

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://www.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 23 June 2015

*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" 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 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 depositary (the "Common Depositary") 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.

## TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE.....	1
OVERVIEW OF THE PROGRAMME .....	3
RISK FACTORS.....	7
FORM OF THE NOTES.....	14
FORM OF FINAL TERMS.....	17
TERMS AND CONDITIONS OF THE NOTES .....	26
USE OF PROCEEDS.....	59
CLEARING AND SETTLEMENT .....	60
DESCRIPTION OF SEVERN TRENT PLC.....	61
DESCRIPTION OF SEVERN TRENT UTILITIES FINANCE PLC.....	65
DESCRIPTION OF SEVERN TRENT WATER LIMITED .....	66
TAXATION .....	72
SUBSCRIPTION AND SALE .....	77
GENERAL INFORMATION.....	79

## 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 2015 (pages 92 to 146 (inclusive) of the Annual Report and Accounts 2015) and 31 March 2014 (pages 83 to 142 (inclusive) of the Annual Report and Accounts 2014) 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 2015 (pages 5 to 18 (inclusive) of the Report and financial statements for the year ended 31 March 2015) and 31 March 2014 (pages 5 to 18 (inclusive) of the Report and financial statements for the year ended 31 March 2014) respectively (including the notes thereto and the auditors' reports prepared in connection therewith);
- the audited non-consolidated annual financial statements of STWL for the two financial years ended 31 March 2015 (pages 50 to 92 (inclusive) of the Report and financial statements for the year ended 31 March 2015) and 31 March 2014 (pages 53 to 99 (inclusive) of the Report and financial statements for the year ended 31 March 2014) 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 2014 (pages 30 to 62 (inclusive)), 21 June 2013 (pages 34 to 66 (inclusive)), 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), with the exception of the audited non-consolidated annual financial statements of STWL which will be available on STWL's website at [www.stwater.co.uk](http://www.stwater.co.uk).

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, unsubordinated and (subject to the provisions of the negative pledge) unsecured obligations of the Guarantor and (subject as aforesaid and save for certain obligations required to be preferred by law) will rank 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 (as defined in Condition 7(e)). If, at any time while any such Note remains outstanding, a Put Event occurs, then (other than in certain circumstances described in Condition 7(e)) the holder of such Note will, upon the giving of a Put Event Notice (as defined in Condition 7(e)), have the option to require the relevant Issuer to redeem the Note on the Put Date (as defined in Condition 7(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 7(e)) occurs and, within the Restructuring Period (as defined in Condition 7(e)), certain other conditions described in Condition 7(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 Notes which may be 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 8, 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 these factors could have an adverse impact on the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

#### ***The Legal and Regulatory Environment***

The Group's businesses are subject to various laws and regulations in the United Kingdom and internationally. The legal and regulatory landscape is complex and subject to on-going change. It is expected that the water industry landscape will continue to evolve in coming years. Competition for non-household retail water sales in England will be liberalised from April 2017 and there is scope for competition in the wholesale business, for instance from a greater role for water trading.

The regulatory regime also makes consolidation between water company businesses less difficult than before. This could encourage companies to take innovative approaches to consolidation, for example by merging their wholesale operations to deliver efficiencies, while demerging their retail businesses.

There is a risk that the Group may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in its business plans becoming unsustainable. Whilst the Group is broadly content with the direction of changes proposed for the Group's industry, there remains a risk that future changes could have a significant impact on STWL.

There is also a risk that processes may fail or that the Group's processes may not effectively keep pace with changes in legislation leading to the risk of non-compliance with the legal and regulatory framework and enforcement by the Group's regulators (e.g. the Drinking Water Inspectorate ("DWI"), the Environmental Agency ("EA") and Ofwat).

The Group's policies and processes must reflect the current legal and regulatory environment and all relevant employees must be kept aware of new requirements. Due to the spread of the Group's operations, and changes in activity and organisational structure this is not always straightforward.

The Group as a whole may face censure for non-compliance in an individual Group company or a specific region in which it operates.

A description of STWL's terms of appointment is set out in more detail in "*Description of Severn Trent Water Limited – STWL's Appointment Conditions*". STWL is price-regulated with the prices it is able to charge its customers agreed with Ofwat by reference to its forward business plans. STWL would need consent from Ofwat to increase its prices in the event of any unexpected cost increases under the terms of its license.

Non-compliance with the STWL licence requirements can result in censure or monetary fines of up to 10% of turnover and more serious breaches could result in modifications to the licence or to the termination of the licence and potentially the appointment of a special administrator. 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.

### ***Operational Performance***

STWL may fail to meet its regulatory targets, including targets from Ofwat in relation to operational performance of its assets resulting in regulatory penalties.

In AMP6 company performance is measured against metrics called Output Delivery Incentives (ODIs). ODIs allow companies to earn more for outperformance or suffer penalties for underperformance. ODIs apply to all of STWL's water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.

If STWL is unable to meet operational performance targets, it may be subjected to significant regulatory penalties either within the current price review period, or applied to the next price review.

The failure to meet regulatory targets could have an adverse impact on the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

### ***Customer Service***

The Group may be unable to improve and maintain levels of customer service sufficiently to meet customer expectations. Failure to deliver the service customers expect will lead to customer dissatisfaction. As a regulated utility which provides essential services, customer trust is vital to maintain legitimacy. Customers are increasingly expecting more as other industries improve their levels of service; the bar is constantly being raised.

If the Group is unable to provide the level of service to meet customers' expectations it may also suffer financial penalties under Ofwat's Service Incentive Mechanism (SIM).

The failure to improve and maintain customer services standards and to meet customer expectations and SIM targets could have an adverse impact on the Issuers' and the Guarantor's ability to fulfil their respective obligations under the Notes.

### ***Competition in the market***

Competition for non-household retail water sales in England will be liberalised from April 2017. The Group may be unable to take full advantage of the opportunities presented by the opening up of the business retail market to competition and may lose income as a result of business retail customers moving to competitors. In addition, the Group may fail to successfully grow the business by being unable to develop sufficiently attractive services to win new customers.

The failure to adapt effectively to increased competition in the market 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.

### ***Failure of the Group's assets, processes or systems***

Failure of certain key assets or processes may result in an inability to provide a continuous supply of quality water to large populations within STWL's area, or damage to third party property or injury or ill health to STWL's employees, contractors and members of the general public.

Some of STWL's assets are critical to the provision of water to large populations for which there are limited alternative means of supply. Failure of some of STWL's assets or processes could also

result in injury or ill health. Examples include failure of one of STWL's reservoirs or use of chemicals in STWL's treatment processes. If a failure were to occur the consequence would result in temporary inability to continue to serve STWL's customers

In addition, the Group's IT and telephony systems are critical to the Group's operations and failure of these systems, for example the Group's remote monitoring system, could have a significant effect.

The Group may experience loss of data or interruptions to a key business system as a result of cyber threats. The risks arising from loss of one or more of the major systems or corruption of data held in those systems could have far reaching effects on the business.

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.

### ***Pensions***

Changing demographics and fluctuations in the investment market may affect the ability of the Group to fund pension promises sustainably. As at 31 March 2015 the net position of the Group's pension schemes was a liability of £468.9 million. 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 future.

The impact of the financial market factors on the Group's financial position, in particular 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.

### ***Regulatory ring-fencing of STWL***

A substantial part of the Group's operations are conducted through STWL and its subsidiaries and a significant part of the Group's consolidated indebtedness has been incurred through the issue of Notes by STUF, guaranteed by STWL. Severn Trent is and will be dependent on the operations of STWL to service its indebtedness, including interest and principal on any Notes issued by Severn Trent and its obligations under Notes issued by it are structurally subordinated to all existing and future liabilities and obligations of STWL and its subsidiaries. As part of the regulatory requirements affecting STWL, entities within the regulated water business may not assume direct responsibility for businesses outside the regulated group. Accordingly, Severn Trent's obligations will not be guaranteed by any of its subsidiaries. Claims of creditors of such companies will have priority as to the assets of such companies over Severn Trent and its creditors. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of Severn Trent, creditors of such subsidiary generally will have the right to be paid in full before any distribution is made to Severn Trent. Notes issued under the Programme do not contain any restriction on the ability of STWL or its subsidiaries to incur additional indebtedness.

### **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 would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a 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 at or in excess of the minimum Specified Denomination 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 Tax Directive – The Notes might be subject to withholding taxes in circumstances in which the Issuer is not obliged to make gross-up payments, which would result in Noteholders receiving less interest than expected and could materially adversely affect their return on the Notes*

Under EC Council Directive 2003/48/EC on the Taxation of Savings Income (the "EU Savings Tax Directive"), Member States are 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, except that Austria is required to impose a withholding system in relation to such payments for a transitional period (unless during such period it elects otherwise) (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 have adopted similar measures (for example, a withholding system in the case of Switzerland).

On 24 March, 2014, the European Council adopted an EU Council Directive ("Amending Directive") amending and broadening the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January, 2017, and if they were to take effect, the changes would expand the range of payments covered by the EU Savings Tax Directive, in particular to include additional types of income payable on securities. The Amending Directive would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU. However, on 18 March, 2015, the European Commission proposed the repeal of the EU Savings Tax Directive from 1 January, 2017, in the case of Austria and from 1 January, 2016, in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations, such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates and to certain other transitional provisions in case of Austria). This is to prevent overlap between the EU Savings Tax Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through a Member State that 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 or 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 that is not located in a Member State that will oblige such Paying Agent to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, the EU Savings Tax 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 and Clearstream, Luxembourg (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 and 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 made payment to, or to the order of, 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 the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "IGA") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

#### *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 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 issue date of the relevant 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, as stated in the applicable Final Terms, be delivered on or prior to the issue date of the relevant Tranche to a 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 (other than Temporary Global Notes) and on all Coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms:

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

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] [and the supplement(s) to it dated [date]] which [together] constitute[s] 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 [as so supplemented]. 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 [as so supplemented]. The Prospectus [and the supplement(s) to it dated [date]] [is/are] 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 [current 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 [current date] [and the supplement(s) to it dated [date]] which [together] constitute[s] 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 [current date] [and the supplement(s) to it dated [date]]. The Prospectus [and the supplement(s) to it dated [date]] [is/are] 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)]
16.	<b>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)]
17.	<b>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 Redemption Amount: [Not Applicable/[ ] per Calculation 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): [No][Yes, as the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made]

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. **[FLOATING RATE NOTES ONLY – HISTORIC INTEREST RATES]**  
Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]
7. **[RPI-LINKED NOTES ONLY – PERFORMANCE OF INDEX AND OTHER INFORMATION]**

## CONCERNING THE UNDERLYING

- (i) Name of underlying index: [UK Retail Price Index (RPI)]
- (ii) Information about the index, its volatility and past and future performance can be obtained from: [More information on [RPI / comparable index which may replace RPI] including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of RPI, can be found at [www.statistics.gov.uk / relevant replacing website]]

## 8. 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:

" $IFA_d$ " is the Index Figure applicable to date d;

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

" $RPI_{m-N}$ " is the Index Figure published in the month falling N months prior to month m and relating to the month before that of publication;

" $RPI_{m-(N-1)}$ " 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;

" $D_1$ " 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, " $D_1$ " shall be zero); and

" $D_2$ " 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 unmatured 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 unmatured 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) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 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 Depository 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 depository 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 ("STS") (see below "Severn Trent Services"). Details of the principal operating subsidiaries are set out at Note 45 to the audited annual financial statements of Severn Trent for the financial year ended 31 March 2015. 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 2015, was £1,801.3 million with the underlying profit before interest tax and exceptional items ("PBIT") being £540.3 million. This turnover consisted of £1,581.2 million (with £539.0 million underlying PBIT) for the Severn Trent Water reportable segment and £216.3 million (with £9.7 million underlying PBIT) for the STS reportable segment. As at 31 March 2015, the issued share capital of Severn Trent is £233.7 million divided into 238,683,513 ordinary shares of 97 17/19p, each of which is fully paid.

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

### Severn Trent Services

Severn Trent Services currently comprises the Group's core non-regulated businesses operating in the UK; the Americas; Asia Pacific and China; Europe; the Middle East and Africa and comprises four business streams:

- UK Operating Services - UK Operating Services provides contract services for municipal and industrial clients and the UK Ministry of Defence for design, build and operation of water and waste water treatment facilities and networks. Retail services are also provided to UK businesses.
- US Operating Services - US Operating Services provides contract services to community, municipal and industrial clients for the operation and maintenance of water and waste water treatment facilities and networks.
- Water Purification Products - Water Purification Products provides filtration, disinfection and process solution technologies for various municipal and industrial water and waste water treatment applications and for the marine and offshore industries (see "Recent Developments, Trends, Uncertainties and Demands" below for further information in relation to the planned disposal of the water purification business).
- Renewable Energy - Severn Trent's non-regulated business already generates renewable energy from wind turbines and anaerobic digestion (AD) of crops. Severn Trent are now expanding into the food waste AD market and plan to develop other technologies.

The Group's Operating Services' strategy is to continue growing the business in the US and Europe. Water supply services across the UK are changing, with legislation giving businesses a

choice from whom they buy their water and waste water services. Operating Services is pursuing this open market movement, helping businesses achieve optimum water and waste water management through enhanced services.

Severn Trent Water Purification's strategy is to introduce next generation products for traditional markets and develop technologies to address water purification needs in new countries.

In respect of renewable energy, the Group is looking to identify new opportunities in energy generation. The Group is expanding into the food waste market. A new facility at Coleshill, UK will convert up to 44,000 tonnes of food waste into 17,026 MWh of electricity and approximately 30,000 tonnes of biofertiliser for agriculture per year by 2016. The Group plans to investigate the development of other technologies including photovoltaics and biomass combustion.

**Recent Developments, Trends, Uncertainties and Demands**

On 13 May 2015 Severn Trent announced that it agreed to sell its water purification business to its joint venture partner Industrie De Nora. The proceeds received from the transaction will be US\$ 81.2 million (£50.8 million) and will be used for general corporate purposes. The sale is expected to complete on or around 30 June 2015. The business was treated as a discontinued operation in Severn Trent accounts for the year ended 31 March 2015.

**Governance**

**The Board**

Details of the board of Directors of Severn Trent are set out below. There are regular scheduled meetings of the board and of its permanent committees throughout the year and any additional meetings and ad hoc committee meetings are convened as and when required.

**Directors of Severn Trent**

The Directors of Severn Trent, their functions within Severn Trent and their principal activities outside the Group are as follows:

<i>Name</i>	<i>Function within Severn Trent</i>	<i>Principal activities outside the Group</i>
James Bowling	Chief Financial Officer	
John Coghlan	Independent Non-Executive Director	Chairman of Inchcape Shipping Services Non-Executive director and Chairman of the Remuneration Committee of Lavendon Group plc Chairman of Freight Transport Association Ireland Limited
Andrew Duff	Non-Executive Chairman	Non-Executive Chairman and Chairman of the Nomination Committee of Elementis Plc Trustee of Macmillan Cancer Support and Earth Trust Fellow of the Energy Institute Member of CBI President's Committee

Gordon Fryett	Independent Non-Executive Director	Alumnus of INSEAD Non-Executive director of W&J Linney Group Ltd
Liv Garfield	Chief Executive	
Martin Lamb	Independent Non-Executive Director	Chairman of Rotork Plc Chairman of Evoqua Water Technologies LLC Non-Executive director of Mercia Technologies Plc Member of the Advisory Board of AEA Investors Management (UK) Ltd
The Hon. Philip Remnant	Independent Non-Executive Director	Senior Independent Director and member of the Audit, Nominations and Remuneration Committees of Prudential plc Deputy Chairman of the Takeover Panel Non-Executive Director of UK Financial Investments Limited Non-Executive Chairman of City of London Investment Trust Plc Governor of Goodenough College Trustee of St Paul's Cathedral Foundation
Dr Angela Strank	Independent Non-Executive Director	Board of Governors of University of Manchester University College London, Energy Institute International Advisory Board

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.

The Board has a full documented process in place to identify and if required authorise situational conflicts in accordance with the provisions of the Companies Act 2006 and under Severn Trent's

Articles of Association. An annual review of conflicts is carried out with a simultaneous review of the Severn Trent Gifts and Hospitality Register, and is incorporated into the year-end process of verifying directors' interests.

During the 2014/15 financial year, the nominations committee of the board discussed the proposed management of the situational conflict created by Martin Lamb's Chairmanship of Evoqua Water Technologies. Given the benefits of Martin Lamb's valuable contribution to the board as a recently retired Chief Executive and the relative insignificance of the Business Services WP business ("WP") in the context of the Group as a whole, the Committee considered that it could recommend authorisation of the conflict and the proposed means of management by the board, provided such was made transparent and kept under regular review to ensure that the board's effectiveness was not compromised. The management of this conflict through redaction of papers and absence from discussions on WP specific matters was also adopted by the audit committee of the board. With the disposal of WP, which was announced on 13 May 2015, this will no longer be necessary.

Other than as described above, 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>
Mark Dovey	Director	Group Tax Manager
Bronagh Kennedy	Director	General Counsel and Company Secretary
Robert McPheely	Director	Financial Controller
John Jackson	Director	Group Treasurer

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 largest of the ten regulated water and sewerage companies in England and Wales (each a "WASC"). Its region 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 more than 3.3 million households and businesses. In the year ended 31 March 2015 STWL supplied an average of 1.8 billion litres of drinking water per day and removed approximately 1.4 billion litres of wastewater per day. South Staffordshire Water Plc supplies a part of the region's water requirements.

### Vision and Strategy

STWL's vision is to be the UK's most trusted water company by 2020. STWL's strategy is to transform service today, drive growth and shape the water industry for tomorrow for the mutual benefit of its customers, communities and investors. This is intended to be achieved by:

- embedding customers at the heart of the business by improving the way customers engage with the company through improved insight and understanding what's important to them;
- driving operational excellence and continuous improvement by building a smart water and waste water network, developing business intelligence and simplifying cross business processes;
- investing responsibly for sustainable growth by developing an effective strategy which optimises the regulated asset base, whilst creating new growth opportunities for the future;
- changing the market for the better, by embracing market opening in the UK and exploring opportunities for growth in the new water markets worldwide; and
- creating a positive work environment by creating a culture of empowerment and accountability with a focus on skills, talent and career development.

### Investment Programme

In the year ended 31 March 2015, STWL successfully completed its AMP5 investment programme. Investment of £547.4 million during the year brought total expenditure for the last five years to £2.6 billion. The 2014/15 programme included:

- investment in mains replacement;
- improving the resilience of the company's water treatment works, including the company's largest works at Frankley, in Birmingham;
- further improvements at the company's waste water treatment works to ensure they continue to comply with regulatory requirements;
- expenditure on sewer replacement and sewer flooding schemes; and
- continuing to grow STWL's renewable energy assets within the regulated business, by installing more combined heat and power plants.

The expenditure in the year ended 31 March 2015 also included £60 million of investment brought forward from AMP6 to improve sewer flooding performance and to invest in mains resilience. By carrying out feasibility studies and design work on planned water quality schemes for AMP6 in the 2015 investment programme we expect to be able to implement these schemes 18 months ahead of schedule.

The investment programme for the next five years under AMP6 will total £3.3 billion (based on 2012/13 prices) and is expected to deliver further benefits for customers, in terms of service quality and value for money, as well as improving the environmental impact of STWL's services. The investment will be spread across the Group's businesses and is designed to improve serviceability, reliability and resilience.

The largest single scheme in the plan – and the largest by any WASC during AMP6 – is the first phase of the Birmingham Resilience Scheme. A major source of Birmingham's water is the Elan Valley aqueduct, which is more than 100 years old. Over the next five years, STWL plans to construct facilities to allow it to abstract water from the Severn River and pipe it for treatment at Frankley, providing a new supply for Birmingham. STWL will then be able to take the Elan Valley aqueduct out of service to enable essential renovations to be carried out over subsequent AMPs.

### **The water and sewerage industry**

The water and sewerage industry in England and Wales delivers services to homes and businesses of over 50 million people. There are 19 regional suppliers, who serve the majority of these customers and ten of the regional companies – including STWL – provide water and sewerage services. The other nine suppliers provide water services only.

The UK water industry was privatised in 1989 and has attracted more than £4 billion of private investment every year to improve operational performance and make customer service improvements. As a result, drinking water quality in England and Wales is among the highest in the world.

The industry also makes a substantial contribution to the economy, estimated at £15 billion a year for the UK as a whole, and directly or indirectly supports the equivalent of 127,000 full-time jobs.

Despite the sector's progress since privatisation, it still faces substantial challenges which need to be met while still keeping bills affordable for customers. In particular:

- Much of the sector's infrastructure is ageing. For example, 20 per cent. of STWL's sewers and 10 per cent. of its water mains are more than 100 years old, which means there is a need to continue to reinvest in the renewal of the networks.
- The UK is experiencing more extreme weather. This means STWL needs to build additional resilience, so it can cope with increased flooding and periods of drought.
- The UK's population is growing, which is adding to the pressure on water resources and STWL's networks. STWL serves 3.1 million households with about 20,000 households being added each year. STWL needs to ensure it has the additional infrastructure in place to serve these new customers.
- STWL's customers expect continuing improvements in levels of service in terms of quality levels and response times while also expecting their bills to remain stable or reduce, making it ever more challenging for all organisations to meet their customers' expectations.
- The water industry has to compete for global capital to invest in the required infrastructure and improved service levels. The sector must remain an attractive investment opportunity for equity and debt investors.

### **Regulatory Environment**

Severn Trent Water is a regulated business. The water industry works within 5 year regulatory planning cycles, known as Asset Management Plan (AMP) periods. The financial year ended 31 March 2015 was the last in AMP5, and AMP6 started on 1 April 2015.

The industry operates within the following policy and regulatory framework:

- The European Union (EU) sets water, waste water and environmental standards across member countries.
- The UK Government sets the overall water and sewerage policy framework. This is done by the Department for Environment, Food and Rural Affairs (Defra) in England, and by the Welsh Government in Wales.

- Ofwat is STWL's economic regulator, which means that it sets the prices water companies can charge their customers in each AMP period, and ensures that they carry out their functions properly and are appropriately financed.
- The DWI is the drinking water quality regulator and makes sure water companies comply with the water quality regulations.
- The EA is the environmental regulator in England. It controls water abstraction, river pollution and flooding.
- Natural Resources Wales is the environmental regulator in Wales. It ensures that the country's natural resources are sustainably maintained, enhanced and used.

STWL, and other water companies, also work with other agencies, including:

- Natural England, which protects and improves England's natural environment; and
- the Consumer Council for Water (CCW), which represents the industry's customers.

### The regulatory regime for AMP6

During 2014, Ofwat concluded its periodic price review for AMP6, which runs from April 2015 to March 2020 ("PR14"). As part of its periodic AMP reviews, Ofwat sets the prices a water company can charge its customers which are intended to allow the companies to finance their operations and earn a reasonable return on capital. As part of the AMP6 process, Ofwat has set separate, binding revenue caps for water wholesale and wastewater wholesale activities, with an inflation adjustment. Ofwat has also set controls for the pricing of household retail activities (based on an "average cost to serve") and non-household retail activities (where "default tariffs" are set to protect customers who do not or are not able to switch). All but one of the 19 wholesale water companies have agreed business plans with Ofwat, setting out their performance commitments during AMP6 and the level of bills that their customers will pay.

STWL's approved AMP6 business plan provides for a basic wholesale weighted average real cost of capital of 3.6 per cent. and net profit margins of 1 per cent. and 2.5 per cent. for household retail and non-household retail, respectively. This equates to a base return on regulatory equity ("RoRE") of 5.7 per cent., before incentives based on Ofwat's view of a notional company's capital structure.

Key features of the regulatory regime for AMP6 include:

- **Greater flexibility to spend money where it is most needed.** In previous AMPs, approved expenditure was split between capital expenditure (Capex), to meet long term investment needs, or operating expenditure (Opex), to meet day-to-day running costs. The ability to earn a return on Capex under AMP5 arguably incentivised companies to be risk averse, and seek Capex solutions to issues, even if Opex might be more efficient. In AMP6 Ofwat has considered expenditure on a total expenditure (Totex) basis, removing the Capex bias so companies are encouraged to choose the most sustainable, cost effective and innovative solutions to meet their commitments. Companies are also incentivised to outperform the Totex expenditure limits through a gain sharing incentive mechanism where companies are allowed to retain a proportion of any efficiency gains and customers benefit from lower bills in the future.
- **Aligning the interests of customers and investors.** In AMP6, company performance is measured against metrics known as Output Delivery Incentives (ODIs). While failure to achieve targets can lead to penalties, as in previous AMPs, many of these ODIs also include incentives for companies to outperform. Ofwat encouraged companies to set high level outcomes and performance commitments, in consultation with their customers and stakeholders. ODIs are based on what the customer engagement told STWL was important to them, outperformance means that both customers and companies benefit. Ofwat have imposed an overall cap and collar on ODIs of plus or minus 2 per cent. of the RoRE.

- **A better environment.** Several ODIs are designed to deliver important environmental improvements, such as better river water quality, which focuses companies on achieving their environmental commitments over the next five years.
- **Reduced bills for customers.** While customers must be willing and able to pay for the costs of the programmes STWL will deliver during AMP6, they will benefit from rising standards as well as an average reduction in bills of 5 per cent. across the industry. Water companies are also required to be doing substantially more to help people who struggle to pay their bills, for example by improving the social tariffs they offer.

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

STWL holds an 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 Industry Act 1991. The Appointment may be terminated on 25 years' notice (although it may be terminated or transferred prior to the end of that period in certain circumstances which are specified in the Water Industry Act 1991 or in the Appointment).

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

- provisions relating to the operation of price control (see the section entitled "The regulatory regime for AMP6" above);
- 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 and Markets Authority ("CMA") for a decision on public interest grounds. Appointment modifications can also result, in certain circumstances, from a merger or market investigation reference to the CMA.

### *Interim Determinations and 'Shipwreck' Clauses*

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 the periodic price reviews. This is known as an Interim Determination of K ("IDOK").

The circumstances in which an IDOK is available include changes in certain legal obligations and certain drinking water and environmental obligations as well as changes in costs relating to issues specified at the time of the price review. Following PR14 STWL has one outstanding notified item in relation to "cumulo rates" (business rate charges for the water wholesale). STWL is expecting a ruling on the charge from the Valuation Office Agency in 2016, it is not known at this stage whether it will submit an associated IDOK during the PR14 period.

STWL can appeal to the CMA with respect to any price limits which are set by Ofwat pursuant to a periodic review or IDOK. The CMA 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 on its business (equivalent over five years to more than 20 per cent. of annual revenue).

### **Enforcement and Special Administration Regime**

The Water Act 2003 gives Ofwat the power to impose financial penalties on the statutory undertaker 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 10 per cent of the undertaker's relevant regulated turnover. In addition, where Ofwat is satisfied that an undertaker 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 the undertakers principal statutory duties under the Water Industry Act 1991) is so serious as to make it inappropriate for the undertaker 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 the undertaker is, or is likely to be, unable to pay its debts.

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 undertaker 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 an undertaker 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 undertaker 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, an undertaker 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, an undertaker 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 undertaker. 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 was limited provision for competition; and there was a special merger regime applying to mergers between such undertakers which is additional to and more restrictive than the general United Kingdom merger control regime.

The Water Act 2003 provided for extending competition through new entrants. Water supply competition was opened up in December 2005, when very large non-household customers (those with an annual consumption of over 50 megalitres per year at each site) were allowed to choose

their water supplier. Under this arrangement, the new water supplier would buy water directly from the regional water company and be allowed to use their network for this water supply.

In December 2011, this market was opened up further, with the threshold being reduced to five megalitres a year. To date very few customers have switched supplier in England and Wales.

The new Water Act 2014 reduces the water supply threshold to zero for non-household customers and also was expanded to include sewerage as well as water services. The target date for market opening is currently April 2017. This will effectively open up retail competition for all non-household customers in England. The UK Government has not expressed any intention to expand competition to include household customers.

The Water Act 2014 also introduces a range of other measures to facilitate competition. These include a power for Ofwat to compel a water company to supply water in bulk and to grant access to its sewerage system to other companies. The Water Act 2014 also makes provision for Ofwat to publish codes and rules regarding the terms and conditions of bulk supply or access and the charges that companies can levy.

The Water Act 2014 also paves the way for the future introduction of competition for certain parts of the upstream wholesale business (for example the input of raw or treated water into a water company's network or the removal of wastewater for treatment). The introduction of significant upstream reforms is not currently expected before 2020.

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

The water and wastewater industry in the United Kingdom 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 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.

### **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 United Kingdom 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 must generally be withheld from payments of interest paid by the Issuers on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.). 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 2015 and has not announced that this position has changed.

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 2 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 2 above.

6. *Interpretations*

The references to "interest", "discount" and "premium" in this section mean "interest", "discount" and "premium" as understood in United Kingdom tax law. The statements in this

section do not take account of any different definitions of "interest", "discount" and "premium" 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 the EU Savings Tax Directive, Member States are 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, Austria is instead required (unless during that period it elects 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 (for example, a withholding system in the case of Switzerland).

On 24 March, 2014, the European Council adopted the Amending Directive amending and broadening the scope of the requirements described above. The Amending Directive requires Member States to apply these new requirements from 1 January, 2017, and if they were to take effect the changes would expand the range of payments covered by the EU Savings Tax Directive, in particular to include additional types of income payable on securities. The Amending Directive would also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the EU. However, on 18 March, 2015, the European Commission proposed the repeal of the EU Savings Tax Directive from 1 January, 2017, in the case of Austria and from 1 January, 2016, in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations, such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates and to certain other transitional provisions in case of Austria). This is to prevent overlap between the EU Savings Tax Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

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

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and potentially a 30 per cent. 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 new withholding regime is now in effect 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 "foreign passthru payments" 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 after the "grandfathering date", which is 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 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 on or before the grandfathering date, and additional Notes of the same series are issued 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 entered into IGAs to facilitate the implementation of FATCA. 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 an IGA jurisdiction generally should 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. 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.

Whilst the Issuers do not expect to be treated as FFIs, were they to be classified as such, they would expect to be treated as Reporting FIs pursuant to the US-UK IGA and therefore do not anticipate being obliged to deduct any FATCA Withholding on payments they make. There can be no assurance, however, that the Issuers will not be treated as FFIs, or 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 Depository/Common Safekeeper, given that each of the entities in the payment chain between the relevant Issuer and, if applicable, the Guarantor and 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 Notes. 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.

#### **THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive to establish a common financial FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The Commission's Proposal has very broad in scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of Notes are 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 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, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

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

- (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 20 May 2015 (in the case of Severn Trent), 20 May 2015 (in the case of STWL) and 17 June 2015 (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 15 June 2015 (in the case of Severn Trent) and 15 June 2015 (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 26 June 2015.

### 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 2015 and 31 March 2014 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 two financial years ended 31 March 2015 and 31 March 2014 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 2015 and 31 March 2014 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 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; and
- (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.

### 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 2015. 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 2015.

### **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 2015 and 31 March 2014.

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 have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuers, the Guarantor and their respective affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers, the Guarantor and their respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or the Issuers' respective affiliates. Certain of the Dealers or their

affiliates that have a lending relationship with the Issuers and Guarantor routinely hedge their credit exposure to the Issuers and / or the Guarantor consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **RPI-Linked Notes**

The RPI is the most familiar general purpose domestic measure of inflation in the United Kingdom. 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 households in the United Kingdom. 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 United Kingdom Office of National Statistics ("ONS") using a large and representative selection of separate goods and services for which price movements are regularly measured throughout the United Kingdom.

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>.

## THE ISSUERS

**Severn Trent Plc**  
Severn Trent Centre  
2 St John's Street  
Coventry CV1 2LZ  
United Kingdom

**Severn Trent Utilities Finance  
Plc**  
Severn Trent Centre  
2 St John's Street  
Coventry CV1 2LZ  
United Kingdom

## THE GUARANTOR

**Severn Trent Water Limited**  
Severn Trent Centre  
2 St John's Street  
Coventry CV1 2LZ  
United Kingdom

## THE TRUSTEE

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

## THE AGENT

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

## PAYING AGENT

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

## LEGAL ADVISERS

*To the Issuers and the  
Guarantor as to English law*  
**Herbert Smith Freehills LLP**  
Exchange House  
Primrose Street  
London EC2A 2EG  
United Kingdom

*To the Dealers and the Trustee  
as to English law*  
**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
United Kingdom

## **AUDITORS**

**Deloitte LLP**  
Four Brindleyplace  
Birmingham B1 2HZ  
United Kingdom

## **DEALERS**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**BNP Paribas**  
10 Harewood Avenue  
London NW1 6AA  
United Kingdom

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

**The Royal Bank of Scotland plc**  
135 Bishopsgate  
London EC2M 3UR  
United Kingdom