [ ] per cent. per annum
- (x) Day Count Fraction:  [Actual/Actual (ISDA)]/[Actual/Actual]  
 [Actual/Actual(ICMA)]

	[Actual/365 (Fixed)]
	[Actual/365 (Sterling)]
	[30/360]/[360/360]/[Bond Basis]
	[Actual/360]
	[30E/360]/[Eurobond basis]
	[30E/360 (ISDA)]
<b>16. Zero Coupon Note Provisions</b>	[Applicable/Not Applicable]
(i) Accrual Yield:	[ ] per cent. per annum
(ii) Reference Price:	[ ]
(iii) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Actual/Actual (ISDA)]/[Actual/Actual] [Actual/Actual(ICMA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [30/360]/[360/360]/[Bond Basis] [Actual/360] [30E/360]/[Eurobond basis] [30E/360 (ISDA)]
<b>17. RPI-Linked Interest Note Provisions</b>	[Applicable/Not Applicable]
(i) Index/Formula	[ ]
(a) Index Figure applicable to:	[particular month: paragraph (i) of the definition of "Index Figure applicable" applies] [particular date: paragraph (ii) of the definition of "Index Figure applicable" applies]
(b) Base Index Figure:	[ ]
(c) N:	[ ]
(d) Rate of Interest	[ ] per cent. per annum
(e) Reference Gilt:	[ ]
(f) Condition 5(g)(ii) applicable	[Yes][No]
(ii) Limited Index Linked Notes:	[Applicable/Not Applicable]
(a) Minimum Indexation Factor:	[Not Applicable/ •]
(b) Maximum Indexation Factor:	[Not Applicable/ •]
(c) Limited Indexation	[ ]

Month(s) or Limited Indexation Period for calculation of Limited Indexation Factor:

- (iii) Name and address of Calculation Agent: [ ]
- (iv) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [ ]/[Not Applicable]
- (v) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (vii) Additional Business Centre(s) [ ]/[Not Applicable]
- (viii) Minimum Rate of Interest [ ] per cent. per annum
- (ix) Maximum Rate of Interest [ ] per cent. per annum
- (x) Day County Fraction: [Actual/Actual (ISDA)]/[Actual/Actual]  
[Actual/Actual (ICMA)]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360]/[360/360]/[Bond Basis]  
[30E/360]/[Eurobond basis]  
[30E/360 (ISDA)]
- (xi) Determination Date(s) [[ ] in each year]/[Not Applicable]

**PROVISIONS RELATING TO REDEMPTION**

- 18. Issuer Call: [Applicable/Not Applicable]
  - (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount: [ ] per Calculation Amount
    - (a) Minimum Optional Redemption Amount: [Not Applicable/[ ] per Calculation Amount]
    - (b) Maximum Optional [Not Applicable/[ ] per Calculation Amount]

- Redemption Amount:
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [ ]
- (b) Higher Redemption Amount: [ ]
- (iv) Notice period (if other than as set out in Terms and Conditions): [ ]
- (v) Condition 5(g)(ii) applicable [Yes][No]
19. Investor Put: [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount: [ ] per Calculation Amount
- (a) Minimum Optional Redemption Amount [Not Applicable/[ ] per Calculation Amount]
- (b) Maximum Optional Redemption Amount: [Not Applicable/[ ] per Calculation Amount]
- (iii) Notice period (if other than as set out in the Terms and Conditions): [ ]
- (iv) Condition 5(g)(ii) applicable [Yes][No]
20. Final Redemption Amount [[ ] per Calculation Amount]
- (a) Minimum Final Redemption Amount: [Not Applicable/[ ] per Calculation Amount]
- (b) Maximum Final Redemption Amount: [Not Applicable/[ ] per Calculation Amount]
- (c) Condition 5(g)(ii) applicable [Yes][No]
21. Early Redemption Amount Payable on redemption for taxation reasons or on event of default or (if applicable) upon an Indexation Redemption Event: [ ] per Calculation Amount
- (a) Minimum Early Redemption Amount: [Not Applicable/[ ] per Calculation Amount]
- (b) Maximum Early Redemption Amount: [Not Applicable/[ ] per Calculation Amount]

- (c) Condition 5(g)(ii) applicable [Yes][No]
22. Put Event: [Applicable/Not Applicable]
- (a) Event Put Amount: [ ] per Calculation Amount
- (b) Minimum Event Put Amount: [Not Applicable/[ ] per Calculation Amount]
- (c) Maximum Event Put Amount: [Not Applicable/[ ] per Calculation Amount]
- (d) Condition 5(g)(ii) applicable [Yes][No]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

23. (i) Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on not less than 60 days' notice given at any time/only upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes [on not less than 60 days' notice given at any time/only upon an Exchange Event]]
- (ii) New Global Note: [Yes][No]
24. Additional Financial Centre(s): [Not Applicable/[ ]]
25. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes][No]

Signed on behalf of the Issuer:

[Signed on behalf of the Guarantor:

By: .....  
Duly authorised

By: .....  
Duly authorised]

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING** [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the London Stock Exchange's regulated market and for listing on the Official List of the UK Listing Authority] with effect from [ ].]  
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the London Stock Exchange's regulated market and for listing on the Official List of the UK Listing Authority] with effect from [ ].]
2. **RATINGS**  
Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated [ ] by [Moody's Investors Service Limited and/or Standard & Poor's Credit Market Services Europe Limited].]
3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**  
[Save as described in "Subscription and Sale" and for any fees payable to the [Managers/Dealers], so far as the Issuer [and the Guarantor] is aware, no person involved in the issue of the Notes has an interest material to the offer.] The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business [So far as the Issuer is aware, the following persons have an interest material to the issue/offer: [ ]]
4. **[REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**
  - (i) Reasons for the offer [ ]
  - (ii) Estimated net proceeds: [ ]
  - (iii) Estimated total expenses: [ ]
5. **YIELD**  
Indication of yield: The yield in respect of this issue of Fixed Rate Notes is [ ].  
The yield is calculated at the Issue Date on the basis of the Issue Price, using the formula below. It is not an indication of future yield.  
$$P = \frac{C}{r} (1 - (1 + r)^{-n}) + A(1 + r)^{-n}$$
  
Where:  
"P" is the Issue Price of the Notes;  
"C" is the annualised Interest Amount;  
"A" is the principal amount of Notes due on redemption;  
"n" is time to maturity in years; and  
"r" is the annualised yield.
6. **OPERATIONAL INFORMATION**
  - (i) ISIN Code:
  - (ii) Common Code: [ ]



- (iii) Name(s) and address(es) of any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/ [  ]]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [  ]
- (vi) U.S. Selling Restrictions: [Reg. S Category 2; TEFRA D/TEFRA C/TEFRA not applicable]

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the London Stock Exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes will complete the following Terms and Conditions for the purpose of such Notes, including specifying whether or not certain provisions of the following Terms and Conditions apply to such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note.*

This Note is one of a Series (as defined below) of Notes issued by Severn Trent Plc ("Severn Trent") or Severn Trent Utilities Finance Plc ("STUF" and, together with Severn Trent, the "Issuers" and each an "Issuer") constituted by a Trust Deed dated 18 December 2000 (such Trust Deed as modified and/or supplemented and/or restated from time to time, the "Trust Deed") and made between the Issuers, Severn Trent Water Limited ("STWL" or the "Guarantor") in its capacity as guarantor of Notes issued by STUF and The Law Debenture Trust Corporation p.l.c. as trustee (the "Trustee", which expression shall include any successor trustee) for the holders of the Notes (the "Noteholders" or "holders" which expression shall mean in relation to Notes in definitive form, the bearers thereof, and shall, in relation to Notes represented by a Global Note, be construed as provided below).

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

References in these Terms and Conditions to the "Notes" shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a "Global Note"), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

References in these Terms and Conditions to "Specified Denomination(s)" shall mean in relation to any Series of Notes, the denomination or denominations specified as such in the relevant Final Terms which shall be not less than €100,000 or its equivalent in the currency in which the Notes are denominated as at the date of the relevant Final Terms. The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement dated 21 June 2013 (such agency agreement as further amended and/or supplemented and/or restated from time to time, the "Agency Agreement") made between the relevant Issuer(s), the Guarantor and HSBC Bank plc as issuing and principal paying agent and agent bank (the "Agent", which expression shall include any successor agent), the Trustee and the other paying agents named therein (together with the Agent, unless the context otherwise requires, the "Paying Agents", which expression shall include any additional or successor paying agents). References in these Terms and Conditions to the "Agency Agreement" shall be to the agreement to which the Issuer, as specified in the applicable Final Terms, is party in its capacity as an Issuer.

Interest bearing definitive Notes have interest coupons ("Coupons") and, if indicated in the applicable Final Terms, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the "Terms and Conditions"). References in these Terms and Conditions to the "applicable Final

Terms" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference in these Terms and Conditions to "Couponholders" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used in these Terms and Conditions, "Tranche" means Notes which are identical in all respects (including as to listing) and "Series" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including, if applicable, as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office of the Trustee (being at 21 June 2013 at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing and obtainable during normal business hours at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are deemed to have notice of, are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

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

#### **1. Form Denomination and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

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

This Note may be an RPI-Linked Redemption Note, depending on the Redemption/Payment Basis shown in the applicable Final Terms.

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

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Guarantor, the Trustee and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and/or Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantor, the Trustee and the Paying Agents as the holder of such nominal amount of such Notes in accordance with and

subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error be conclusive and binding on all concerned. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Agent and the Trustee.

## **2. Status of the Notes and the Guarantee**

### **(a) Status of the Notes**

The Notes and any relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank pari passu among themselves and (subject as aforesaid and save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### **(b) Status of the Guarantee**

The payment of principal and interest (if any) in respect of the Notes issued by STUF and all other moneys payable by STUF under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed (the "Guarantee"). The obligations of the Guarantor under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Guarantor and (subject as aforesaid and save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

## **3. Negative Pledge**

(a) So long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist any mortgage, charge, lien (other than a lien arising solely by operation of law) or other encumbrance (each a "Security Interest") upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future Relevant Indebtedness or to secure any guarantee or indemnity in respect of any present or future Relevant Indebtedness, without at the same time according to the Notes, to the satisfaction of the Trustee, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity, or such other arrangement (whether or not it includes the creation of a Security Interest) as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) So long as any of the Notes remains outstanding, the Guarantor will not create or permit to subsist any Security Interest upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future Relevant Indebtedness or to secure any guarantee or indemnity in respect of any present or future Relevant Indebtedness, without at the same time according to its obligations under the Guarantee, to the satisfaction of the Trustee, the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity, or such other arrangement (whether or not it includes the creation of a Security Interest) as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution of the Noteholders.

(c) In these Terms and Conditions:

"Excluded Subsidiary" means Severn Trent Services International (Overseas Holdings) Limited, C2C Services Limited, Coast to Coast Water Limited and Coast to Coast Holdings

Limited and any other Subsidiary of (x) if the Issuer is Severn Trent, the Issuer; or (y) if the Issuer is STUF, the Guarantor (but excluding STUF): (a) which is a single purpose company whose principal assets and business are constituted by a project, (b) none of whose liabilities in respect of the financing of such project are directly or indirectly the subject of security or a guarantee, indemnity or any other form of assurance, undertaking or support from any member of the Group other than such Subsidiary or another Excluded Subsidiary and (c) which has been designated as such by the Issuer by written notice to the Trustee; provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

"Group" means, (x) if the Issuer is Severn Trent, the Issuer and its Subsidiary Undertakings and (y) if the Issuer is STUF, the Guarantor and its Subsidiary Undertakings and "member of the Group" shall be construed accordingly;

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

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

"Relevant Indebtedness" means any indebtedness (other than Project Finance Indebtedness), which is in the form of, or represented or evidenced by, bonds, notes, loan stock or other securities which are quoted, listed, dealt in or traded on a stock exchange, or over the counter or other recognised securities market;

"Subsidiary" means a subsidiary within the meaning of section 1159 of the Companies Act 2006; and

"Subsidiary Undertaking" means a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

#### 4. Interest

##### (a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (but excluding) the Maturity Date.

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is greater than the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the amount (determined in the manner provided above) calculated in respect of the Calculation Amount multiplied by a fraction, the numerator of which is the Specified Denomination of such Fixed Rate Note in question and the denominator of which is the Calculation Amount, without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

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

days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

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

In these Terms and Conditions:

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

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

(b) *Interest on Floating Rate Notes*

(i) Interest Payment Dates

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

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

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

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

In these Terms and Conditions, "Business Day" means a day which is both:

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

(i) Rate of Interest

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

(A) *ISDA Determination for Floating Rate Notes*

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

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR")



or on the Euro-zone inter-bank offered rate ("EURIBOR"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

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

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

- (1) the offered quotation if there is only one quotation on the Relevant Screen Page; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(iii) *Minimum Rate of Interest and Maximum Rate of Interest*

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

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

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

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

The Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

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

and, in each case, multiplying such sum by the applicable Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is greater than the Calculation Amount, the Interest Amount payable in respect of such Note shall be the amount (determined in the manner provided above) calculated in respect of the Calculation Amount multiplied by a fraction, the numerator of which is the Specified Denomination of the Note in question and the denominator of which is the Calculation Amount, without any further rounding.

"Day Count Fraction" means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms, the provisions of Condition 4(a)(i) shall apply;
- (iii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iv) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (v) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (vi) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

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

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

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

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

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

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

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

- (v) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the London Stock Exchange and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest

Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to the London Stock Exchange and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) Determination or Calculation by Trustee

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 4, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Trustee may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or, if applicable, the Trustee or the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the Trustee, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Guarantor, the Noteholders or the Couponholders shall attach to the Agent or, if applicable, the Trustee or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on RPI-Linked Interest Notes*

This Condition 4(c) applies to RPI-Linked Interest Notes only. The applicable Final Terms will contain provisions applicable to the determination of RPI-linked interest and must be read in conjunction with this Condition 4(c) and Condition 5 for full information on the manner in which interest is calculated on the RPI-Linked Interest Notes.

(i) Interest Payment Dates

Each RPI-Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in

the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 4(c)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

(ii) Rate of Interest

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

(iii) Determination of applicable Index Ratio or Limited Index Ratio and calculation of Interest Amounts

The Calculation Agent will, at or as soon as practicable after each time at which the Index Ratio or Limited Index Ratio (as applicable) applicable to any payment of interest in respect of the Notes becomes capable of being determined, determine the Index Ratio or Limited Index Ratio (as applicable) applicable to the relevant payment of interest.

The Calculation Agent will calculate the amount of interest (the "Interest Amount") payable on the RPI-Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

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

and, in each case, multiplying such sum by the applicable Day Count Fraction (which shall have the meaning specified in Condition 4(a) or Condition 4(b)) and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Such Interest Amount will then be adjusted in accordance with Condition 5(b). Where the Specified Denomination of an RPI-Linked Interest Note in definitive form is greater than the Calculation Amount, the Interest Amount payable in respect of such Note shall be the amount (determined and adjusted in the manner provided above) calculated in respect of the Calculation Amount multiplied by a fraction, the numerator of which is the Specified Denomination of the Note in question and the denominator of which is the Calculation Amount, without any further rounding.

(iv) Notification of Interest Amounts

The Calculation Agent will cause the Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Agent as soon as practicable after determining the same. The Agent will cause such amounts to be notified to the Issuer and the London Stock Exchange and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 4(b)(v)) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified by the Agent to the London Stock Exchange and to the Noteholders in accordance with Condition 14.

(v) Determination or Calculation by Trustee

If for any reason at any relevant time the Calculation Agent defaults in its obligation to determine the Index Ratio or Limited Index Ratio applicable to any payment of interest in respect of the Notes or defaults in its obligation to calculate any Interest Amount for any Interest Period(s), in each case in accordance with sub-paragraph (iii) above or as otherwise specified in the applicable Final Terms, as the case may be, the Trustee shall determine the Index Ratio or Limited Index Ratio applicable to the relevant payment at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 4 and to the provisions of Condition 5), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) for the relevant period(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Trustee may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Calculation Agent (and, where practicable, in accordance with this Condition). The Trustee shall have no liability to any person in connection with any determination or calculation it is required to make pursuant to this Condition.

(vi) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(c), whether by the Calculation Agent, the Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agent, the Trustee, the Calculation Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Guarantor, the Noteholders or the Couponholders shall attach to the Agent,

the Trustee or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(d) *Accrual of interest*

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

**5. Indexation**

This Condition 5 shall only apply to Notes in respect of which the applicable Final Terms specify RPI-Linked Interest ("RPI-Linked Interest Notes") and/or RPI-Linked Redemption ("RPI-Linked Redemption Notes" and, together with RPI-Linked Interest Notes, "RPI-Linked Notes"), unless otherwise specified in the applicable Final Terms.

(a) *Definitions*

"Base Index Figure" means (subject to paragraph (d) below) the Base Index Figure specified in the applicable Final Terms;

"Index" or "Index Figure" means, subject as provided in paragraph (d) below, the United Kingdom Retail Prices Index (for all items) ("RPI") published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the RPI for the purpose of calculating the amount payable on repayment of the Reference Gilt;

Any reference to the "Index Figure applicable" to:

- (i) a particular month ("m"), shall, subject as provided in paragraphs (d) and (g), be construed as a reference to the Index Figure published in the month falling N months prior to month m and relating to the month before that of publication, where "N" is specified in the applicable Final Terms (or, if not so specified, seven); or
- (ii) a particular date ("d") in a particular month ("m"), shall, subject as provided in paragraphs (d) and (g), be construed as a reference to the Index Figure calculated in accordance with the following formula:

$$IFA_d = RPI_{m-N} + [(D_1/D_2) \times (RPI_{m-(N-1)} - RPI_{m-N})]$$

where:

"IFA<sub>d</sub>" is the Index Figure applicable to date d;

"N" is the figure specified in the applicable Final Terms (or, if not so specified, two);

"RPI<sub>m-N</sub>" is the Index Figure published in the month falling N months prior to month m and relating to the month before that of publication;

"RPI<sub>m-(N-1)</sub>" is the Index Figure published in the month falling (N-1) months prior to month m and relating to the month before that of publication;

"D<sub>1</sub>" is the actual number of days from (and including) the first calendar day of month m to (but excluding) date d in that month (provided that if d is the first calendar day of the month, "D<sub>1</sub>" shall be zero); and

"D<sub>2</sub>" is the actual number of days in month m;

"Indexation Adviser" means a gilt-edged market maker or other adviser selected by the Issuer;

"Index Ratio" applicable to any month or date (as the case may be) means the Index Figure applicable to such month or date (as applicable) divided by the Base Index Figure and rounded to the nearest fifth decimal place;

"Limited Index Ratio" means (i) in respect of any month or date (as the case may be) prior to the relevant Issue Date, the Index Ratio for that month or date (as applicable), (ii) in respect of any Limited Indexation Date after the relevant Issue Date, the product of the Limited Indexation Factor for that month or date (as the case may be) and the Limited Index Ratio as previously calculated in respect of the month or date (as applicable) twelve

months prior thereto; and (iii) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"Limited Indexation Date" means any date falling during the Limited Indexation Period specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"Limited Indexation Factor" means, in respect of a Limited Indexation Month or Limited Indexation Date, as the case may be, the ratio of the Index Figure applicable to that month or date (as the case may be) divided by the Index Figure applicable to the month or date (as applicable) twelve months prior thereto, provided that (i) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (ii) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

"Limited Indexation Month" means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

"Limited Index Linked Notes" means RPI-Linked Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies; and

"Reference Gilt" means the Reference Gilt specified in the applicable Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by the Indexation Adviser.

(b) *RPI-Linked Interest Provisions*

If RPI-Linked Interest is specified in the applicable Final Terms, the amount of interest (the "Adjusted Interest Amount") payable in respect of the Notes on any day on which interest falls due shall be determined by the Calculation Agent by multiplying (i) the Interest Amount determined in accordance with Condition 4(c)(iii) by (ii) the Index Ratio or (in the case of Limited Index Linked Notes) the Limited Index Ratio applicable to the month in, or date on (as the case may be), which the relevant interest payment falls due, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency (half of any such sub-unit being rounded upwards or otherwise in accordance with market convention).

References in these Conditions and the applicable Final Terms to "Interest Amount" shall (except for the purposes of the determination referred to in part (i) of this paragraph (b)) be deemed to be references to the Adjusted Interest Amount.

(c) *RPI-Linked Redemption Provisions*

If RPI-Linked Redemption is specified in the applicable Final Terms, unless the applicable Final Terms provide otherwise the Final Redemption Amount, Early Redemption Amount and any applicable Optional Redemption Amount and/or Event Put Amount per Calculation Amount of the Notes shall be the amount determined by the Calculation Agent by multiplying the Calculation Amount by the Index Ratio or (in the case of Limited Index Linked Notes) the Limited Index Ratio applicable to the month in, or date on (as the case may be), which the due date for redemption falls and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency (half of any such sub-unit being rounded upwards or otherwise in accordance with market convention), provided that:

- (i) if a Minimum Final Redemption Amount, Minimum Early Redemption Amount, Minimum Optional Redemption Amount and/or Minimum Event Put Amount is specified in the applicable Final Terms and such amount is greater than the amount calculated by the Calculation Agent in accordance with this paragraph (c), the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount and Event Put Amount (as applicable) per Calculation Amount shall be, respectively, the Minimum Final Redemption Amount, Minimum Early Redemption Amount, Minimum Optional Redemption Amount and Minimum Event Put Amount (as applicable) so specified in the applicable Final Terms; and/or



- (ii) if a Maximum Final Redemption Amount, Maximum Early Redemption Amount, Maximum Optional Redemption Amount and/or Maximum Event Put Amount is specified in the applicable Final Terms and such amount is less than the amount calculated by the Calculation Agent in accordance with this paragraph (c), the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount and Event Put Amount (as applicable) per Calculation Amount shall be, respectively, the Maximum Final Redemption Amount, Maximum Early Redemption Amount, Maximum Optional Redemption Amount and Maximum Event Put Amount (as applicable) so specified in the applicable Final Terms.
- (d) *Changes in Circumstances Affecting the Index: change in base*

If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the month, or (as the case may be) the first date, from and including that in, or on, which such substitution takes effect (i) the definition of "Index" and "Index Figure" shall be deemed to refer to the new month or date (as applicable) in substitution for January 1987 (or, as the case may be, to such other month or date (as applicable) as may have been substituted therefor), and (ii) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.
- (e) *Changes in Circumstances Affecting the Index: delay in publication of the Index*

If the Index Figure relating to any month (a "Relevant Month") which is required to be taken account for the purposes of the determination of the Index Figure applicable to any month or date (as the case may be) is not published on or before the 14th business day before the date on which any payment that is subject to adjustment in accordance with paragraph (b) or (c) above is due (the "date for payment"), the Index Figure relating to such Relevant Month shall be (i) such substitute index figure (if any) as in the determination of the Indexation Adviser has been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by the Indexation Adviser or (ii) if no such determination is made by such Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to paragraph (d)) before the date for payment.
- (f) *Application of Changes*
  - (i) Where the provisions of paragraph (e) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls or the date for payment, as the case may be, shall be conclusive and binding on the Issuer, the Trustee, the Noteholders and Couponholders. If, an Index Figure having been applied pursuant to paragraph (e)(ii), the Index Figure relating to any Relevant Month or relevant calculation month, as the case may be, is subsequently published while a Note is still outstanding, then:
  - (ii) in relation to a payment of principal or interest in respect of such Note determined by reference to the Index Ratio other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made (on the basis of the Index Figure applicable by virtue of paragraph (e)(ii)) above or below the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the 14th business day before the date for payment; and
  - (iii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(g) *Cessation of, or Fundamental Changes to, the Index*

If (i) the Trustee has been notified by the Calculation Agent that the Index has ceased to be published or (ii) only if Condition 5(g)(ii) is specified in the Final Terms as applicable to the Notes, any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of (A) the Issuer be materially prejudicial to the interests of the Issuer, or (B) the Trustee (acting solely on the advice of the Indexation Adviser), be materially prejudicial to the interests of the Noteholders, the Issuer will give written notice of such occurrence to the Trustee in the case of (A) or the Trustee will give written notice of such occurrence to the Issuer in the case of (B), and the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave both the Issuer and the Noteholders in substantially a no better and no worse position than they would have been had the Index not ceased to be published or, if applicable, the relevant fundamental change not been made.

If the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in the immediately preceding paragraph, a bank or other person in London shall be appointed by the Issuer with the written approval of the Trustee (acting solely on the advice of the Indexation Adviser) (in each case, such bank or other person so appointed being referred to as the "Expert"), to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave both the Issuer and the Noteholders in substantially a no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee (acting solely on the advice of the Indexation Adviser) or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Trustee (acting solely on the advice of the Indexation Adviser) and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Trustee and the Noteholders, and the Issuer shall give notice to the Noteholders in accordance with Condition 14 of such adjustment, replacement and/or amendments as promptly as practicable following such notification.

Any Indexation Adviser and/or Expert appointed pursuant to the provisions of this Condition 5 shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Indexation Adviser and/or Expert and of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer, and neither the Indexation Adviser nor the Expert shall be liable to Noteholders or Couponholders for determinations made by it pursuant to the provisions of this Condition 5.

## **6. Payments**

(a) *Method of payment*

Subject as provided below:

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. Any amounts withheld or deducted in accordance with (ii) will be treated as paid for all purposes under the Notes, and no additional amounts will be paid on the Notes with respect to any such withholding or deduction, whether pursuant to Condition 8 or otherwise, by the relevant Issuer, the Guarantor (if applicable), any Paying Agent or any other person.

(b) *Presentation of definitive Notes and Coupons*

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

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note, RPI-Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate amount of interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at

the specified office of any Paying Agent outside the United States. A record of each payment made distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either: (i) by the Paying Agent to which it was presented and, in the case of any Global Note which is not a New Global Note, such record shall be prima facie evidence that the payment in question has been made; or (ii) in the records of Euroclear and Clearstream, Luxembourg.

(d) *General provisions applicable to payments*

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

Notwithstanding the foregoing provisions of this Condition, if any amount of principal or interest in respect of Notes is payable in US dollars, such US dollar payments of principal or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

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

(e) *Payment Day*

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

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

(f) *Interpretation of principal and interest*

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

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(g)); and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.
- (vii) Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

**7. Redemption and Purchase**

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Notes (other than Notes in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 7(c) or in respect of which a Noteholder shall have given notice of redemption in accordance with Condition 7(d) or a Put Event Notice in accordance with Condition 7(e), in each case prior to any notice being given under this Condition 7(b)) may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an RPI-Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an RPI-Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer would be obliged to pay additional amounts as provided or referred to in Condition 8 or (where the Issuer is STUF) the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be obliged to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom, having power to tax, or any change in the application or judicial or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer or, as the case may be, (where the Issuer is STUF) the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, (where the Issuer is STUF) the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, (where the Issuer is STUF) two Directors of the Guarantor stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent set out in (i) and (ii) above to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, (where the Issuer is STUF) the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (g) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 60 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee and to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) both as specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot in a place chosen by the Issuer and approved by the Trustee, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, in accordance with their customary procedures), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

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

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 30 nor more than 45 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not, in the case of a definitive Note, in part) such Note on the Optional Redemption Date and at the Optional Redemption Amount (both as specified in the applicable Final Terms) together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition.

(e) *Redemption at the Option of the Noteholders on a Put Event*

This Condition 7(e) applies to Notes with an original maturity of more than 20 years.

If, at any time while any of the Notes remains outstanding, a Put Event (as defined below) occurs, then, unless at any time the Issuer shall have given a notice under Condition 7(b) or (c) in respect of such Notes, in either case expiring prior to the Put Date (as defined below), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option to require the Issuer to redeem the Note on the Put Date at the Event Put Amount (as specified in the applicable Final Terms), together with interest accrued up to (but excluding) the Put Date. For the avoidance of doubt, the occurrence of an event which is a Put Event shall not constitute an Event of Default.

A "Put Event" occurs if:

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

Promptly upon becoming aware that a Put Event has occurred, and in any event not later than 21 days after the occurrence of the Put Event, the Issuer or, as the case may be, the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by an Extraordinary Resolution of the Noteholders shall, give notice (a "Put Event Notice") to the Noteholders in accordance with Condition 14, specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 7(e).

To exercise the option to require the Issuer to redeem a Note under this Condition 7(e), the Noteholder must deliver such Note at the specified office of any Paying Agent, on any day which is a day on which banks are open for business in London and in the place of the specified office of such Paying Agent falling within the period (the "Put Period") of 45 days after the date on which a Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (an "Event Put Notice"). The Note must be delivered to the Paying Agent together with all Coupons appertaining thereto (which expression, for the avoidance of doubt, shall include unexpired Coupons falling to be issued on exchange of matured Coupons) maturing after the date (the "Put Date") being the seventh day after the date of expiry of the Put Period, failing which deduction in respect of such missing unexpired Coupons shall be made in accordance with Condition 6(b). The Paying Agent to which such Note and Event Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt (a "Put Receipt") in respect of the Note so delivered. Payment by the Issuer in respect of any Note so delivered shall be made, if the Noteholder duly specified in the Event Put Notice a bank account to which payment is to be made, by transfer to that bank account on the Put Date, and in every other case, on or after the Put Date against presentation and surrender of such Put Receipt at the specified office of any Paying Agent. An Event Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1, 9, 10, 11, 15 and 18 Put Receipts issued pursuant to this Condition 7(e) shall be treated as if they were Notes.

In these Terms and Conditions (except in Condition 4(e):

"K" has the meaning ascribed to it in the Appointment;

"Rated Securities" means the Notes, if at any time and for so long as they shall have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of, where the Issuer is STUF, the Guarantor or the Issuer or any other Subsidiary of the Guarantor which, in any case, is guaranteed on an unsecured and unsubordinated basis by the Guarantor or, where the Issuer is Severn Trent, the Issuer or any other Subsidiary of the Issuer which, in any case, is guaranteed on an unsecured and unsubordinated basis by the Issuer, in any case having an initial maturity of five years or more which is rated by a Rating Agency;

"Rating Agency" means Standard & Poor's Credit Market Services Europe Limited or Moody's Investors Service Limited or any of their respective subsidiaries and their successors or any rating agency substituted for either of them (or any permitted substitute of either of them) by the Issuer or the Guarantor from time to time with the prior written approval of the Trustee (not to be unreasonably withheld or delayed) or any other rating agency approved in writing by the Trustee from time to time;

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

"Restructuring Event" means either (a) the modification of any material rights, benefits or obligations of STWL as a water undertaker or sewerage undertaker arising under the Appointment, or (b) any material modification being made to the Appointment regardless,



in the case of both paragraphs (a) and (b), of whether or not such modification is made with the consent of STWL and whether pursuant to the Water Industry Act 1991 or otherwise but excluding, in the case of both paragraphs (a) and (b), an adjustment in K (including for this purpose, for the avoidance of doubt, any adjustment to the basis or formula for pricing which arises as part of a periodic review under the terms of the Appointment) or a modification in respect of, or which removes, such part of STWL's area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act 1991. For the avoidance of doubt, the service by the Secretary of State of a notice under Condition O of the Appointment shall not of itself constitute a Restructuring Event; and

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

(f) *Redemption upon an Index Redemption Event*

In the case of RPI-Linked Notes, if either (i) the Index Figure for three consecutive months is required to be determined on the basis of an Index Figure previously published as provided in Condition 5 (e)(ii) and the Trustee has been notified by the Calculation Agent that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index shall have been advised by the Indexation Adviser to the Issuer and such circumstances are continuing (an "Index Redemption Event"), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Noteholders in accordance with Condition 14, redeem all, but not some only, of the Notes at their Early Redemption Amount determined in accordance with Condition 7(g), together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(g) *Early Redemption Amounts*

For the purpose of paragraph (b) above, redemption upon the occurrence of an Index Redemption Event and Condition 10, each Note will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, an amount equal to the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount;
- (iii) in the case of a Zero Coupon Note, an amount (the "Amortised Face Amount") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

"RP" means the Reference Price;

"AY" means the Accrual Yield expressed as a decimal; and

"y" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360; or

- (iv) in the case of an RPI-Linked Redemption Note, an amount calculated in accordance with Condition 4.

(h) *Purchases*

The Issuer, the Guarantor or any of their Subsidiaries may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to a Paying Agent for cancellation.

(i) *Cancellation*

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

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (g)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Trustee or the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

## **8. Taxation**

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

- (a) presented for payment in the United Kingdom; or
- (b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the United Kingdom, other than the mere holding of such Note or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming, whether or not such is in fact the case, that day to have been a Payment Day (as defined in Condition 6(e)); or
- (d) presented for payment by or on behalf of a holder in respect of whom such withholding or deduction would not have been required had such holder provided evidence that such holder is within the charge to United Kingdom corporation tax (if that is the case) or had such holder made a declaration of nonresidence or other similar claim for exemption to the relevant tax authority or taken any other relevant procedural steps required in any of those cases in sufficient time prior to the Relevant Date to enable an exemption from withholding

or deduction to be available in respect of the relevant payment of principal or interest (as the case may be); or

- (e) where such withholding or deduction is imposed on a payment to a Noteholder and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such directive; or
- (f) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

In these Terms and Conditions, the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

#### **9. Prescription**

The Notes and Coupons will become void unless claims in respect of principal and interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) thereof.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void upon issue pursuant to this Condition or Condition 6(b).

#### **10. Events of Default**

(a) *Events of Default:*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to the Issuer and (where the Issuer is STUF) the Guarantor that the Notes are, and they shall accordingly thereupon become, immediately due and repayable at their Early Redemption Amount (as specified in the applicable Final Terms), together with accrued interest as provided in the Trust Deed, if any of the following events (each an "Event of Default") shall occur:

- (i) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 15 days; or
- (ii) if the Issuer or (where the Issuer is STUF) the Guarantor fails to perform or observe any of its other obligations under these Terms and Conditions or the Trust Deed and (except where the Trustee considers the failure to be incapable of remedy when the Notes will become due and repayable subject only to and upon the Trustee certifying as is hereinafter mentioned and giving notice as is herein and in the lead-in paragraph to this Condition mentioned) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer or (where the Issuer is STUF) the Guarantor (as the case may be) of written notice requiring the same to be remedied; or
- (iii) if any indebtedness for Moneys Borrowed of the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary is validly declared to be due and repayable prior to the date on which the same would otherwise become due and repayable by reason of the occurrence of an event of default (however described) in relation thereto or if the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary defaults in the repayment of any indebtedness for Moneys Borrowed at the maturity thereof or at the expiry of any originally applicable grace period, or if any guarantee or indemnity or other like obligation in respect of any

indebtedness for Moneys Borrowed given by the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary shall not be paid when due and called upon or at the expiry of any originally applicable grace period save in any such case where there is a bona fide dispute as to whether payment or repayment is due, provided that no such event as aforesaid shall constitute an event of default unless the Moneys Borrowed or other liability relative thereto either alone or when aggregated with other Moneys Borrowed and/or other liabilities relative to all (if any) other such events which shall have occurred shall amount to at least £10,000,000 (or its equivalent in any other currency or currencies at the date the same become due and payable or such default occurs or such payment is not made, as the case may be); or

- (iv) if (a) an order is made or an effective resolution is passed for the appointment of an administrator or for the winding-up of the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary (except, in the case of a Material Subsidiary, a winding-up for the purposes of a reconstruction or amalgamation, the terms of which have previously been approved in writing by the Trustee, or a voluntary solvent winding-up in connection with the transfer of all or the major part of the business, undertaking and assets of such Material Subsidiary to (where the Issuer is STUF) the Guarantor, the Issuer or another Subsidiary of the Guarantor or (where the Issuer is Severn Trent) the Issuer or a Subsidiary of the Issuer (not, in any case, being an Excluded Subsidiary)); or (b) an order is made in respect of Severn Trent Water Limited pursuant to section 24 of the Water Industry Act 1991; or
- (v) If the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary stops or threatens to stop payment generally or ceases or threatens to cease to carry on its business or a substantial part of its business (except, in the case of a Material Subsidiary, a cessation or threatened cessation for the purpose of a reconstruction or amalgamation on the terms of which have previously been approved in writing by the Trustee, or in connection with the transfer of all or the major part of the business, undertaking and assets of such Material Subsidiary to (where the Issuer is STUF) the Guarantor, the Issuer or another Subsidiary of the Guarantor or (where the Issuer is Severn Trent) the Issuer or a Subsidiary of the Issuer (not, in any case, being an Excluded Subsidiary) or which is not material in the context of the Group as a whole); or
- (vi) if an encumbrancer takes possession or an administrative or other receiver or manager is appointed of the whole or any material part of the undertaking or assets of the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary (where, in the case of a Material Subsidiary, such undertaking or assets or part thereof is or are material in the context of the Group as a whole) or if a distress, execution or any similar proceeding is levied or enforced upon or sued out against the whole or any material part of the property of the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary (where, in the case of a Material Subsidiary, such property or part thereof is material in the context of the Group as a whole) and in any such case is not removed, paid out or discharged within 21 days (or such longer period as the Trustee may approve); or
- (vii) if the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary is deemed for the purpose of any law to be unable to pay its debts, or the value of the assets of the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary otherwise becomes, or is determined by any competent court or other authority to be, insolvent, or suspends making payments (whether of principal or interest) in respect of any class of its debts or announces an intention to do so or a moratorium is declared in respect of any of the indebtedness of the Issuer (where the Issuer is STUF), the Guarantor or any Material Subsidiary; or

- (viii) if any kind of composition, scheme of arrangement, compromise or other similar arrangement involving the Issuer, (where the Issuer is STUF) the Guarantor or any Material Subsidiary and its creditors generally (or any class of such creditors) is entered into or made (except a composition, scheme of arrangement, compromise or other similar arrangement for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee); or
- (ix) where the Issuer is STUF, the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect,

and, in the case of the happening of any of the Events of Default referred to in paragraphs (ii) above and, in relation to a Material Subsidiary, (iii) to (viii) inclusive above, the same has been certified in writing by the Trustee to the Issuer and (where the Issuer is STUF) the Guarantor to be in its opinion materially prejudicial to the interests of the Noteholders.

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer or (where the Issuer is STUF) the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction.

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

(b) *Definitions*

In these Terms and Conditions:

"Material Subsidiary" means (A) if the Issuer is Severn Trent, any Subsidiary of the Issuer or (B) if the Issuer is STUF, any Subsidiary of the Guarantor (but excluding STUF) but excluding in each case an Excluded Subsidiary:

- (a) whose profits on ordinary activities before tax or whose net assets (in each case consolidated in respect of a Subsidiary which itself has Subsidiaries) and in each case attributable to (where the Issuer is Severn Trent) the Issuer or (where the Issuer is STUF) the Guarantor, all as shown in the latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary represent 10 per cent. or more of:
  - (i) the profits on ordinary activities before tax or, as the case may be, net assets of (where the Issuer is Severn Trent) the Issuer or (where the Issuer is STUF) the Guarantor all as shown in the latest audited accounts of (where the Issuer is Severn Trent) the Issuer or (where the Issuer is STUF) the Guarantor; or
  - (ii) (if audited consolidated accounts of (where the Issuer is Severn Trent) the Issuer and its Subsidiaries or (where the Issuer is STUF) the Guarantor and its Subsidiaries are prepared) the consolidated profits on ordinary activities before tax or, as the case may be, consolidated net assets (in each case attributable to the shareholders of (where the Issuer is Severn Trent) the Issuer or (where the Issuer is STUF) the Guarantor of (where the Issuer is Severn Trent) the Issuer and its Subsidiaries or (where the Issuer is STUF) the Guarantor and its Subsidiaries (other than, in any case, Excluded Subsidiaries) all as shown in the latest audited consolidated accounts of (where the Issuer is Severn Trent) the Issuer and its Subsidiaries or (where the Issuer is STUF) the Guarantor and its Subsidiaries; or
- (b) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a

Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary but shall cease to be a Material Subsidiary under this subparagraph (b) (but without prejudice to the provisions of subparagraph (a) above) upon publication of its next audited accounts.

A report (whether or not addressed to the Trustee) by the Auditors (as defined in the Trust Deed) that in their opinion a Subsidiary is or is not or was or was not at any particular time or throughout any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties. The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any limit on the liability of the Auditors; and

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

#### **11. Replacement of Notes, Coupons and Talons**

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

#### **12. Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out below.

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

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on the London Stock Exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the London Stock Exchange;
- (c) there will at all times be a Paying Agent in a Member State of the European Union approved by the Trustee that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directive; and
- (d) the Issuer undertakes that, in the event that it or the Guarantor (where applicable) would (but for Condition 8(a)) be obliged to pay additional amounts on or in respect of any Note or Coupon pursuant to Condition 8 by virtue of such Note or Coupon being presented for payment in the United Kingdom, it will appoint and at all times thereafter maintain a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer or the Guarantor is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and if applicable, the Guarantor and, in certain circumstances described therein, the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any

Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor Paying Agent.

### **13. Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

### **14. Notices**

All notices regarding the Notes or Coupons will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as aforesaid is not practicable, notice shall be given in such other manner and shall be deemed to have been given on such date as the Issuer, the Trustee and the Agent agree.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes have been admitted to trading on the London Stock Exchange's regulated market or have been admitted to the Official List and the rules of the London Stock Exchange so require, such notice will be published in a daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

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

### **15. Meetings of Noteholders, Modification and Waiver**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, these Terms and Conditions, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer or (where the Issuer is STUF) the Guarantor at the request of Noteholders holding not less than 5 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, these Terms and Conditions, the Coupons and the Trust Deed (including, as set out therein, modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-quarter in nominal amount of the Notes for the time being outstanding. An

Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

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

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

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution under Condition 18), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuers, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

Any such modification, waiver, authorisation, determination or substitution under Condition 18 shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

## **16. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

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

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

## **18. Substitution**

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

- (a) where the Issuer is STUF (i) the Guarantor or (ii) any successor company of the Issuer or the Guarantor or (iii) any other Subsidiary (other than an Excluded Subsidiary) of the Guarantor or any such successor company or (iv) any holding company of the Guarantor or any such successor company; and



- (b) where the Issuer is Severn Trent (i) any successor company of the Issuer or (ii) any Subsidiary (other than an Excluded Subsidiary) of the Issuer or any such successor company or (iii) any holding company of the Issuer or any such successor company,

as the principal debtor under the Trust Deed and the Notes. Such agreement shall also be subject to the relevant provisions of the Trust Deed, including the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced thereby and (except, where the Issuer is STUF, where the Guarantor or any such successor company of the Guarantor is the new principal debtor and, where the Issuer is Severn Trent, where the Issuer or any such successor company of the Issuer is the new principal debtor) the irrevocable and unconditional guarantee in respect of the Notes by, where the Issuer is STUF, the Guarantor or any such successor company of the Guarantor or, where the Issuer is Severn Trent, the Issuer or any such successor company of the Issuer.

Where the Issuer is STUF, the Trustee may also agree, without the consent of the Noteholders or the Couponholders, to the substitution at any time or times of (i) any successor company of the Guarantor or (ii) a Subsidiary (other than an Excluded Subsidiary) of the Guarantor acceptable to the Trustee as the guarantor under the Trust Deed and of the Notes, in each case in place of the Guarantor. Such agreement shall be subject to the relevant provisions of the Trust Deed, including the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced thereby and such successor company or Subsidiary having the benefit of the Appointment held by the Guarantor.

In the case of any proposed substitution, the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons and/or the Trust Deed provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders.

#### **19. 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 proceedings to enforce repayment unless indemnified to its satisfaction.

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

#### **20. Governing Law**

- (a) The Trust Deed, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) The parties irrevocably agree, for the benefit of the Trustee, the Noteholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) and accordingly submit to the exclusive jurisdiction of the English courts.
- (c) The parties waive any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Trust Deed, the Notes and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with

them) against the parties in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Group (as defined in the "Terms and Conditions of the Notes") for its general corporate purposes. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of Commission Regulation No 809/2004 implementing the Prospective Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## CLEARING AND SETTLEMENT

### **Book-Entry Ownership**

#### *Notes*

The relevant Issuer may make applications to Clearstream, Luxembourg and/or Euroclear for acceptance in their respective book-entry systems in respect of any Series of Notes. A Temporary Global Note and/or a Permanent Global Note without coupons may be deposited with a common depositary or common safekeeper, as the case may be, for Clearstream, Luxembourg and/or Euroclear or an alternative clearing system as agreed between the relevant Issuer and Dealer. Transfers of interests in such Temporary Global Notes or Permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Clearstream, Luxembourg and Euroclear or, if appropriate, the alternative clearing system. Each Global Note deposited with a common depositary or common safekeeper, as the case may be, on behalf of Euroclear and Clearstream, Luxembourg will have an ISIN and a Common Code.

## DESCRIPTION OF SEVERN TRENT PLC

Severn Trent Plc ("Severn Trent") was incorporated as a public limited company with limited liability in England and Wales on 1 April 1989 under the Companies Act 1985 with registered number 2366619. The address of Severn Trent's registered office is the Severn Trent Centre, 2 St John's Street, Coventry, United Kingdom, CV1 2LZ and the telephone number of the registered office is +44(0)24 7771 5000. It is the ultimate holding company of Severn Trent Water Limited ("STWL") and the ultimate holding company of Severn Trent Utilities Finance Plc ("STUF"). Severn Trent is the holding company of the Severn Trent group of companies (comprising Severn Trent and its subsidiaries) (the "Group") and its ordinary shares are listed on the Premium Listing segment of the Official List of the UK Listing Authority and admitted to trading on London Stock Exchange plc's main market.

Severn Trent was listed on the London Stock Exchange in December 1989, along with nine other water and sewerage companies, as part of the United Kingdom government's privatisation programme for the water industry in England and Wales. Severn Trent provides water and wastewater services in Central England and parts of Wales through its wholly owned subsidiary, STWL.

The Group comprises two main business divisions: (i) Severn Trent Water which comprises the regulated water utility, STWL (see "Description of Severn Trent Water Limited"); and (ii) Severn Trent Services (see below "Severn Trent Services ("STS)"). Details of the principal operating subsidiaries within each of these business divisions are set out at Note 42 to the audited annual financial statements of Severn Trent for the financial year ended 31 March 2013. It should be noted that the Group's businesses outside the regulated water utility are, as a whole, inherently more exposed to the economic cycle than STWL. The turnover for the Group is primarily derived from these two main business divisions and, for the year ending 31 March 2013, was £1,831.6 million with the underlying profit before interest tax and exceptional items ("PBIT") being £498.0 million. This turnover consisted of £1,511.0 million (with £500.9 million underlying PBIT) for the Severn Trent Water reportable segment and £328.5 million (with £12.7 million underlying PBIT) for the STS reportable segment.

Severn Trent's objects and purposes are not restricted by its Articles of Association.

### **Severn Trent Services ("STS")**

STS provides water and wastewater treatment and operating services to utilities, municipalities and commercial customers around the world. Following the disposal of the Analytical Services business STS comprises two main business streams: Water Purification and Operating Services.

Operating Services operates in the United States, the United Kingdom, Ireland and Italy. Water Purification operates in four regions – the Americas, Europe, the Middle East and North Africa, and Asia Pacific and China.

Operating Services provides contract operating services to manage and maintain water and wastewater plants and networks in selected countries worldwide. It is a leading provider in the United States and United Kingdom, one of the few integrated water operators in Italy and it is building a strong presence in Ireland.

Water Purification is one of the leading global providers of advanced technologies products and integrated solutions for water and waste water disinfection, filtration, absorption and marine/offshore wastewater treatment.

STS operates at the forefront of new water technology. STS has a sizeable presence in its chosen markets of disinfection, filtration and arsenic removal. STS is also a leading provider of contract operating services for water and wastewater plants.

STS's strategy is to introduce new technologies into existing markets, such as the BALPURE® ballast water treatment technology, as well as growing its Operating Services business in the US and Europe where it operates more than 900 facilities.

## **Other Businesses of Severn Trent**

Derwent Insurance Limited, based in Gibraltar, is the Group's captive insurer providing certain insurance cover to some of the companies in the Group. The Group's captive insurance company insures Severn Trent group risks only and does not write external business.

Severn Trent Luxembourg Overseas Holdings SA ("STLOH") is a holding company based in Luxembourg which manages the Group's investments of many of its non-UK businesses.

## **Relevant Recent Events**

### ***Recent Developments***

On 14 May 2013, the Board of Severn Trent announced that it had received an approach from a consortium led by Borealis Infrastructure Management Inc., and including the Kuwait Investment Office and Universities Superannuation Scheme Limited (together, the "Consortium"). The Consortium made several pre-conditional possible offers to purchase the whole of the issued share capital of Severn Trent (the "Proposals").

The Board of Severn Trent reviewed the Proposals with its advisers and concluded that the Proposals failed to reflect the long-term value and future potential of Severn Trent. Accordingly the Board informed the Consortium that it had rejected the Proposals.

In accordance with Rule 2.6(a) of The City Code on Takeovers and Mergers (the "Code"), the Consortium was required, by not later than 5.00 p.m. on 11 June 2013, to either announce a firm intention to make an offer for Severn Trent in accordance with Rule 2.7 of the Code or announce that it did not intend to make an offer.

On 11 June 2013, the Consortium announced that it did not intend to make an offer to purchase the shares of Severn Trent. As a result, the Consortium may not, except in certain limited circumstances, within six months from the date of the statement, inter alia, (a) announce an offer or possible offer for Severn Trent; (b) acquire any interest in shares of Severn Trent if the Consortium would thereby become obliged under Rule 9 to make an offer.

### ***Recent Trends, Uncertainties and Demands***

*Claim from Veolia Proprete S.A.*

Following a hearing in the Commercial Court in Belgium in February 2010 in relation to a claim from Veolia Proprete S.A. ("Veolia") arising from the sale of Biffa Belgium to Veolia in 2006, the Court rendered judgment in favour of the group on 1 April 2010 and declared all of Veolia's claims to be unfounded. Veolia has filed an appeal against this decision, however, the Group considers that Veolia's case remains unfounded and no provision has been recorded in respect of this matter.

## **Governance**

### ***The Board***

Details of the executive and non-executive Directors of Severn Trent are set out below. The Board has regular scheduled meetings during the year and committee meetings are convened when required.

### ***Executive Committee***

The Chief Executive is supported in his role by the executive management team and together they comprise the Executive Committee. During 2012/2013, the Executive Committee comprised the executive Directors and senior executive managers responsible for key operational and central functions. The Executive Committee oversees the development and execution of the Severn Trent strategy. It also has accountability for achieving business results.

Severn Trent has established committees of the Board to deal with specific issues or approvals, as and where necessary. There are four permanent committees of the Board who assist in the execution of its responsibilities and the Board has delegated some of its responsibilities to those committees. The committees assist the Board by fulfilling their roles and responsibilities, focusing on specific activities, reporting back to the Board on decisions and actions taken, and making any necessary recommendations.

### ***Nominations Committee***

The main purpose of the Nominations Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when making or renewing appointments of Directors to the Board. It also advises the Board on issues of Directors' conflicts of interest and independence. The current members of the Committee are the non-executive Directors and Tony Wray (Chief Executive). Andrew Duff is the Chairman of the Nominations Committee.

### ***Audit Committee***

The Audit Committee assists the Severn Trent Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the systems of internal controls and monitoring the effectiveness and objectivity of the internal and external auditors. The current Audit Committee members are Baroness Noakes DBE (Chairman), Dr Bernard Bulkin and Richard Davey.

### ***Corporate Responsibility Committee***

The Corporate Responsibility Committee provides guidance and direction to the Group's Corporate Responsibility programme, reviews the Group's key non-financial risks and opportunities and monitors progress. The members of the Committee are Dr Bernard Bulkin (Chairman), Andrew Duff, Gordon Fryett and Tony Wray.

### ***Remuneration Committee***

The Remuneration Committee determines, on behalf of the Board, the company's policy on the remuneration of executive Directors, other members of the Severn Trent Executive Committee and the Chairman of the Board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The members of the Remuneration Committee during 2012/2013 were Dr Bernard Bulkin, Richard Davey (Chairman) and Martin Lamb all of whom are independent Non-Executive Directors. Andrew Duff, the Company Chairman, who was independent on his appointment to the Board, is also a member.

### ***Corporate Governance***

Severn Trent complied, throughout the 2012/2013 financial year, with the provisions of the Combined Code Principles of Good Governance and Code of Best Practice.

### ***Conflicts of Interests***

The Board has a full process in place to authorise situational conflicts in accordance with the provisions of the Companies Act 2006.

For any actual or potential conflicts, the following procedure has been adopted by the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the company:

- the Director will notify the Chairman and Company Secretary of the actual or potential conflict;
- the Nominations Committee will consider the notification and determine whether it needs to be submitted to a Board meeting for authorisation; and
- the conflict will be considered by the Board at a scheduled Board meeting.

Full details of the conflict will be sent to Directors in advance of the meeting. If there is a major conflict or it is decided that authorisation should not wait until the next scheduled meeting, the Board would be asked to authorise the conflict by way of written resolution.

In addition to reviewing any conflicts notified and submitting them to the Board for authorisation by the Board, the Nominations Committee monitors changes to previously notified conflicts and any conditions imposed. Semi-annual reports are made to the Board of all Directors' conflicts and Directors are reminded from time to time of their obligations.

An annual review of conflicts is carried out and this is incorporated into the year-end process of verifying Directors' interests. This review has confirmed that there were no actual conflicts of interest requiring authorisation by the Board.

In addition, at every Board meeting there is a standing agenda item at the beginning of the meeting to consider and discuss whether any potential conflicts exist.

### **Share Capital**

As at 31 March 2013, the issued share capital of Severn Trent is £233.3 million divided into 238,365,734 ordinary shares of 97 17/19p, each of which is fully paid.

### **Directors of Severn Trent**

As part of the Group's strategy of focusing on water, all the current executive and non-executive Directors of Severn Trent are appointed to identical positions in STWL.

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

<i>Name</i>	<i>Function within Severn Trent and STWL</i>	<i>Other functions within the Group and principal activities outside the Group</i>
Dr Tony Ballance <sup>1</sup>	Director of Strategy and Regulation	Member of Water UK Council
Dr Bernard Bulkin <sup>2,3,4,5</sup>	Independent Non-Executive Director	Non-Executive Director, Ze-gen Corporation (USA) Non-Executive Chairman, Pursuit Dynamics PLC Chair of the Office of Renewable Energy Deployment at the UK Department of Energy and Climate Change.
Richard Davey <sup>3,4,5</sup>	Senior Independent Non-Executive Director	Non-Executive Chairman, Amlin Plc
Andrew Duff <sup>2,4,5</sup>	Non-Executive Chairman	Senior Independent Director, Wolseley Plc Trustee of Macmillan Cancer Support and Earth Trust Fellow of the Energy Institute Member of CBI President's Committee
Gordon Fryett <sup>2,4</sup>	Independent Non-Executive Director	Alumnus of INSEAD
Martin Kane <sup>1</sup>	Chief Executive Officer, Severn Trent Services	Board member, Utilities and Service Industries Training Ltd and National Association of Water Companies (US) Trustee of International Society for Trenchless Technology
Martin Lamb <sup>4,5</sup>	Independent Non-Executive Director	Chief Executive, IMI plc Member of the Advisory Board of AEA Investors (UK) Ltd



Michael McKeon <sup>1</sup>	Finance Director	Non-Executive Director and Chairman of Audit Committee, The Merchants Trust Plc
Baroness Noakes <sup>3,4</sup>	Independent Non-Executive Director	Deputy Chairman and Senior Independent Director, Carpetright Plc Non-Executive Director, The Royal Bank of Scotland Group Plc Trustee of the Thomson Reuters Founders Share Company
Andy Smith <sup>1</sup>	Director of Water Services	
Tony Wray <sup>1,2,4</sup>	Chief Executive	Non-Executive Director, Grainger plc Member of the Business Advisory Board for "Living with Environmental Change" Member of Water UK Board Director, Severn Trent Utilities Finance Plc

- 
- 1 Denotes member of Executive Committee.
  - 2 Denotes member of Corporate Responsibility Committee.
  - 3 Denotes member of Audit Committee.
  - 4 Denotes member of Nominations Committee.
  - 5 Denotes member of Remuneration Committee.

On 10 April 2013 Severn Trent announced that the Chief Executive, Tony Wray, has informed the Board of his intention to retire from Severn Trent in Spring 2014. This timetable will allow Tony Wray to lead Severn Trent for the next year, oversee the submission of the Final Business Plan to Ofwat for PR14 and manage the orderly handover to his successor.

The business address of each of the Directors above is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ United Kingdom (the registered and head office of Severn Trent). The telephone number of Severn Trent's registered office is +44 (0)24 7771 5000.

There are no potential conflicts of interest between any duties to Severn Trent or STWL of the Directors of Severn Trent and STWL and their private interests and or other duties.

## DESCRIPTION OF SEVERN TRENT UTILITIES FINANCE PLC

Severn Trent Utilities Finance Plc ("STUF") was incorporated under the name Severn Trent Water Utilities Finance Plc as a public limited company with limited liability in England and Wales on 25 March 1994 under the Companies Act 1985 with registered number 2914860. The company changed its name to Severn Trent Utilities Finance Plc with effect from 20 June 2007. STUF is a wholly owned subsidiary of STWL. The ultimate holding company of both STUF and STWL is Severn Trent.

As at the date of this Prospectus, the issued share capital of STUF is £50,000 divided into 50,000 ordinary shares of £1, each of which is fully paid.

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

### Directors of STUF

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

<i>Name</i>	<i>Function within STUF</i>	<i>Other functions within the Group and principal activities outside the Group</i>
Robert McPheely	Director	Financial Controller
Bronagh Kennedy	Director	General Counsel and Company Secretary
Mark Dovey	Director	Group Tax Manager
Gerard Tyler	Director	Group Treasurer
Tony Wray	Director	Chief Executive of Severn Trent Plc and Chief Executive of Severn Trent Water Limited Non-Executive Director, Grainger plc Member of the Business Advisory Board for "Living with Environmental Change" Member of Water UK Board

The business address of each of the above is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ United Kingdom (the registered and head office of STUF). The telephone number of STUF's registered office is +44 (0)24 7771 5000.

There are no potential conflicts of interest between any duties to STUF of the Directors of STUF and their private interests and or other duties.

## DESCRIPTION OF SEVERN TRENT WATER LIMITED

Severn Trent Water Limited ("STWL"), was incorporated on 1 April 1989 with limited liability in England and Wales under the Companies Act 1985 with registered number 2366686. It was established for the purpose of assuming the business carried on by the Severn Trent Water Authority prior to the privatisation of the water industry in England and Wales. Its principal business is the provision of water supply and sewerage services. STWL is regulated under the Water Industry Act 1991. STWL is the wholly-owned principal operating subsidiary of Severn Trent. STUF is a wholly owned subsidiary of STWL.

### Region

STWL is one of the larger of the water and sewerage companies in England and Wales (each a "WASC") in terms of area and turnover. Its appointed region broadly covers the catchment areas for the Rivers Severn and Trent and their tributaries and stretches from the Bristol Channel to the Humber estuary and from mid- Wales to the East Midlands. This region includes the cities of Birmingham, Coventry, Derby, Leicester, Nottingham, Stoke-on-Trent, Worcester and Gloucester and covers some 21,000 square kilometres. STWL provides water and wastewater services to 4.2 million households and businesses. In the year ended 31 March 2013 STWL treated an average of nearly 1.8 billion litres of water per day at its treatment works and removed approximately 1.4 billion litres of wastewater per day. South Staffordshire Water Plc supplies a part of the region's water requirements.

### Investment Programme

The water business is a capital-intensive industry and, in common with other WASCs, STWL undertook a substantial investment programme for the period 2005 to 2010 which was completed to plan and it met almost all regulatory commitments. Recent experience shows that the UK's weather patterns are changing, with droughts followed by floods. This has provided increasing challenges to STWL's networks in delivering secure services to customers. Whilst STWL has been able to manage those challenges to date, it announced in May 2012 its decision to enhance the capital investment programme for the period between 1 April and 31 March 2015 ("AMP 5") by an additional £150 million to deliver improved customer services and network performance. This investment will be targeted at further reductions in unplanned interruptions, increased network serviceability, reductions in pollution incidents and improved sewage treatment.

STWL will also fund the costs of transfer of private sewers and lateral drains (see "Transfer of Private Sewers and Lateral Drains into STWL Ownership" below). The capital programme for AMP 5 is now £2.6 billion. This is within the overall levels agreed in the final determination for AMP 5.

STWL's net capital expenditure (UK GAAP, net of grants and contributions) for 2013/14 is expected to be in the range of £600 million to £620 million. Within that range, net infrastructure renewals expenditure will be in the region of £135 million to £145 million.

### Regulatory Environment

STWL operates within a highly regulated industry in England and Wales and its operations are strongly influenced by economic, drinking water quality and environmental regulation.

STWL holds an appointment (otherwise known as a licence – the "Appointment") granted by the Secretary of State for the Environment, Food & Rural Affairs (the "Secretary of State") as a water and sewerage undertaker pursuant to the Water Act 1989 (now the Water Industry Act 1991). The Appointment may be terminated on 25 years' notice (although it may be terminated or transferred prior to the end of such period in certain circumstances which are specified in the Water Industry Act 1991 or in the Appointment).

The Secretary of State, Ofwat, the Drinking Water Inspectorate ("DWI"), Environmental Agency ("EA") and Natural Resources Wales ("NRW") constitute the principal regulators of the industry. The Water Industry Act 1991 requires Ofwat and the Secretary of State to exercise and perform their statutory powers and duties in a manner each considers best calculated to (among other things):

- protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- secure that the functions of water and sewerage undertakers are properly carried out in respect of every area of England and Wales; and
- secure that water and sewerage undertakers are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions.

Ofwat and the Secretary of State also have secondary duties that include obligations to promote efficiency and economy on the part of water and sewerage undertakers in the carrying out of their functions as such and to contribute to the achievement of sustainable development.

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

The Water Act 2003 gave Ofwat the power to impose financial penalties on a WASC which contravenes any condition of its Appointment or any of certain statutory requirements or fails to meet performance standards prescribed pursuant to the Water Industry Act 1991. Such penalties may be up to ten per cent. of the WASC's relevant regulated turnover. In addition, where Ofwat is satisfied that a WASC is in breach of a condition of its Appointment or certain of its statutory obligations, it has the power to secure compliance by means of an enforcement order. Failure to comply with an enforcement order can lead to court action by Ofwat for an injunction and claims for compensation by any person who suffers loss or damages as a result of the breach. Alternatively, where actual or likely contravention of an enforcement order (or of one of a WASC's principal statutory duties under the Water Industry Act 1991) is so serious as to make it inappropriate for the WASC to continue to hold its Appointment, the Secretary of State or, with his or her consent, Ofwat, may apply to the High Court for the appointment of a special administrator. A special administrator may also be appointed in other circumstances such as where a WASC is, or is likely to be, unable to pay its debts. A description of the special administration regime is provided below.

Pollution control, water resources management, fisheries management, flood protection and alleviation, and land drainage all fall within the scope of the statutory responsibility of the EA in England and of NRW in Wales.

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

As a sewerage undertaker, STWL is required to obtain consents (environmental permits) from the EA in England or NRW in Wales for discharges of polluting substances into controlled waters from various sources (such as sewage treatment works). Failure by STWL to hold or comply with the terms of requisite discharge consents is an offence which may result in regulatory action, including prosecution, being taken against STWL.

### **STWL's Appointment Conditions**

STWL's Appointment is subject to a range of conditions including:

- provisions relating to the operation of price control (see the paragraph entitled "Economic Regulation" below);
- a prohibition on undue discrimination or undue preference in setting charges for water supply or sewerage services;
- provisions to ensure that the financial affairs of the regulated business can be separately assessed and reported on;
- obligations on STWL to ensure that it has adequate management resources and financial resources and facilities to enable it to carry out the regulated activities;

- restrictions on the disposal of land and an obligation on STWL to ensure, so far as reasonably practicable, that if a special administration order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the special administrator to manage its affairs, business and property so that the purposes of such an order could be achieved;
- provisions on the payment of fees and the supply of information to Ofwat;
- a provision allowing the licence to be terminated on 25 years' notice;
- provisions relating to water supply licensing competition including those requiring compliance with an access code and Ofwat's "Customer Transfer Protocol"; and
- a requirement that transactions with associated companies must be on an arm's length basis without cross subsidy.

Appointment conditions can be modified by Ofwat, either with STWL's agreement or following reference to the Competition Commission for a decision on public interest grounds. Appointment modifications can also result, in certain circumstances, from a merger or market investigation reference to the Competition Commission.

### **Economic Regulation**

Ofwat regulates water and sewerage charges by capping the average increase in charges to most customers that a WASC can impose in any year.

STWL is currently allowed to increase the average of its principal charges by the percentage change in the Retail Prices Index ("RPI") plus an adjustment factor ("K").

Under the terms of the Appointment, Ofwat is required to review STWL's price limits every five years. Ofwat published its latest final determination (the "Final Determination") on 26 November 2009 for the five year period commencing 1 April 2010. The Final Determination includes the following:

- a capital investment programme of £2.5 billion (post efficiencies, grants and contributions at 2007/08 prices), although STWL is not obliged to spend this amount if required outputs are delivered;
- annual average operating expenditure of £497 million compared to £514 million in STWL's final business plan provided to Ofwat in April 2009;
- a cost of capital of 4.5 per cent. real, post tax. The component parts of the assumed cost of capital are; real post tax cost of equity of 7.1 per cent., real post tax cost of debt of 2.6 per cent. and 57.5 per cent. gearing; and
- a fall in average household bills of 4 per cent. in real terms (annual average fall of 0.9 per cent.) by 2015.

As a consequence of the Final Determination, STWL has the lowest expected average household bills of WASCs in England and Wales in AMP 5.

The Final Determination set adjustment factor "K" at the levels below:

<u>Period</u>	<u>"K"</u>
2010/2011.....	- 2.56%
2011/2012.....	0.00%
2012/2013.....	0.00%
2013/2014.....	- 1.0%
2014/2015.....	- 1.1%

The Final Determination was accepted by STWL on 19 January 2010. Although the Final Determination contains stretching objectives, and includes significant improvements in operating efficiencies, the Directors of STWL are confident that they are on course to meet the requirements of the Final Determination at the operational and capital expenditure levels, delivering the relevant regulatory outputs. Given the impact of the reduction in Ofwat's allowed weighted average cost of capital and taking into account Ofwat's price reductions and updated RPI assumptions and the

gearing assumptions from STWL's Final Business Plan, the Directors of Severn Trent decided to rebase the first year dividend for the start of the AMP 5 period to a level around 10 per cent. below the full year 2009/10 dividend.

Price cap regulation is performance related. WASCs are incentivised to be efficient, both in terms of their operating costs and in the implementation of their capital expenditure programme. It is intended that the benefit of any efficiency savings achieved through effective management should be retained by the WASCs for a period of up to five years, after which time the benefit should be passed to customers via the subsequent price setting process. In the current price review period, the cost of any under-performance in operating costs is borne by the companies.

For AMP 5, Ofwat introduced a new capital expenditure incentive scheme (the "CIS") under which WASCs bear the cost of under-performance for five years, giving symmetry with treatment of efficiency savings. The CIS is designed to provide incentives for companies to put forward challenging and efficient business plans. The lower the CIS ratio of requested to allowed investment, the greater the proportion of requested capex funded through price limits in AMP 5. If a WASC spends more capital expenditure than included in price limit assumptions, the actual expenditure, if approved by Ofwat, will be reflected in the future Regulated Capital Values ("RCV"). The CIS ratios applicable to STWL for AMP 5 are 102 for the water service and 102 for the wastewater service.

In addition for AMP 5, Ofwat introduced a new comparative incentive mechanism to reward or penalise water companies' service performance. This service incentive mechanism ("SIM") replaced the overall performance assessment ("OPA") used since 1996. The SIM compares companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon the STWL's relative performance under the SIM it could receive a revenue penalty or reward when price limits are next reset in 2014 for the following five years.

The price limits are scheduled to be reviewed and reset during 2014 for the five year period commencing 1 April 2015 (i.e. AMP 6). It is expected, however, that price limits for AMP6 will be determined in accordance with a modified version of the licence.

Unexpected capital costs or savings arising from changes in certain regulatory assumptions during a review period are recorded and notified by STWL to Ofwat. This process, known as 'logging up and down', allows for prices to be adjusted up or down at the next periodic review to compensate companies or customers respectively for the unexpected costs or savings, to the extent agreed by Ofwat.

In addition, there are certain circumstances where, provided a specified materiality threshold is exceeded, STWL can request and/or Ofwat can instigate, a re-setting of the price cap between price reviews. This is known as an Interim Determination of K or "IDOK". The circumstances in which an IDOK is available include changes in certain legal obligations including the transfer of private sewers and lateral drains (see below) and certain drinking water and environmental obligations, failure to take action to deliver required outputs, and changes in costs relating to issues specified at the time of the price review, which currently are:

- increased costs resulting from the application of permit schemes made by the Highways Authorities under the Traffic Management Act 2004;
- increased costs to balance water supply and demand, based on companies' application of the Department for the Environment and Rural Affairs' ("Defra") UKCP09 climate projections;
- increases above the 2008/09 reported numbers of bad debt and debt management costs resulting from worsening economic circumstances; and
- increased costs resulting from increases in the element of the EA or NRW's charges relating to financing compensation for withdrawal of abstraction licences.

STWL can appeal to the Competition Commission with respect to any price limits which are set by Ofwat pursuant to a periodic review or IDOK. The Competition Commission will determine any such appeal in accordance with the same principles as apply to Ofwat in setting price limits.

STWL's Appointment also includes a 'shipwreck' or substantial effect clause, which allows STWL's price limits to be revised when events beyond their control have a significant effect (equivalent over five years to more than 20 per cent. of annual revenue).

As part of the 2009 review of price limits, STWL is required to deliver a programme of water quality and environmental improvements and to maintain or improve services to customers. This programme provides (among other things) for:

- maintenance to continue to provide a safe, reliable water supply to customers and effective treatment and disposal of sewage without the need to impose restrictions on water usage more frequently, on average, than stated in STWL's planned level of service;
- reducing leakage from the water supply network to 453 MI/day in 2014/15 and to maintain water efficiency savings of 3.27 MI/day throughout the periods 2010/11 to 2014/15;
- meeting the demands of new and existing customers for a reliable water supply and sewerage service;
- installing 198,000 optional meters and 11,000 additional meters by 2014/15;
- delivering required drinking water and environmental quality improvements, including further treatment to address nitrate problems, cryptosporidium risk and pesticide removal;
- achieving by 2014/15 180 GWh/year of energy generated from sewage sludge processing;
- reducing odour problems at 16 sewage treatment works; and
- resolving or mitigating all problems identified by STWL in respect of overloaded sewers causing flooding inside people's properties with a net reduction of 66 in the number of properties in the highest risk register.

In December 2011, Ofwat consulted on changes proposed by it to the price control conditions of the appointment of every water or water and sewerage undertaker.

Following extensive negotiations between Ofwat and the water companies, a revised version of these proposals was accepted in January 2013. The changes allow Ofwat to set separate wholesale and retail price controls at the 2014 price review. The proposals only allow for separate price controls for wholesale and retail services, and do not provide any flexibility in relation to wholesale controls. In relation to wholesale controls, Ofwat will be able to set one binding price control for each of water wholesale and sewerage wholesale in the form of RPI+/-K for a five-year period. The proposals allow a separate price control for retail for a period of up to five years.

The proposals also commit companies to work with Ofwat to develop more targeted price controls in the future. This recognises the need for regulation to evolve to meet future challenges.

### **Transfer of Private Sewers and Lateral Drains into STWL Ownership**

A significant change during AMP 5 is the transfer into STWL's ownership of approximately 37,000 km of existing private sewers and lateral drains along with responsibility for repair and maintenance, which took place in October 2011. The additional cost of the transfer is currently estimated to be between £86 million to £100 million in total to March 2015.

The above-stated costs represent an estimate range based on current information and current estimates and assumptions. At present, the condition of the assets transferred is not fully known and therefore there is uncertainty surrounding the cost of maintaining and upgrading these assets. STWL may find that the costs differ from its assumptions. Additionally, a further difficulty in accurately determining these costs is that related privately owned pumping stations will also be transferred to STWL on a phased basis up to 1 October 2016 and there will be a significant degree of discretion around investment levels in pumping stations during AMP 5, which will impact on actual reported capital expenditure costs.

STWL's price determination for AMP 5 did not include any allowance for these costs. It may be possible to use an IDOK to adjust prices to account for these additional costs. STWL will be required to evidence these costs to support any IDOK submission and Ofwat will determine any change to prices. STWL will also be required to bear these costs in advance of any future recoveries. If Ofwat did not allow for a full recovery of STWL costs for the transfer of private sewers and lateral drains through the IDOK or periodic price review process, then STWL could appeal to

the Competition Commission. Any appeal with respect to a periodic price review would relate to the price review as a whole.

### **Special Administration Regime**

The Water Industry Act 1991 contains provisions enabling the Secretary of State or Ofwat to secure the general continuity of water supply and sewerage services in England and Wales through the appointment of a special administrator, who would have extensive functions similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. The person appointed as a special administrator would be appointed only for the purposes of transferring as a going concern to one or more different water undertakers or, as the case may be, sewerage undertakers so much of the business of the WASC as was necessary for the proper carrying out of its functions (the "transfer purpose") and pending the transfer, of carrying out those functions. Once the relevant provisions of the Flood and Water Management Act 2010 are brought into force, where a WASC is placed in special administration on the grounds that it is, or is likely to be, unable to pay its debts, the special administrator will be required to seek to rescue the WASC as a going concern (the "rescue purpose") rather than to transfer its business in accordance with the transfer purpose. However, the special administrator must pursue the transfer purpose instead of the rescue purpose where he thinks that a rescue is unlikely to be possible or that the objectives of a special administration order would be better achieved through a transfer.

If a special administration order were made in respect of STWL, it would be for the special administrator to agree the terms of the transfer of all or any of the business of STWL on behalf of STWL, subject to the provisions of the Water Industry Act 1991. Until another company has been appointed as an undertaker in its place and its appointment as a water undertaker or sewerage undertaker is terminated, a WASC may not be wound-up, nor may an administrator under the Insolvency Act 1986 be appointed in respect of it.

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

### **Competition**

Under the Water Industry Act 1991, water and water and sewerage undertakers effectively have substantial monopolies within their appointed areas, although there is limited provision for competition; and there is a special merger regime applying to mergers between such undertakers which is additional to and more restrictive than the general UK merger control regime.

The Water Act 2003 provided for extending competition through new entrants. Prospective suppliers can either apply for:

- a "retail" water supply licence, which entitles the licensee to purchase water from a water undertaker and to retail it to an eligible customer; or
- a "combined" water supply licence which enables the licensee to input water into a water undertaker's public supply system and to retail it to an eligible customer.

An eligible customer is defined as one whose premises are non-household and whose annual consumption at each relevant set of premises is likely to be not less than the defined eligibility threshold. This threshold was previously set at 50 megalitres per year but was reduced to five megalitres per year in December 2011. Defra's policy is to reduce the threshold to zero by means of a Water Bill (see below). Prior to the reduction in the eligibility threshold, there was very limited switching of customers to new suppliers under the water supply licensing regime and, as at the date of this Prospectus, this continues to be the case.

There is also provision under the Water Industry Act 1991 for 'inset appointments' where a new entrant replaces the incumbent as the monopoly water or sewerage supplier for a defined area. There have been such appointments as at the date of this Prospectus, mainly to serve new developments.



On 8 December 2011, Defra published the 'Water for Life' white paper ("Water White Paper") setting out its strategic vision for the water industry. The paper sets out (among other things) how the Government intends to extend competition in the water sector by increasing choice for business and public sector customers and making the market more attractive to new entrants. The proposals are balanced by a clear message that the Government does not wish to unsettle investor confidence in the stability of the water sector.

Key competition and market reform proposals incorporated in the Water White Paper included:

- lowering the eligibility threshold for the water supply licensing regime to zero;
- extending the water supply licensing regime to sewerage services;
- introducing a new regulated approach to market entry;
- introducing a transparent access pricing regime and abolishing the statutory 'cost principle' which currently governs the charges payable by water supply licensees to incumbent water undertakers;
- unbundling the "combined" supply licence so that a new entrant wishing to provide upstream water supply services will no longer be obliged to provide retail services to its customers;
- extending access rights to water companies' treatment and storage systems rather than just their mains and pipes;
- introducing a new network licence to enable new entrants to own and operate their own infrastructure connected to the incumbent's network;
- reforming the inset regime, including by mirroring some of the aforementioned proposals for the water supply licensing regime; and
- reforming elements of or affecting the special merger regime applying to water or water and sewerage undertakers.

The above elements have now been largely reflected in the draft Water Bill. The draft Water Bill has been published by the Government for pre-legislative scrutiny, and a Parliamentary Select Committee has published its report setting out its recommendations for changes to the draft Bill. These include introducing provisions to protect householders from subsidising competition in respect of non-household customers, to require functional separation of companies' wholesale and retail businesses and to enable companies to voluntarily exit the retail market. The Committee also recommends that Ofwat's duty to contribute to the achievement of sustainable development be given primary status.

The Government has not yet issued a formal response to the report, nor indicated whether or not it intends to accept the recommendations for changes to the draft Bill. The Government has previously indicated its intention that the final Water Bill be formally introduced in Parliament at the "earliest opportunity" and go through the normal legislative process for adoption, and has indicated that a realistic target date for the opening of the reformed market is likely to be April 2017.

If the proposals proceed to be implemented into law they may give rise to a significant increase in competition and a growth in customers switching to, or otherwise becoming served by, a new or different supplier (i.e. one other than the relevant incumbent).

### **Government and Regulatory Developments**

Key policies set out in the Water Bill (other than those relating to competition and market reform) include:

- reforming the water abstraction regime to make it more sensitive to environmental conditions;
- increasing interconnection and the trading of bulk supplies of treated water;
- greater encouragement of catchment management as an alternative to expensive 'end of pipe' solutions to tackling pollution;
- reducing the barriers to trade in abstraction licences; and
- extending the time limit for imposing a financial penalty from one to five years.

Defra has also recently published a summary of responses to its consultation on its draft Strategic Policy Statement to Ofwat. Defra has indicated that it will consider the responses and proceed to produce a final version of the statement. Once adopted, Ofwat will be required to have particular regard to the matters identified in the statement when exercising its functions under the Water Industry Act 1991.

Separately, Ofwat has been developing a new approach to setting prices (Future Price Limits) and consulted on its proposals in November 2011. Its proposals are intended to:

- encourage companies to set high level outcomes, in consultation with their customers and stakeholders, and give the accountability for delivering those outcomes to companies;
- encourage delivery of those outcomes efficiently and effectively;
- strengthen customer engagement;
- encourage companies to meet different customer needs by setting separate retail and wholesale price limits;
- ensure the sector can continue to raise the finance needed to invest in ongoing improvements at a reasonable cost;
- be flexible enough to adapt to emerging challenges and new information; and
- encourage more water trading between companies.

In May 2012 Ofwat published a statement of principles it will adopt for the framework and the next steps in applying these principles in the 2014 price review (PR14). Ofwat published its consultation paper on the framework for PR14 in January 2013. The main components of the framework are:

- Companies are expected to set out proposed outcomes and incentives for delivery, in their business plans and agree them with their Customer Challenge Groups (the Severn Trent Water Forum).
- Ofwat will set two binding price controls for retail (household customers and for non-households) and two for wholesale (i.e. separate ones for water and waste water), all applying for five years.
- For retail, controls will be set on a national average cost to serve for households and a default tariff for non-households.
- There are new incentive mechanisms for water trading and abstraction.
- Ofwat is proposing to move to a "totex" approach where companies propose the amount of their costs subject to pay as you go and the balance going into the regulatory capital value (RCV). The modelling approach to cost assessment will be extended from opex to all expenditure.
- Ofwat intends to set a weighted average cost of capital assuming a notional level of gearing, and will target a "comfortable investment grade credit rating".
- Ofwat is committed to a risk-based approach and wants to incentivise the production of high-quality business plans. Plans seen as robust and well-evidenced will be subject to less regulatory scrutiny of proposed outcomes and incentives.

In April 2013 consulted on its expectations for the Business Plan. Companies will have to submit business plans to Ofwat by 2 December 2013. Companies' plans will be assessed against four criteria:

1. Outcomes - proposed deliverables, and the incentives.
2. Costs – the costs associated with delivering proposed outcomes.
3. Risk and reward – the balance of risks, and the rewards for bearing those risks, between customers and the company (and its investors).
4. Affordability and financeability – customers' bills, and the ability of the company to finance its functions.

Ofwat will:

- Assign each element of the plan to one of three processes – enhanced, standard or resubmission – which determines the likely level of scrutiny and challenge of that element; and
- Assign companies to one of three categories – enhanced, standard or resubmission – which determines procedural, reputational and financial benefits.

Ofwat defines a high-quality business plan as one which:

- Is designed to deliver good outcomes for customers and the environment and ensures we meet our statutory obligations;
- Contains accurate and efficient projections and estimates without inflated costs;
- Is not a 'bid' and does not seek to game the regulatory process; and
- Contains fair proposals to share 'pain and gain' with customers.

Assurance is required from the whole Board of the company that it has submitted a high-quality plan, and that it is operating transparently.

Companies should propose their own cost of capital for water and sewage separately on both a notional and actual gearing basis and should also propose the retail margin needed for both households and non-households. Companies should test the financeability of the plan and the balance between risk and reward through scenario modelling.

### **Environmental and Public Health Regulation**

The water and wastewater industry in the UK is subject to substantial domestic and EU regulation, placing significant statutory obligations on STWL with regard to, amongst other factors, the quality of treated water supplied, wastewater treatment and the effects of the STWL's activities on the environment, biodiversity and human health and safety.

The ongoing development of such regulation could lead to additional obligations and restrictions being imposed on STWL which may adversely impact its operations and increase operating costs and/or capital expenditure. For instance, the implementation of the EU Industrial Emissions Directive may result in additional environmental permitting requirements being imposed on STWL in relation to water and wastewater activities.

All WASCs have general duties, in exercising their functions, to conserve and enhance biodiversity and natural beauty and to promote efficient use of water. Environmental and public health regulation in the water sector is primarily the responsibility of the Secretary of State together with the EA, NRW, the DWI and Natural England.

The EA in England and NRW in Wales are responsible for conserving and redistributing water resources and securing their proper use, including the licensing of water abstraction from, and the environmental permitting of discharges to, surface and ground waters, for pollution control generally and for drought control and flood defence measures. Under the draft Water Bill issued for pre-legislative scrutiny in July 2012, the Government has proposed extending the scope of the environmental permitting regime to cover water abstraction as well as water discharge. The DWI enforces drinking water quality standards, being involved in ensuring that WASCs fulfil their statutory duty to supply drinking water that is wholesome.

The Water White Paper proposed the introduction of a reformed water abstraction regime intended to be in place by the mid to late 2020s. The Government is concerned that too much water is currently being abstracted in certain areas and that current abstraction charges do not send the right price signals to reflect the relative scarcity or abundance of water. The Water White Paper states that the new regime would seek to give clear signals and regulatory certainty on the availability of water and to better reflect the value of water to customers. It states that volume, price and reliability of water allocated to individual abstractors will take account of both current licences and actual volumes used, but that the government will not compensate any losses that STWL or other abstractors incur in changing to the new regime. The Government is expected to consult on more detailed proposals before the end of 2013. The Government is concerned that too much water is being abstracted from certain areas. The Water White Paper indicates that, pending the introduction of the new abstraction regime, more immediate action will be taken by the EA or NRW to address unsustainable abstractions using their existing regulatory powers. The new regime or

such action may result in more or stricter future limitations on abstraction licences and/or increased abstraction charges payable by STWL.

EU directives including the Water Framework Directive, the Drinking Water Directive, the Bathing Water Directive and the Urban Wastewater Treatment Directive are implemented in the UK by primary and secondary legislation. The requirements of the Water Framework Directive, including the requirement on EU Member States to ensure that their waters achieve at least "good status" by 2015, may result in more or stricter limitations on abstraction licences and more or stricter restrictions on environmental permits for water discharge. The Water White Paper proposes a new catchment area-based approach to water quality in order to meet the requirements of the Water Framework Directive. It notes that water companies can play an influential role in tackling pollution at catchment level, but that there is also a need to address pollution at source as opposed to water companies applying end of pipe treatment. Any pollution of controlled waters or other environmental harm caused by STWL or failure to meet drinking water quality or fitness requirements may result in enforcement action (including prosecution) or in liability for remedial or compensatory works under a number of statutory liability regimes, including that implemented in the UK pursuant to the EU Environmental Liability Directive, or for damages or other compensation.

Energy use in water and wastewater treatment and other activities carried out by STWL results in indirect emissions of greenhouse gases. STWL is subject to the Climate Change Levy which results in an annual cost of approximately £0.6 million and the CRC Energy Efficiency Scheme, a mandatory UK emissions trading scheme for significant consumers of energy, which results in an annual cost of approximately £6 million. The Government has announced that it will review the scheme in 2016 and consider whether the policy objectives behind it could be achieved in an alternative way and that the tax will be a high priority for removal when the public finances allow.

### **Pension Deficit Funding**

Pension assets and liabilities (pre tax) of £1,724.3 million and £2,108.0 million, respectively, are held in the Group's balance sheet as at 31 March 2013.

Severn Trent is taking a number of proactive steps to address the pension deficit. On 11 May 2011, Severn Trent announced that it was consulting with its more than 6,000 UK employees on proposed changes to its pension arrangements, which would see all existing pensions replaced by one new defined contribution scheme. Following the period of consultation and after discussion with the Schemes' Trustees, final proposals have been accepted by the employees' representatives and the Trustees. A new defined contribution scheme has been established and new employees have been automatically enrolled into this scheme with effect from 1 April 2012. The defined benefit schemes will close to future accrual on 31 March 2015 and members of the defined benefit schemes will become members of the new defined contribution scheme. The existing defined contribution scheme will also be replaced by the new pension arrangements with effect from 1 April 2015 and all employees who are not currently members of a Severn Trent scheme are now automatically enrolled.

In addition, Severn Trent has agreed to make additional deficit reduction contributions including lump sum contributions of £10 million per annum in cash and a further £8 million per annum through an asset backed funding arrangement.

### **Directors of STWL**

As part of the Group's strategy of focusing on water, all the current executive and non-executive Directors of STWL are appointed to identical positions in Severn Trent (see "Description of Severn Trent Plc – Directors of Severn Trent").

## TAXATION

### United Kingdom Taxation

The comments below are based on the Issuers' understanding of current United Kingdom law and HM Revenue and Customs ("HMRC") published practice and describe only the United Kingdom withholding tax treatment of payments of principal and interest in respect of the Notes. They do not deal with any other United Kingdom taxation implications of acquiring, holding, or disposing of Notes. The comments apply only to persons who are the absolute beneficial owners of Notes and who are resident and (if individuals) domiciled in the United Kingdom for tax purposes and some aspects do not apply to certain classes of person (such as dealers and persons connected with the relevant Issuer for any tax purpose) to whom special rules may apply. The comments below are of a general nature only and the tax treatment for Noteholders may, depending upon the terms of the relevant tranche of Notes, differ from that below. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

### Interest on the Notes

#### 1. *UK Withholding tax*

Payments of interest by the Issuer on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax provided that the UK Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "ITA"). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes paid by the Issuer will be payable without withholding or deduction for or on account of United Kingdom tax.

Interest on the Notes paid by the Issuer may also be paid without withholding or deduction for or on account of United Kingdom tax where such interest is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes 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 HMRC has not given a direction (in circumstances where it has reasonable grounds to believe 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.

Interest on the Notes paid by the Issuer may also be paid without withholding or deduction on account of United Kingdom income tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount on account of United Kingdom income tax at the basic rate (currently 20 per cent.) must generally be withheld from payments of interest paid by the Issuer on the Notes. This withholding obligation is subject to any direction to the contrary by HMRC where an applicable double taxation treaty provides for a lower rate of withholding (or for no tax to be withheld) in relation to a Noteholder.

#### 2. *Provision of information to HM Revenue and Customs*

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a

payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to HMRC's power to obtain information about payments derived from securities.

HMRC has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of deeply discounted securities which are paid before 6 April 2014.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

3. *Payments by the Guarantor*

If the Guarantor makes any payments in respect of interest on the Notes such payments may be subject to withholding on account of United Kingdom tax at the basic rate (currently 20 per cent.), subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other relief that may apply. Such payments by the Guarantor may not be eligible for the exemptions from the obligation to withhold tax described in 1 above.

4. *Discount and premium*

Where Notes are issued at an issue price of less than 100 per cent. of their principal amount, any payments in respect of the accrued discount paid by the Issuer should not be made subject to any withholding or deduction for or on account of United Kingdom income tax as long as they do not constitute payments in respect of interest. Such notes may constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 and be subject to the reporting requirements outlined in 3 above.

Where Notes are issued on terms that a premium is or may be payable on redemption, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest and, if so, the provisions described above relevant to interest will apply.

5. *Notes whose redemption value is linked to the retail prices index*

Notes whose redemption value is linked to the retail prices index may constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 and may be subject to the reporting requirements outlined in 3 above.

6. *Interpretations*

The references to "interest" in this section mean "interest" as understood in United Kingdom tax law. The statements in this section do not take account of any different definitions of "interest" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

## **EU SAVINGS DIRECTIVE**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is 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 or to certain limited types of entities established in that other Member State.

However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) 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). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

#### **U.S. FOREIGN ACCOUNT TAX COMPLIANCE WITHHOLDING**

Sections 1471 through 1474 of the U.S. Internal Revenue Code ("FATCA") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or "FFI" (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service ("IRS") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer (a "Recalcitrant Holder"). The Issuers may be classified as FFIs.

The new withholding regime will be phased in beginning 1 January 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "grandfathering date", which is the later of (a) 1 January 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "IGA"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "FATCA Withholding") from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership," or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the "US-UK IGA") based largely on the Model 1 IGA.

The Issuers expect to be treated as Reporting FIs pursuant to the US-UK IGA and do not anticipate being obliged to deduct any FATCA Withholding on payments they make. There can be no assurance, however, that the Issuers will be treated as Reporting FIs, or that they would in the future not be required to deduct FATCA Withholding from payments they make. Accordingly, the Issuers and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from interest, principal or other payments made in respect of the Notes, neither the relevant Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes, be required to

pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

Whilst the Notes are in global form and held within Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme (together, the "ICSDs"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuers, the Guarantor, any paying agent and the Common Depositary/Common Safekeeper, given that each of the entities in the payment chain beginning with the relevant Issuer and, if applicable, the Guarantor and ending with the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

#### **THE PROPOSED FINANCIAL TRANSACTIONS TAX**

In September 2011, the EU Commission attempted to introduce an EU-wide financial transactions tax. However not all the Member States were in favour of such a tax and so the tax could not be implemented in all Member States. Subsequently, 11 Member States of the EU requested that the Commission develop a proposal for the introduction of a common financial transactions tax ("FTT") for each of those Member States. The Commission developed such a proposal under the EU's enhanced cooperation procedure which allows 9 or more Member States to implement common legislation. In January 2013 the EU Council of Ministers authorised the Commission to proceed with enhanced cooperation for a common FTT and the Commission has now published a draft Directive containing proposals for the FTT. This FTT is intended to be introduced only in the 11 participating Member States (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia).

The proposed FTT imposes a charge on financial transactions including purchases and sales of financial instruments; this charge will be levied at not less than 0.1% of the sale price. The FTT also imposes a charge on the conclusion of, and a purchase and sale of a derivative contract; this charge will be levied at not less than 0.01% of the nominal amount of the derivative.

A charge to FTT will arise if at least one party to a financial transaction is established in a participating Member State and a financial institution established in (or is treated as established in) a participating Member State is a party to the transaction, for its own account, for the account of another person, or if the financial institution is acting in the name of a party to the transaction.

It is important to be aware that a financial institution will be treated as established in a participating Member State if its seat is there, it is authorised there (as regards authorised transactions) or it is acting via a branch in that Member State (as regards branch transactions), or for a particular transaction, merely because it is entering into the financial transaction with another person who is established in that Member State.

Furthermore, a financial institution will be treated as established in a participating Member State in respect of a financial transaction if it is a party (for its own account or for the account of another person) or is acting in the name of a party, to a financial transaction in respect of a financial



instrument issued within that Member State. The other party to such a transaction will also be treated as established in that Member State.

There are limited exemptions to the proposed FTT; one important exemption is the "primary market transactions" exemption which should cover the issuing, allotting, underwriting or subscribing for shares, bonds and securitised debt, but not derivative contracts.

Even though the FTT is to be introduced only in the participating Member States, it can be seen from what is said above that it could impact financial institutions operating inside and outside the 11 participating Member States, and the FTT could be payable in relation to Notes issued under the Programme if the FTT is introduced and the conditions for a charge to arise are satisfied.

The proposed FTT is still under review and it may therefore change before it is implemented. In particular, in April 2013, the UK Government announced that it is to challenge the legality of the way in which the proposed FTT will apply to financial institutions located in non-participating Member States. This challenge may lead to changes in the scope of the FTT.

It is currently proposed that the FTT should be introduced in the participating Member States on 1 January, 2014. Prospective holders of Notes are strongly advised to seek their own professional advice in relation to the FTT.

## **SUBSCRIPTION AND SALE**

The Dealers have, in an amended and restated programme agreement (the "Programme Agreement") dated 21 June 2013 agreed with the Issuers and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". In the Programme Agreement, the Issuers (failing which, where the Issuer is STUF, the Guarantor) have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code.

The Notes are subject to US 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 US Treasury regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

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

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

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

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

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

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the relevant Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Act No. 25 of 1948, as amended; the "FIEA") and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuers, the Guarantor or any of the other Dealers shall have any responsibility therefor.

None of the Issuers, the Guarantor or the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or

pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

## GENERAL INFORMATION

### Authorisation

The establishment, maintenance and operation of the Programme has been duly authorised by each of the Issuers and the Guarantor, most recently by resolutions passed at meetings of their respective Boards of Directors held on 24 May 2013 (in the case of Severn Trent), 24 May 2013 (in the case of STWL) and 19 June 2013 (in the case of STUF) and, in the case of Severn Trent and STWL, by resolutions passed at meetings of duly authorised Committees of their respective Boards of Directors passed on 20 June 2013 (in the case of Severn Trent) and 20 June 2013 (in the case of STWL).

Each issue of Notes will, where relevant, be approved by the relevant Board of Directors, a committee of the relevant Board of Directors or other authorised person(s) at or before the issue of such Notes.

### Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Global Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange's regulated market. The admission to the Official List of the Programme in respect of the Notes is expected to be granted on or before 21 June 2013.

### Documents available

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection during normal office hours from the registered office of each Issuer and from the specified offices of the Paying Agents for the time being:

- (i) the memorandum and articles of association of each of the Issuers and the Guarantor;
- (ii) (a) the audited consolidated annual financial statements of Severn Trent for the two financial years ended 31 March 2013 and 31 March 2012 together with the notes thereon and the audit reports prepared in connection therewith; (b) the audited non-consolidated annual financial statements of STWL for the financial year ended 31 March 2013 and the audited consolidated and non-consolidated annual financial statements of STWL for the financial year ended 31 March 2012, together with the notes thereon and the audit reports prepared in connection therewith. STWL does not currently prepare audited consolidated accounts; and (c) the audited non-consolidated annual financial statements of STUF in respect of the two financial years ended 31 March 2013 and 31 March 2012 together with the notes thereon and the audit reports prepared in connection therewith. STUF does not currently prepare audited consolidated accounts;
- (iii) the most recently published unaudited interim financial statements (if any) of each of the Issuers and STWL. Severn Trent currently prepares unaudited consolidated and unaudited non-consolidated interim accounts on a six monthly basis;
- (iv) the Programme Agreement, the Agency Agreement, the Trust Deed, the ICSD Agreements and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (v) a copy of this Prospectus;
- (vi) any future prospectuses and supplements, including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market situated or operating in the European Economic Area nor offered in the European Economic Area in circumstances where a Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its holding of Notes and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and

- (vii) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Clearing Systems**

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

The address of Euroclear Bank S.A./N.V. is 1 Boulevard de Roi, Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.

### **Conditions for determining price**

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

### **Significant or Material Change**

There has been no significant change in the financial or trading position of Severn Trent and its subsidiaries taken as a whole (the Group), no significant change in the financial or trading position of STWL and its subsidiaries taken as a whole and no significant change in the financial or trading position of STUF, in each case, since 31 March 2013. There has been no material adverse change in the prospects of Severn Trent and its subsidiaries taken as a whole, no material adverse change in the prospects of STWL and its subsidiaries taken as a whole and no material adverse change in the prospects of STUF, in each case, since 31 March 2013.

### **Litigation**

There are no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which any of the Issuers or the Guarantor is aware) in the 12 months preceding the date of this document which may have or have had a significant effect on the financial position or profitability of Severn Trent, the Group, STWL, STWL and its subsidiaries taken as a whole or STUF.

### **Auditors**

The auditors of each of Severn Trent, STUF and STWL are Deloitte LLP, Chartered Accountants. Deloitte LLP have audited the accounts of Severn Trent, STUF and STWL, without qualification, prepared in accordance with International Financial reporting Standards as adopted by the European Union, in the case of Severn Trent and in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), in the case of STUF and STWL, for the financial years ended 31 March 2013 and 31 March 2012.

The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any limit on liability of the Auditors.

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

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

### **RPI-Linked Notes**

The Retail Prices Index ("RPI") is the most familiar general purpose domestic measure of inflation in the UK. The RPI has been used as a measure of inflation since 1947 and measures the average change from month to month in the prices of goods and services purchased by most households in

the UK. The spending pattern on which the RPI is based is revised each year, mainly using information from official expenditure and food surveys.

The RPI is compiled by the UK Office of National Statistics ("ONS") using a large and representative selection of approximately 650 separate goods and services for which price movements are regularly measured in approximately 150 areas throughout the UK.

Approximately 120,000 separate price quotations are used each month in compiling the RPI. The UK Government currently uses the RPI for its own existing inflation-linked bonds. If the prices rise compared to the previous month, the RPI goes up and if prices fall compared to the previous month, the RPI goes down. It takes two or three weeks for the ONS to compile the RPI, so they publish each month's RPI figure during the following month, (e.g. the figure relating to March will be published in April). The RPI figures used in the calculation of interest payments on the Notes and the redemption amount of the Notes are numerical representations of where prices on a list of items bought by an average family stand at a point in time, in relation to their past values.

More information on the RPI, including past and current levels, can be found at the following website:

<http://www.statistics.gov.uk/hub/economy/prices-output-and-productivity/price-indices-and-inflation>.

Movements in the RPI are used to measure the effect of inflation on both the interest on, and the redemption amount of, the Notes as described herein.

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