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BRISTOL WATER PLC

(incorporated in England and Wales with limited liability with registered number 2662226)

£40,000,000

2.701 per cent. Index-Linked Secured, Guaranteed Bonds due 2041

**guaranteed by Bristol Water Core Holdings Limited
(incorporated in England and Wales with limited liability
with registered number 4637554)**

The £40,000,000 Index-Linked Secured, Guaranteed Bonds (the "**Bonds**") will be issued by Bristol Water plc (the "**Issuer**") and guaranteed by Bristol Water Core Holdings Limited (the "**Guarantor**"). Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Dates falling on 25 March and 25 September in each year, with the first payment being made on the Interest Payment Date falling on 25 September 2011. Payments on the Bonds will be made without deduction for or on account of taxes of the Issuer to the extent described under "*Terms and Conditions of the Bonds - Taxation*".

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount (as adjusted for indexation) on 25 March 2041. The Bonds are subject to redemption in whole at their principal amount (as adjusted for indexation), together with interest accrued to the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom (see Condition 7(b) (*Redemption for taxation reasons*)) or in the event of the occurrence of an Index Event (as defined in the Conditions) (see Condition 7(c) (*Redemption for Index Event*)). The Bonds may also be redeemed at the option of the Issuer in whole at any time at a price which shall be the higher of their principal amount (as adjusted for indexation) and an amount calculated by reference to the relevant United Kingdom Government stock, together with any interest accrued to but excluding the date of redemption (see Condition 7(d) (*Redemption at the option of the Issuer*)).

The Bonds will constitute obligations of the Issuer. See "*Terms and Conditions of the Bonds — Status*".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Bonds 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 Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Bonds being "listed" (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The denomination of the Bonds shall be £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000.

The Bonds will initially be represented by a temporary global bond (a "**Temporary Global Bond**"), without interest coupons, which will be deposited with a common depositary on behalf of the Clearstream, Luxembourg and Euroclear systems on or about 25 March 2011 (the "**Closing Date**"). The Temporary Global Bond will be exchangeable for interests recorded in the records of Euroclear and Clearstream, Luxembourg in a permanent global bond (a "**Global Bond**"), without interest coupons, on or after a date which is expected to be 4 May, upon certification as to non-U.S. beneficial ownership. The Global Bond will be exchangeable for definitive Bonds in bearer form in the denomination £100,000 not less than 60 days following the request of the Issuer or the holder in the circumstances set out in it. No definitive Bonds will be issued with a denomination above £199,000. See "*Summary of Provisions relating to the Bonds while in Global Form*".

The Bonds are expected to be rated Baa1 by Moody's Investors Service Limited ("**Moody's**"). A 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.

The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by Moody's upon registration pursuant to the CRA Regulation. Moody's is established in the European Union and has applied to be registered under the CRA Regulation, although the result of such application has not yet been determined.

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

HSBC

Prospectus dated 23 March 2011

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC and for the purpose of giving information with regard to the Issuer and the Guarantor and the Bonds which according to the particular nature of the Issuer, the Guarantor and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor.

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (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.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Manager (as defined in “*Subscription and Sale*” below) to subscribe or purchase, any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Manager to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus, see “*Subscription and Sale*” below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Manager. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Manager accepts no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by the Manager or on its behalf in connection with the Issuer, the Guarantor or the issue and offering of the Bonds. The Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “**Sterling**” and “**£**” are to the lawful currency for the time being of the United Kingdom.

In connection with the issue of the Bonds, HSBC Bank plc (the “**Stabilising Manager**”) (or any person acting on behalf of any Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the 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 Bonds 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 Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising

Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Documents Incorporated by Reference

This Prospectus should be read and construed in conjunction with the audited financial statements of the Issuer for the year ended 31 March 2010 and for the year ended 31 March 2009, together in each case with the auditors' report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall 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, except as so modified or superseded, constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer and may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>. The contents of this website, other than copies of those documents deemed to be incorporated by reference into this Prospectus, are for information purposes only and do not form part of this Prospectus.

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Overview

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. Words and expressions not defined in this section shall have the same meanings as defined elsewhere in this Prospectus.

Issuer:	Bristol Water plc, a company incorporated with limited liability under the laws of England and Wales (Registered Number 2662226), which holds an Instrument of Appointment dated 1 August 1989 under sections 11 and 14 of the Water Act 1989 (now Sections 6, 7, 11 and 12 of the Water Industry Act 1991) under which the Secretary of State for the Environment appointed Bristol Waterworks Company (now Bristol Water plc) as a water undertaker under the Water Industry Act 1991 for the areas described in the Instrument of Appointment.
Guarantor:	Bristol Water Core Holdings Limited, a company incorporated with limited liability under the laws of England and Wales (Registered Number 4637554).
Manager:	HSBC Bank plc
Bond Trustee:	Capita Trust Company Limited
Security Trustee:	Capita IRG Trustees Limited
Paying Agent:	Citibank, N.A., London Branch
Bonds:	£40,000,000 2.701 per cent. Index-Linked Secured, Guaranteed Bonds due 2041
Issue Price:	100.00 per cent.
Closing Date:	25 March 2011
Use of Proceeds:	The proceeds of the issue of the Bonds will be used by the Issuer for general corporate purposes. See “ <i>Use of Proceeds</i> ”.
Status of Bonds:	The Bonds are senior and secured obligations of the Issuer and at all times shall rank <i>pari passu</i> with all Qualifying Debt. The Bonds are guaranteed by the Guarantor.
Status of Guarantee:	The guarantee by the Guarantor is a secured, unsubordinated and unconditional obligation of the Guarantor, and is secured by the Security Documents.
Form and Denomination:	The Bonds will be issued in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000. No definitive Bonds will be issued with a denomination above £199,000.
Maturity Date:	The maturity date of the Bonds is 25 March 2041.
Redemption and Purchase:	See “ <i>Terms and Conditions of the Bonds</i> ”.
Artesian Financing:	In May 2003, the Issuer and the Guarantor entered into certain financing arrangements (the “ Artesian Financing ”) pursuant to which loan facilities in aggregate of £45 million were made available to the Issuer by The Royal Bank of Scotland plc

(“RBS”) and novated to Artesian Finance plc and Artesian Finance II plc (together, the “**Artesian Companies**”) (each an “**Artesian Loan**” and together, the “**Artesian Loans**”). The Artesian Companies advanced a further £53.5 million to the Issuer in February 2004 and £50.1 million in June 2005 under the Artesian Loans. The Artesian Loans represent Qualifying Debt (as defined below) under the terms of the STID (as defined below) and, as at the date of this Prospectus, represent £167.6 million of the aggregate principal amount outstanding under all Qualifying Debt of the Issuer. The Artesian Companies are special purpose vehicles established to finance U.K. water companies through the issuance of bonds guaranteed by a monoline insurer, Assured Guaranty (Europe) Ltd (formerly Financial Security (U.K.) Limited) (“AGE”). As part of the Artesian Financing, the Issuer and the Artesian Companies agreed to establish a common covenant and common security package for the benefit of all Qualifying Debt (as defined below) issued by the Issuer from time to time (see “*Intercreditor Arrangements*” below). For a further explanation of the Artesian Financing, see the section entitled “*Intercreditor and Security Arrangements – The Artesian Financing and Qualifying Debt*”.

Other Existing Qualifying Debt:

In addition to the Artesian Loans, other Qualifying Debt of the Issuer as at 28 February 2011 comprises loans made to the Issuer by The Royal Bank of Scotland plc, loans made to the Issuer by HSBC Bank plc and certain finance leases, amounting to a total of £47.6 million (excluding, for the avoidance of doubt, the Bonds). The Bonds, when issued, will also constitute Qualifying Debt. For more information on the existing Qualifying Debt of the Issuer, see the section entitled “*Intercreditor and Security Arrangements – The Artesian Financing and Qualifying Debt*”.

Intercreditor Arrangements:

As part of the Artesian Financing, the Issuer, the Guarantor, the Artesian Companies and the Security Trustee entered into a security trust and intercreditor deed dated 7 May 2003 (as amended and restated on 12 February 2004 and 15 June 2006) (the “**STID**”). The Bond Trustee shall, for itself and on behalf of Bondholders, accede to the STID by executing a Deed of Accession on or before the Closing Date. The STID, among other things, sets out (i) the representations, warranties and covenants to which the Issuer is subject and (ii) the trigger events and acceleration events which apply to the Artesian Loans and any other indebtedness (including the Bonds) that ranks *pari passu* with the Artesian Loans (the “**Qualifying Debt**”). In addition, the STID provides that the exercise of acceleration and enforcement rights by the Secured Creditors (including the Bond Trustee) is subject to the discretion of the party that holds the greatest proportion of the aggregate principal amount outstanding under any Qualifying Debt (as

described in more detail in the sub-section entitled “*Controlling Finance Party*” of the section entitled “*Intercreditor and Security Arrangements*”) (the “**Controlling Finance Party**”), subject to the application of Entrenched Rights and Reserved Matters. As at the date of this Prospectus, the Controlling Finance Party is the Artesian Security Trustee which, under the terms of the Artesian Financing, will act on the instructions of the controlling creditor of the Artesian Companies, being AGE. For a further explanation of the provisions of the STID, see the section entitled “*Intercreditor and Security Arrangements – the STID*”.

Security Arrangements:

Upon accession by the Bond Trustee to the STID, the Bonds will be secured by (i) the Issuer pursuant to a security document entered into with the Security Trustee and dated 7 May 2003 (the “**Issuer Debenture**”) and (ii) the Guarantor pursuant to a security document entered into with the Security Trustee and dated 7 May 2003 (the “**Guarantor Debenture**”).

Cross-acceleration:

The Bonds will have the benefit of a cross-acceleration provision contained in the STID, whereby if any Indebtedness for Borrowed Money of the Issuer that is in excess of 2 per cent. of RAV is declared to be or otherwise becomes due and payable prior to its stated maturity by reason of default by the Issuer, this will constitute an Acceleration Event under the STID. For a further explanation of the Acceleration Events that apply in respect of the Bonds, see the section entitled “*Intercreditor and Security Arrangements – the STID – Acceleration Events*”.

Other Covenants:

The representations, warranties, covenants (positive, negative and financial), trigger events and acceleration events which apply to the Bonds, and all other Qualifying Debt, are set out in the STID and include, among others:

- financial covenants to maintain an Interest Cover Ratio of not less than 1.1:1 and a Regulated Asset Ratio of not more than 0.95:1, breach of which shall lead to the occurrence of an Acceleration Event;
- a restriction on dividends, payments on subordinated debt or any other distribution unless certain prescribed conditions are satisfied (including, on the relevant STID Calculation Date, an Interest Cover Ratio of not less than 1.4:1 and a Regulated Asset Ratio of not more than 0.86:1);
- Trigger Events which occur where the Interest Cover Ratio is or is expected to be less than 1.3:1 and the Regulated Asset Ratio is or is expected to be greater than 0.9:1 or upon the giving of notice to terminate the Instrument of Appointment, the failure to maintain certain required balances in respect of the Issuer’s accounts and the commencement of material litigation proceedings. The

consequences of the occurrence of a Trigger Event include: (i) a restriction on dividends and (ii) at the request of the Controlling Finance Party, the commission of an independent review to examine the causes of the Trigger Event and to recommend corrective measures; and

- Acceleration Events which occur upon breach of the financial covenants referred to above or upon a failure to pay principal or interest owed to a Qualifying Debt Holder, the revocation of the Instrument of Appointment or any other consent or licence, the appointment of a receiver, or insolvency or the making of a special administration order in respect of the Issuer. The consequences of an Acceleration Event include: the right of the Controlling Finance Party to direct (i) the acceleration of the Qualifying Debt and (ii) the enforcement of the Security.

For a further explanation of the provisions of the STID, see the section entitled “*Intercreditor and Security Arrangements – the STID*”.

Taxation:

All payments in connection with the Bonds will be made without withholding or deduction for or on account of any taxes, duties or other levies of whatever nature unless such withholding or deduction is required by applicable law. To the extent such withholding or deduction is in respect of tax, imposed or levied by or on behalf of the United Kingdom (the “U.K.”) or any authority thereof or therein having power to tax, the Issuer will pay such additional amounts as will result in the receipt by the Bondholder or Couponholder of such amount as would have been received by such holder had no such withholding or deduction been so required, subject to customary exceptions. See Condition 9 (*Taxation*).

Rating:

The rating on the Bonds addresses the timely receipt of scheduled interest payments and the ultimate payment of principal on the Bonds in accordance with the Issue Documents. The rating assigned to the Bonds by Moody’s will reflect only the views of Moody’s.

Issue Documents:

The Bonds, the Trust Deed and the Paying Agency Agreement.

Governing Law:

The Issue Documents and all non-contractual obligations arising out of or in connection with them will be governed by English law.

Listing and Trading:

Applications have been made for the Bonds to be admitted to listing on the Official List and to trading on the regulated market of the London Stock Exchange.

Clearing Systems:

Euroclear/Clearstream, Luxembourg.

Selling Restrictions:

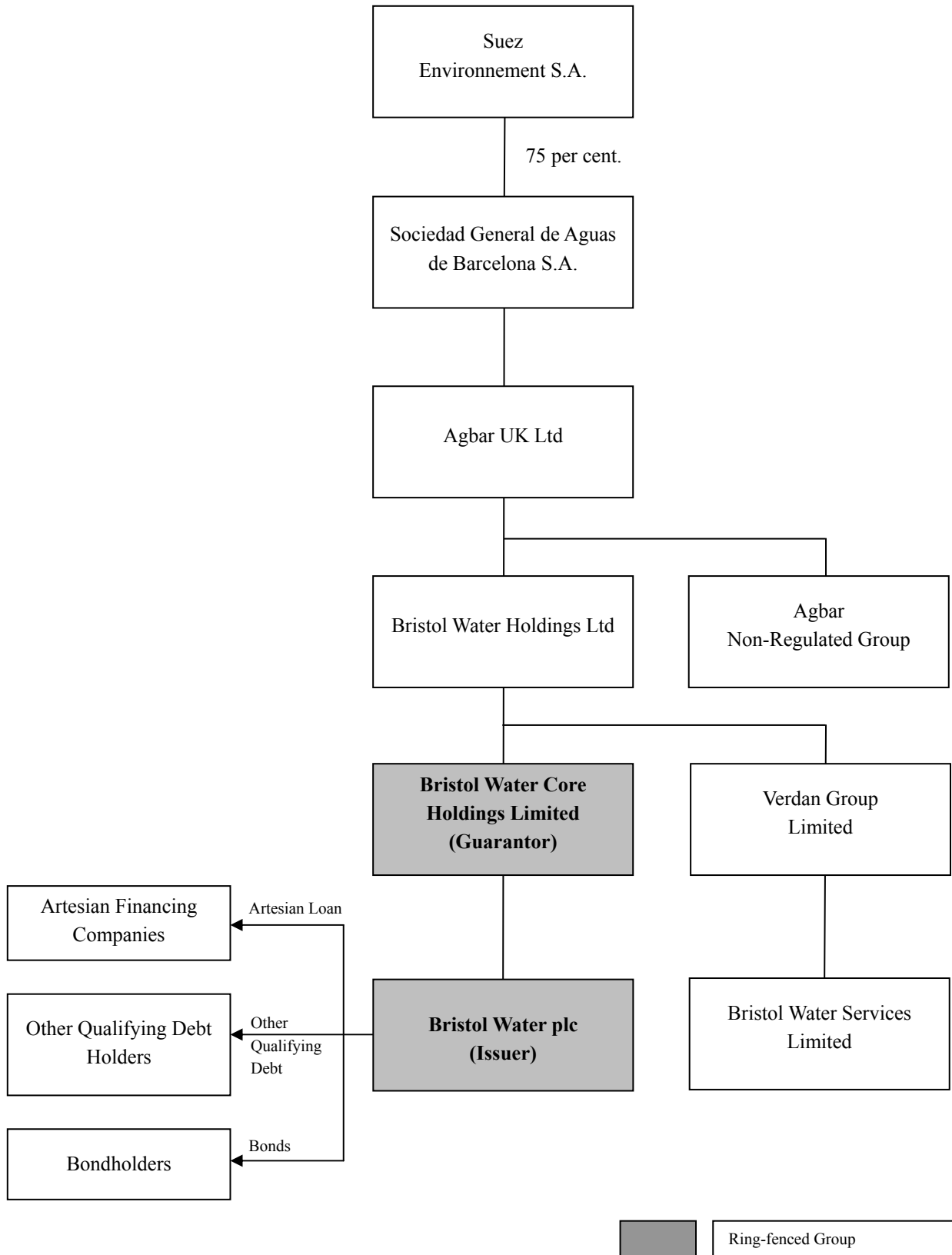
See the section entitled “*Subscription and Sale*”.

Financial Information:

In respect of the Issuer, see the section entitled “*Documents*”.

Incorporated by Reference” and, in respect of the Guarantor, see “*Part I – 2010 Audited Financial Statements*” and “*Part II – 2009 Audited Financial Statements*” of “*Auditors Report and Financial Statements of the Guarantor*”.

Group Structure of the Issuer



Risk Factors

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer and the Guarantor are not in a position to express a view on the likelihood of any such contingency occurring.

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

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer and the Guarantor may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons, and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks relating to the Issuer and its business

The revenue of the Issuer is substantially influenced by the price determinations periodically made by the Water Services Regulatory Authority (“Ofwat”)

The Issuer operates in an industry that is substantially influenced by the service levels, regulatory targets and price determinations set by its economic regulator, Ofwat, as well as Ofwat’s assessment of its delivery against these.

The price determinations periodically made by Ofwat limit the prices the Issuer can charge its customers. Under the terms of the Issuer’s Instrument of Appointment, Ofwat is required to review the Issuer’s price limits periodically (currently every five years). Ofwat’s determination of price limits may be appealed to the Competition Commission (the “CC”). The price limits were last reviewed and reset by Ofwat in 2009 for the five-year period from April 2010 and following rejection by the Issuer were subsequently amended by the CC. The conditions of the Issuer’s Instrument of Appointment, including any condition relating to the prices the Issuer can charge its customers, can be modified by Ofwat either with the Issuer’s agreement, or following reference to the CC on public interest grounds.

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

Failure to deliver capital investment programmes could adversely affect profitability

The regulated business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water distribution networks and treatment facilities. Historically, the Issuer has financed this capital expenditure from operating cashflow, from external debt, an issue of irredeemable preference shares and retained profits. There can be no assurance that operating cashflows will not decline or that external debt financing and other sources of capital will be available or at similar cost to that assumed by Ofwat, in order to meet future capital expenditure requirements.

Delivery of capital investment programmes could also be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance or enhancement costs), failure to

adequately deliver specified outputs or amounts funded in regulatory capital investment programmes proving insufficient to meet the actual amount required. This may affect the Issuer's ability to meet regulatory and other environmental performance standards, which may result in fines imposed by the Issuer's regulators of an amount of up to 10 per cent. of regulated business turnover for each infringement or other sanctions.

Ofwat's introduction of the service incentive mechanism and the serviceability assessment could adversely affect profitability

For the 2010-15 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the overall performance assessment ("OPA"). The service incentive mechanism ("SIM") compares companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon the Issuer's relative performance under the SIM it could receive a reduced or increased revenue allowance when price limits are next reset in 2014.

The Issuer is required to maintain the serviceability of its water assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance Ofwat may impose a reduced revenue allowance at the next price-setting review. In addition, if performance were to decline, the Issuer may incur additional operating or capital expenditure to restore performance.

The economic environment, inflation and capital market conditions could adversely affect profitability

In recent years, the global banking crisis and economic downturn have impacted the bank lending environment, as well as the debt and equity capital markets. This has resulted in making the arranging of finance and issuance of new equity and debt capital potentially more expensive and difficult to secure.

A compounding challenge arises from the relationship between the regulatory asset value ("RAV") of the Issuer and the Retail Prices Index ("RPI"). The RAV is adjusted annually for inflation so, if RPI decreases, the RAV would be adjusted downward to reflect this. This may lead to pressure on gearing and other key financial ratios, which may have an adverse impact on the credit ratings of the Issuer, and increase the cost or limit the availability of credit. In the extreme, the Issuer may be required to increase its equity base by either reducing its dividend payments or raising new equity capital. The global economic environment continues to present difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to the Issuer.

Pension scheme obligations may require the Issuer to make additional contributions to the schemes

The Issuer operates both defined benefit and defined contribution pension arrangements. Pension arrangements for the majority of the Issuer's employees are provided through the Issuer's membership of the Water Companies' Pension Scheme ("WCPS"), which provides defined benefits based on final pensionable pay. The Issuer's pension assets and liabilities are managed within a separate section of WCPS. The Issuer's section was closed to new employees in 2002. Since that closure all new employees are offered membership of a stakeholder pension scheme outside of WCPS. Estimates of the amount and timing of future funding for the Issuer's defined benefits scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require the Issuer to make additional contributions to its pension scheme which, to the extent they are not recoverable under the regulatory price determination process, could materially adversely affect the Issuer's results of operations and financial condition.

Failure to comply with applicable laws or regulations, or to take corrective action following such a failure, future changes to laws or regulations or the introduction of new laws or regulations could have a material adverse effect on the Issuer's business, results of operations, profitability or financial condition

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

Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous. The government is currently developing a "Water White Paper" to be published early summer 2011 which may result in new legislation, including in relation to water charging, Ofwat and increased competition (see below).

If the Issuer fails to comply with applicable law or regulations, in particular in relation to its Instrument of Appointment, or has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10 per cent. of relevant turnover for each infringement) or the imposition of an enforcement order requiring the Issuer to incur additional capital or operating expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of the Issuer's Instrument of Appointment or the appointment of a person appointed by the High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the company (the "**Special Administrator**").

Increased competition in the water industry could result in a reduced customer base and market share and could adversely affect profitability

The Cave review of competition and innovation in water markets was published in April 2009 (the "**Cave Review**"). If its recommendations are implemented, this could eventually expand the competitive market allowing retail competition to all non-household customers as an initial step in opening markets to competition. The Cave Review also proposed that the retail divisions of Regulated Companies should be made legally independent from the remainder of their regulated businesses, and included recommendations for reform in respect of abstraction and discharge, 'upstream' activities and water industry structure. The government has stated that its proposed Water White Paper will set out its conclusions on the Cave Review and other potential developments in the water sector. Ofwat and the Environment Agency ("**EA**") are considering the introduction of reforms to the regulation of water abstraction licences that would allow trading of licences. Ofwat is also examining the scope for 'upstream' competition in treated water supply.

Ofwat has taken steps to introduce competition into the water supply market through inset appointments and the water supply licensing regime (see the sub-section entitled "*Competition in the Water Industry*" in the section entitled "*Description of the Issuer*" below). Prior to 2007 (with one exception), inset appointees had all been granted to existing regulated companies. Since 2007, Ofwat has granted more inset appointments, none of which are within the Issuer's water supply area. Further inset appointments may be made in the future, resulting in increased competition.

Ofwat or the government may take steps that lead to changes in the vertically integrated structure of the water industry with potentially adverse consequences to the financial position of the Issuer.

Events, service interruptions, systems failures, water shortages or contamination of water supplies could adversely affect profitability and the Issuer's financial position

The Issuer controls and operates a water network and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, a significant interruption of service provision or catastrophic damage could occur resulting in: significant loss of life; and/or environmental damage; and/or economic and social disruption. Such circumstances might arise, for example, from energy shortages; the failure of an asset or an element of a network or supporting plant and equipment; human error; unavailability of access to critical sites or key staff; malicious intervention; failure by a supplier; labour disputes; pollution or contamination; or naturally occurring events.

The Issuer could be fined for breaches of statutory obligations or held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs. Insurance cover may be inadequate or unobtainable.

The Issuer is also dependent upon the ability to access, utilise and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under the Issuer's control.

Risks in the Issuer's businesses could adversely affect the Issuer's profitability and financial position

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

English law security and insolvency considerations

Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the Water Industry Act 1991, as amended (the "WIA"), and its Instrument of Appointment. For example, the WIA restricts a Regulated Company's ability to dispose of Protected Land (as such term is defined in the WIA). Accordingly, an Instrument of Appointment restricts a Regulated Company's ability to create a charge or mortgage over Protected Land. The Issuer estimates that the vast majority of its assets of value are tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of the Issuer to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right of a floating charge holder under the WIA to block the appointment of a Special Administrator.

The Secretary of State and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of the Issuer and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security (see the section "*Special Administration*" below).

There are also certain legal restrictions which arise under the WIA and the Issuer's Instrument of Appointment affecting the enforcement of the security created under the Issuer Debenture. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to Ofwat or the Secretary of State, giving them time to petition for the appointment of a Special Administrator.

Accordingly, the security provided over the assets of the Issuer in favour of the Security Trustee in respect of the Issuer's obligations under the Bonds affords significantly less protection to the Security Trustee (and, therefore, the Bondholders) than would be the case if the Issuer were not a Regulated Company subject to the provisions of the WIA and its Instrument of Appointment.

The considerations described above do not apply to the fixed and floating charges created under the Guarantor Debenture. The enforcement of the Security granted under the Guarantor Debenture over the shares in the Issuer would not be subject to the moratorium set out in the WIA neither would it be an event which would itself result in the making of the Special Administration Order. Notwithstanding this, given Ofwat's general duties under the WIA to exercise its powers to ensure that the functions of a Regulated Company are properly carried out, the Issuer anticipates that any intended enforcement of the Security granted by the Guarantor over, and subsequently any planned disposal to a third party purchaser of, the shares in the Issuer would involve consultation with Ofwat. In addition, it is anticipated that any intended enforcement of the Security created by the Guarantor under the Guarantor Debenture, to the extent that such enforcement would amount to a relevant merger situation for the purposes of the Enterprise Act 2002 (the "**Enterprise Act**") or a concentration with a European Community dimension for the purposes of the Regulation (EC) No 139/2004 on the control of concentrations between undertakings (the EC Merger Regulation), would require consultation with Ofwat and would be reviewable by the Office of Fair Trading in the United Kingdom or the European Commission.

Special Administration

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

During the period of the Special Administration Order, the Issuer has to be managed by the Special Administrator for the purposes of the order and in a manner which protects the interests of shareholders and creditors. As noted above, while the order is in force, no steps may be taken to enforce any security over the property of the Issuer except with the consent of the Special Administrator or the leave of the court. A Special Administrator would be able to dispose of assets free of any floating charge existing in relation to them. On such a disposal, however, the proceeds would be treated as if subject to a floating charge which has the same priority as that afforded to the original security. A Special Administrator may not dispose of property which is the subject of a fixed charge without the agreement of the relevant creditor except under an order of the court. On such a disposal, the Special Administrator must account for the proceeds to the chargee, although the disposal proceeds to which the chargee is entitled are determined by reference to "the best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value", which would apply in a conventional administration for a company which is not a Regulated Company under English insolvency legislation.

Due to the statutory purposes of a Special Administration Order, it is not open to a Special Administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a Regulated Company. Where the Special Administrator determines that the business of the Regulated Company should be transferred to one or more different companies as a going concern, the transfer is effected by a transfer scheme which the Special Administrator puts in place, subject to the approval of the Secretary of State or Ofwat on behalf of the existing Regulated Company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the

existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's Instrument of Appointment (with modifications as set out in the transfer scheme) to the new Regulated Company(ies).

There can be no assurance that any transfer scheme in the context of a Special Administration regime could be achieved on terms that would enable creditors to recover amounts due to them in full.

Insolvency considerations: The Enterprise Act

The Enterprise Act sets out certain reforms to corporate insolvency law contained in the Insolvency Act 1986, including the introduction of a prohibition on the appointment of an administrative receiver in relation to companies incorporated in England and Wales, such as the Guarantor. Unless a floating charge falls within one of the exceptions contained in the Enterprise Act, the holder of a qualifying floating charge will be prohibited from appointing an administrative receiver to a company and, consequently, the ability to prevent the appointment of an administrator to such company will be lost. Such ability will not be applicable in the case of the Issuer which is subject to the Special Administration regime (see the section "*Risk Factors – English law security and insolvency considerations – Special Administration*" above).

The Enterprise Act also provides that, on an insolvency of a company, a certain proportion of realisations in respect of certain classes of assets subject to a floating charge shall be made available for the satisfaction of unsecured creditors.

Fixed charges may take effect under English law as floating charges

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer and the Guarantor (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the assets subject to such charge. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

The interests of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Security. Section 250 of the Enterprise Act 2002 abolishes Crown preference in relation to all insolvencies and thus reduces the categories of preferential debts that are to be paid in "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Bondholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

Risks related to the Bonds generally

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

Source of payments to Bondholders

The Bonds will not be obligations or responsibilities of, nor will they be guaranteed by, any party other than the Issuer and the Guarantor. The guarantee by the Guarantor may be of limited value because it does not own, nor will it own, any significant assets other than its investment in the Issuer.

Bondholders' rights subject to the STID

The Bondholders' rights against the Issuer are subject to the STID. The STID contains provisions pursuant to which each Secured Creditor, including the Bond Trustee, agrees that, subject to Entrenched Rights and Reserved Matters, it will only exercise any Finance Rights (including the right to accelerate the Bonds and to enforce the Security) at the behest of, and as instructed, or as consented to by, the Controlling Finance Party.

The Controlling Finance Party is the Artesian Security Trustee which, in accordance with the terms of the Artesian Financing, shall seek instructions from the controlling creditor of the Artesian Companies. As at the date of this Prospectus, such controlling creditor is AGE.

As a result, at any time that the Bond Trustee is not the Controlling Finance Party, it shall have no right, power or authority to enforce the performance of any covenant or obligation of the Issuer under the STID or any of the Issue Documents, accelerate the Bonds or to take any enforcement action in respect of the Charged Assets. Accordingly, decisions relating to and binding upon the Bonds may be made by persons other than the Bondholders and whose interests differ from the interests of Bondholders.

Notwithstanding the above, Bondholders' rights will not be subject to the discretion of the Controlling Finance Party:

- (a) in respect of any matter which constitutes an Entrenched Right (such as a change in the date fixed for payment of interest or principal under the Bonds or any alteration in the method of calculating such payment or any release of Security) or a Reserved Matter (such as the discretion to determine amounts due in relation to and to claim under indemnities in favour of the Bond Trustee (for itself and on behalf of Bondholders)) (as described in more detail in the sub-section entitled "*Entrenched Rights*" and "*Reserved Matters*" in the section entitled "*Intercreditor and Security Arrangements*");
- (b) where an Acceleration Event has occurred but has not been waived by, or remedied to the satisfaction of the Controlling Finance Party, whereupon the Bond Trustee may serve an Emergency Instruction Notice upon the Security Trustee, following receipt of which, the Security Trustee shall enforce the Security in accordance with the Security Documents (as described in more detail in the sub-section entitled "*Emergency Instruction Notice*" in the section entitled "*Intercreditor and Security Arrangements*"); and
- (c) in the limited circumstances where the Controlling Finance Party does not hold or represent Qualifying Debt Holders who hold more than 50 per cent. of the aggregate amount outstanding of the Qualifying Debt, the Security Trustee shall not act on the instructions of the Controlling Finance Party where it receives notices from the Qualifying Debt Representatives whose outstanding Qualifying Debt, when aggregated with the outstanding debt under the Qualifying Debt of the provider of the instructions, exceeds 50 per cent. of the total amount of Qualifying Debt (as described in more detail in the sub-section entitled "*Controlling Finance Party*" in the section entitled "*Intercreditor and Security Arrangements*"). The circumstances referred to this sub-paragraph (c) above do not apply as at the date of this Prospectus.

Modification, waivers and substitution

The circumstances in which Bondholders are entitled to vote are limited under the STID. In the event that the Bondholders are entitled to vote (for example, if the Bond Trustee becomes the Controlling Finance Party or Bondholders are required to consider any matter that gives rise to an Entrenched Right or Reserved Matter or, as above, in the circumstances described in paragraph (b) of "*Bondholders rights subject to the STID*" above), Bondholders will vote on such matter in accordance with the Terms and Conditions of the Bonds, which contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend

and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority. As a result, Bondholders can be bound by the result of a particular matter that they voted against.

The Terms and Conditions of the Bonds also provide that, subject to the STID, the Bond Trustee may, without the consent of Bondholders, agree to (a) any modification of any provision of the Trust Deed which is, in the opinion of the Bond Trustee, of a formal, minor or technical nature or is made to correct a manifest error, (b) any other modification (except as mentioned in the Trust Deed) or any waiver or authorisation of any breach or proposed breach of any provision of the Trust Deed which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders or (c) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in Condition 13 (*Meetings of Bondholders, Modification, Waiver and Substitution*).

No limitation on issuing pari passu securities

Subject to the terms of the STID, which provides that the Issuer may only incur additional indebtedness provided that it satisfies certain conditions (see the section entitled “*Intercreditor and Security Arrangements – the STID – Covenants*”), there is no restriction on the amount of securities which the Issuer may issue which rank *pari passu* with the Bonds being offered hereby. The issue of any such securities may reduce the amount recoverable by holders of the Bonds in the event that the Issuer is wound up or becomes insolvent or may increase the likelihood of a deferral of payments under the Bonds.

Index-Linked Bonds

The interest on the Bonds is indexed to an RPI formula, and accordingly, significant risks exist that are not associated with a conventional fixed rate or floating rate debt security. Such risks include fluctuation of the RPI and the possibility that an investor will receive a lower amount of principal, premium or interest and at different times than expected. The Issuer has no control over a number of matters, including economic, financial and political events that are important in determining the existence, magnitude and longevity of such risks and their results. Potential investors should be aware that:

- (a) the market price of the Bonds may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time than expected; and
- (d) the timing of changes in the RPI may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the RPI, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of the Bonds. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in the Bonds and the suitability of such Bonds in light of its particular circumstances.

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

In the event that amounts due under the Bonds are subject to U.K. withholding tax, the Issuer may not be obliged to pay additional amounts in relation thereto if Bondholders fall within certain exceptions to the obligation to pay such additional amounts. In addition, the Issuer may, in certain circumstances, redeem the Bonds (as described in Condition 7(b) (*Redemption for taxation reasons*)). The applicability of any U.K. withholding tax under current law is discussed under “*Taxation - Withholding Tax*”.

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) Bonds are legal investments for it, (2) Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar risks.

Change of law

The Terms and Conditions of the Bonds are based on English law in effect as at the date of issue of the Bonds. 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 issue of the Bonds.

Trading in the Clearing Systems – integral multiples of less than £100,000

The Bonds have a denomination consisting of the minimum specified denomination of £100,000 plus a higher integral multiple of another smaller amount. As such, it is possible that the Bonds may be traded in amounts in excess of £100,000 (or its equivalent) that are not integral multiples of £100,000 (or its equivalent). In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more specified denominations.

Bonds not in physical form

Unless the Global Bonds are exchanged for definitive Bonds, which exchange will only occur in the limited circumstances set out under the section entitled “*Summary of Provisions relating to the Bonds while in Global Form*” below, the beneficial ownership of the Bonds will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg. The fact that the Bonds are not represented in physical form could, among other things:

- (a) result in payment delays on the Bonds because distributions on the Bonds will be sent by or on behalf of the Issuer to Euroclear or Clearstream, Luxembourg directly to Bondholders;
- (b) make it difficult for Bondholders to pledge the Bonds as security if Bonds in physical form are required or necessary for such purposes; and
- (c) hinder the ability of Bondholders to resell the Bonds because some investors may be unwilling to buy Bonds that are not in physical form.

Ratings of the Bonds

The ratings on the Bonds address the timely receipt of scheduled interest payments and the ultimate repayment of principal on the Bonds in accordance with the Issue Documents. A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of the Issuer and circumstances relating to the water industry generally.

There is no assurance that any such rating will continue for any period of time or that it will not be reviewed, revised, suspended or withdrawn entirely by Moody’s as a result of changes in, or unavailability of, information or if, in Moody’s judgment, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting the Issuer and/or circumstances relating to the water industry generally, could have an adverse impact on the ratings of the Bonds.

The secondary market generally

Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Bonds, there is no assurance that this would not adversely affect investors in the Bonds. It is possible that prior to the maturity of the Bonds the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event: (i) all amounts payable in respect of the Bonds may become payable in Euro; (ii) the law may allow or require the Bonds to be re-denominated into Euro and additional measures to be taken in respect of such Bonds; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Bonds.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual or to certain other persons in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other territories).

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

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the European Commission’s advice on the need for changes to the Savings Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved amendments to this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above. Prospective Bondholders who are in any doubt as to their position should consult their professional advisers.

Description of the Issuer

History

The Issuer, as it exists today, is the result of over 160 years of amalgamation of water undertakings within the Bristol area. The Bristol Waterworks Company was incorporated as a statutory company by act of Parliament in 1846. After initially serving the needs of the City of Bristol, it grew by acquisition starting in 1952 with the take-over of the Portishead District Water Company. 18 further local water undertakings (owned by a variety of local rural and urban councils) were amalgamated into the Issuer between 1952 and 1964. Being already a listed company, the Issuer was not privatised in 1989 when the water and sewerage companies became listed entities for the first time and new systems of regulation were put in place.

Under a scheme of arrangement in 1991, the Bristol Waterworks Company became Bristol Waterworks plc and subsequently Bristol Water plc, as a subsidiary of the newly incorporated Bristol Water Holdings plc (now Bristol Water Holdings Ltd, “**BW Holdings**”). The capital of the Bristol Waterworks Company was restructured and shareholders were issued with shares in BW Holdings, in place of their shareholding in the Bristol Waterworks Company.

In 1992, the Issuer issued £12.5 million of irredeemable preference shares. These and four small tranches of debentures remain listed on the London Stock Exchange.

In 2003 Bristol Water Group plc (“**BW Group**”) was established as the ultimate group parent company under a further scheme of arrangement in conjunction with the first of two returns of capital to shareholders. The returns were facilitated by the strategic exit from non-regulated businesses and utilisation of the Artesian Loans to provide long-term debt to the Issuer.

In June 2006, all of the shares of BW Group were acquired by Sociedad General de Aguas de Barcelona S.A. (“**Agbar**”). The Agbar group of companies (“**Agbar Group**”) is dedicated to services, distribution and the treatment of water and wastewater in Spain and internationally. The Agbar Group comprises more than 200 companies, with the Issuer being the fifth largest individual business unit within the Agbar Group. BW Group was de-listed from the London Stock Exchange on 15 June 2006, re-registered as a limited company on 3 October 2006 and renamed Agbar UK Ltd (“**Agbar UK**”) in 2009.

Following a long period of holding a substantial interest, Suez Environnement S.A. (“**Suez Environnement**”) increased its holding in Agbar to 75.23 per cent. Suez Environnement is a French-based utilities company providing solutions in the drinking water, wastewater treatment and waste management fields around the globe and for the year ending 31 December 2010 had a turnover in excess of €13.8 billion. Worldwide, Suez Environnement supplies 90 million people with drinking water, 58 million people with sanitation services and 46 million people with waste collection services. GDF Suez S.A. (“**GDF Suez**”) is the major shareholder of Suez Environnement, holding 35.4 per cent. of Suez Environnement.

Suez Environnement is now the ultimate Holding Company for the Agbar UK group of companies (comprising the Issuer, the Guarantor, BW Holdings and Agbar UK and a number of non-regulated subsidiaries and joint ventures, together the “**Agbar UK Group**”), the principal business of which is the Issuer, the Agbar UK Group’s regulated water company.

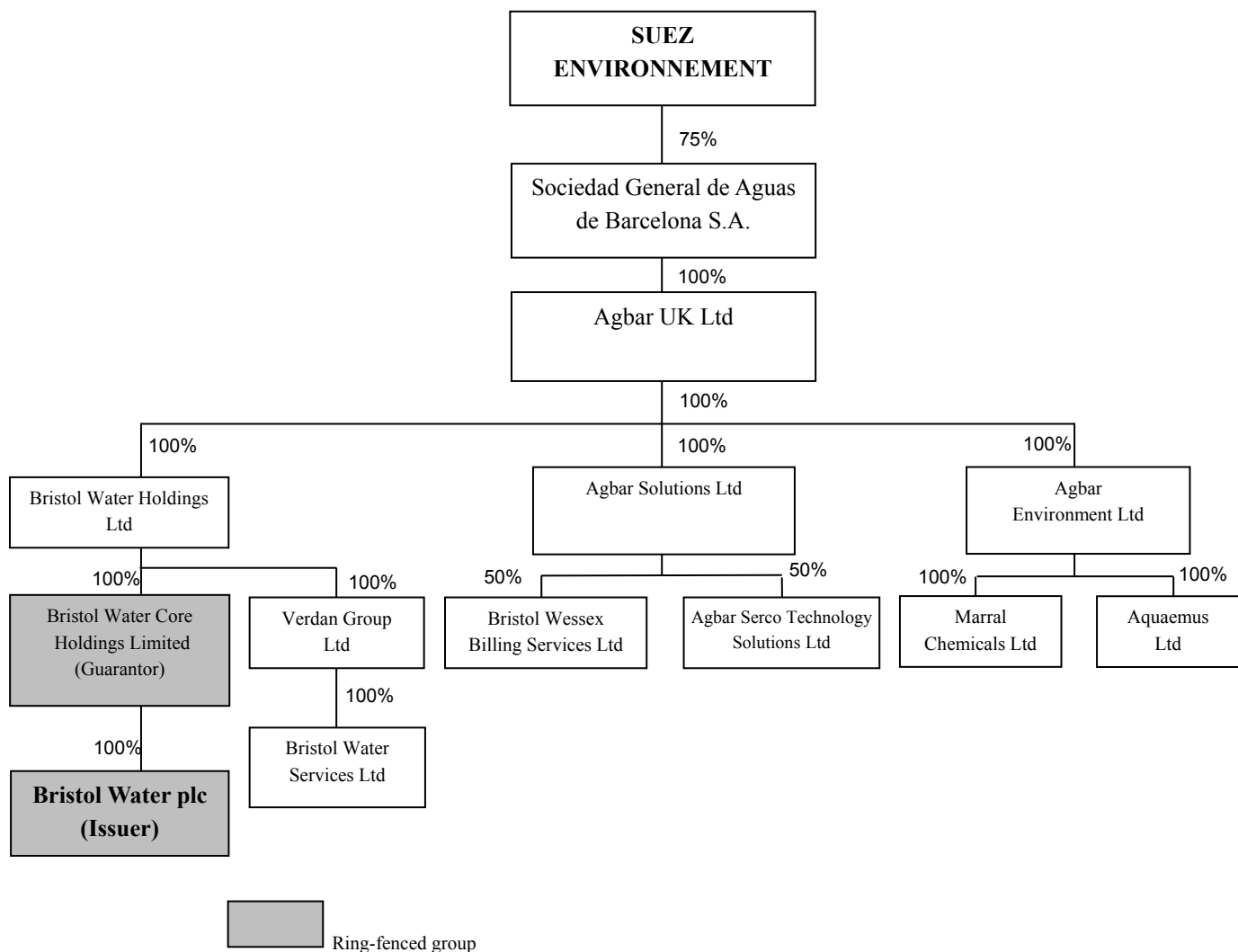
Regulatory Ring-Fencing

Regulatory ring-fencing is common to each of the regulated water companies in England and Wales pursuant to their respective Instruments of Appointment. Ring-fencing conditions ensure that regulated businesses are treated as separate from other businesses within a corporate group structure. Important features are designed to ensure that the regulated business is protected from any adverse developments in other parts of the Agbar

Group and that the Regulated Company (defined below in “*The Issuer’s Business*”) has the ability to manage and finance itself.

The Bristol Water group of companies was restructured in 2003, prior to and unassociated with the acquisition by Agbar, establishing a ring-fenced financing group comprising the Issuer and its immediate parent, the Guarantor (the “**Group**”), to separate (so far as practicable) the regulated business financially and operationally from the rest of what is now referred to as the Agbar UK Group.

Set out below is a structure diagram of the Group and its relationship to the Agbar Group, as of the date hereof:



Overview

Centred on the City of Bristol, the Issuer serves an area that stretches from Tetbury in the north to Street and Glastonbury in the south and Weston-super-Mare in the west to Frome in the east. The Issuer is one of eleven significant regulated water only supply companies in England and Wales. It provides water services to over 1.1 million people and businesses in an area covering approximately 2,400 square kilometres. The statutory accounts show, for the year ended 31 March 2010, the Issuer generated turnover of £99.7 million and its net cash inflow from operations was £48.0 million. For further details, see the audited financial statements of the Issuer for the year ended 31 March 2010. The unaudited results for the six months ended 30 September 2010 show turnover of £50.3 million and net cash inflow from operations of £19.4 million.

Board of Directors

The directors of the Issuer and their functions within the Issuer are set out below. The business address of each of the directors is the Issuer's registered office, which is PO Box 218, Bridgwater Road, Bristol, BS99 7AU. The telephone number of the Issuer is 0117 966 5881.

Name	Function
Moger Woolley DL	Non-Executive Chairman
Luis Garcia	Chief Executive
Alan Parsons	Director ¹
Miquel Anglada	Finance Director
Robert Brito	Operations Director
Mike King	Regulatory Director
Peter McIlwraith	Independent non-Executive Director
Christopher Curling	Independent non-Executive Director
Robert Davis	Independent non-Executive Director
Juan Antonio Guijarro	Non-Executive Director
Manuel Cermerón	Non-Executive Director
Anthony Harding	Non-Executive Director

There is no existing or potential conflict of interest between the directors' duties to the Issuer and/or their private interests or other duties. Where directors hold other directorships within the wider group, they take no part in authorising any related party transactions.

Company Secretary

The company secretary of the Issuer is Stephen Robson.

The Issuer's Business

The Issuer is a public limited company registered under the Companies Act under number 2662226. In England and Wales, almost all water and sewerage services are supplied by ten Water and Sewerage Companies ("WaSCs") and eleven Water Only Companies ("WOCs") which are all subject to the same regulatory regime (the "**Regulated Companies**" or a "**Regulated Company**"). The Issuer is a WOC and does

¹ Alan Parsons, the former Managing Director, will retire from the Board on 30 September 2011.

not carry out wastewater collection and treatment. Sewerage services locally are mainly provided by Wessex Water Services Limited (“**Wessex Water**”). The Issuer and Wessex Water provide unified billing for customers for the Issuer’s water supply service and Wessex Water’s wastewater services under contract through a joint venture company, Bristol Wessex Billing Services Limited (50 per cent. owned by Agbar Solutions Limited and 50 per cent. by the Wessex Water group).

The Issuer also has some small non-appointed activities. These non-core activities include the operation of restaurants and fishing at the leisure facilities sited on the Issuer’s reservoirs. A small plumbing and industrial service business is in the process of being transferred to another company in the Agbar UK Group.

Set out below is a schematic map of the Issuer’s water supply area:



Strategy

The Issuer’s objective is to provide a reliable supply of water of a quality that meets statutory and regulatory requirements, delivered in a sustainable and affordable way. The Issuer works towards achieving this objective by:

- providing a safe and reliable supply of water;
- delivering high quality service;
- creating value by operating as efficiently as possible and outperforming regulatory targets;

- acting in a reasonable and sustainable manner taking all stakeholder views into account; and
- establishing the Issuer as a leading employer in the Bristol region.

In working to achieve such an objective, compromises must be made to find the right balance between the conflicting demands of keeping prices to a minimum while:

- meeting statutory and regulatory requirements;
- providing the level of service sought by customers;
- ensuring appropriate investment in asset maintenance;
- meeting reasonable customer demand for water when the population served is expected to continue to grow;
- ensuring the Issuer can sustain supplies in emergency situations;
- improving the efficiency of water delivery and water use and minimising the Issuer's carbon footprint; and
- protecting raw water catchments from contamination.

Dividend policy

The Issuer's company policy is to pay an annual level of ordinary dividends comprising an amount equal to the post-tax interest receivable from Agbar UK in respect of intercompany loans of approximately £3 million per annum (paying half yearly in March and September) and a further dividend reflecting the cost of capital allowed by the regulatory system. All such distributions will, however, be subject to the needs of the business and maintenance of the key ratios. No dividend in respect of a return on the RAV is being paid in the year ended 31 March 2011 in order to retain cash within the business and support financial ratios. A return to a full dividend is expected before the end of the current five-year regulatory period. Dividends received by the Guarantor from the Issuer are immediately paid through to BW Holdings.

Pensions

In July 2010, the government announced that it would, in future use the Consumer Price Index ("CPI") rather than the RPI, as the basis for determining the statutory minimum percentage increase for revaluation and indexation, in the Pensions Increase (Review) Order. This change is expected to be made law when the "Pension Increase Orders" are issued in March 2011. The Issuer expects to adopt CPI in its valuation of pension liabilities at 31 March 2011. This change in assumption is expected to have the effect of increasing net assets of the Issuer by approximately £7 million before taxation.

Water Supply Services

The Issuer's water supply services to customers consist of the abstraction of water and its subsequent treatment and distribution to homes and other premises. Abstraction involves the removal of water from surface sources, such as rivers, reservoirs and canals, and from underground sources, such as aquifers. All water is treated prior to being supplied to customers. In general, water abstracted from underground sources is of better quality and requires less treatment than water abstracted from rivers, canals and reservoirs which normally undergoes a complex sequence of advanced treatment processes.

The area served by the Issuer is a varied mixture of hills, valleys, plateaus and soil types. The Issuer has to deal with many challenges arising from the varied geology and topography in its area. These include having to use many different types of raw water and treatment processes and approximately 6,700 kilometres of mains of different ages, materials and sizes.

As the Issuer moves raw and treated water around its networks, it must accommodate the changing landscape. This has resulted in water mains either taking indirect routes in order to avoid hill ranges, or additional pumping stations and booster stations being required in order to maintain water pressure and keep the water flowing into service reservoirs. Pressure reduction systems may then be used to reduce pressure at customers' taps. The Issuer moves over 100 million tonnes of water each year, resulting in significant power consumption for pumping. As well as having one of the higher average pumping heads in the country, the Issuer also has one of the oldest average lives of water mains in the country.

The demand for water in future years compared to available supplies of raw water is forecast by considering the components of residential and commercial/industrial supplies and leakage. This is supported by extensive analysis of domestic water use, economic analysis of trends in industrial demand and the evaluation of the economic levels of leakage. The forecasts are revised periodically and presented to Ofwat and the EA. Forecasts of demand include the distribution and predicted growth of population at local level and the impact of climate on the peak demand for water. Although there is seasonal fluctuation in the total water put into supply, the quantity of treated water supplies fluctuates owing to a variety of factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months. The long-term strategy to maintain the balance between supply and demand is documented in the Issuer's Water Resources Management Plan, which is a required regulatory return. The Issuer has an obligation to maintain supply to its customers at all times. This overall security of supply obligation is supplemented by specific annual leakage targets. These are set by Ofwat and have been consistently met for all reporting periods to 31 March 2010.

Ofwat Measures

Ofwat sets caps on price increases and minimum service standards to be achieved and/or assessed through its five-year periodic reviews of all water companies. This process is described in more detail in subsequent sections. The outputs for the review period to 31 March 2010 have been substantially met and no regulatory enforcement action by Ofwat has been taken.

Ofwat measures a broad range of performances to ensure customer service is maintained at high levels. The company's Board monitors these measures, and others, monthly as "Key Performance Indicators".

Performance for the year ended 31 March 2010 is set out below together with commentary. Fuller details are provided in the company's annual returns to Ofwat (the "**Annual Return**").

Measure	Performance in 2009/10	Target met	Comment
Water quality compliance	99.97 per cent.	Yes	As reported to the Drinking Water Inspectorate for calendar 2010
Security of Supply index	100 per cent.	Yes	
Leakage target	53 ML/d	Yes	Target was 54 M/d
Water use restrictions	None	Yes	
Infrastructure asset serviceability	Stable serviceability	Yes	
Non-infrastructure asset serviceability	Stable serviceability	Yes	
DG2 – pressure standard	0.01 per cent.	Yes	

DG3 – interruptions	0.38	No	Target was 0.25 (weather affected 2009/10 performance)
DG6 – billing queries	100 per cent.	Yes	
DG7 – complaint responses	99.9 per cent.	Marginally below	Target was 100 per cent.
DG8 – meter reading	100 per cent.	Yes	
DG9 – customer satisfaction score	96 per cent.	Yes	New measure with no target
DG9 – engaged tone	0.6 per cent.	Yes	
DG9 – abandoned calls	2.0 per cent.	N/A	Basis of measurement changed from original target setting
Overall Performance Assessment	97.9 per cent. of maximum	N/A	The score of 282 out of 288 placed the Issuer 9th in the industry on this measure

Performance to date in 2010/11 is at high levels, similar to those of prior years. Although the calendar year 2010 was an abnormally dry year in the Issuer's water supply area, reservoir levels are adequate to ensure water use restrictions are unlikely during 2011. The extended cold period and related rapid thaw in December 2010 resulted in a significant increase in the number of mains bursts and in leakage. Ofwat reviews both of these measures carefully when the full year results are reported.

Customers

During the year ended 31 March 2010, the Issuer treated an average of 278 million litres of water per day for use by approximately 0.5 million properties in the Issuer's water supply area.

Approximately 73 per cent. of water delivered was used by domestic customers, of whom approximately 33 per cent. are charged by volume consumed with the balance charged by reference to their property's rateable value. The number of domestic connections has been growing by approximately 1 per cent. each year. All new properties are metered. Domestic customers can opt to be charged by meter at no direct cost to themselves. These two factors together have been increasing the proportion of domestic meter penetration by around 2 per cent. annually.

Since 2000 domestic customers cannot be disconnected from their supply for failure to pay their bill. This adds to debt collection costs and bad debt write offs. An allowance for bad debts is included when Ofwat sets price limits.

Non-domestic customers are predominately charged by metered volumes. The Issuer has around 33,000 non-domestic customers, however, no single customer accounts for more than 0.6 per cent. of the Issuer's revenues.

Water Services Assets

The Issuer owns five raw water reservoirs that store run off from the Mendip Hills. In addition it has five reservoirs directly ahead of treatment works. The Issuer owns and operates 16 water treatment works, 164 pumping stations, 139 treated water storage reservoirs and maintains some 6,700 kilometres of water mains of varied types and sizes.

The Issuer takes approximately half its raw water needs from the Gloucester to Sharpness Canal that is fed by inflow from rivers running off the Cotswolds and through a pumped abstraction from the River Severn. There is a long-term management agreement with British Waterways who control the canal. The balance of water needs are met primarily from the Issuer's Mendip reservoirs supplemented by approximately 15 per cent. of total needs from boreholes.

The Issuer has established a flexible system of water treatment and delivery that facilitates cost effective utilisation of sources whilst being able to manage reservoir levels to avoid, except in extreme or abnormal circumstances, restrictions on the use of water by customers.

Capital Investment

The water industry invests heavily in maintenance and new assets in order to meet its obligations for service delivery and to meet required standards. The Issuer's level of capital investment in five-year periods has been or is projected to be (all figures are stated in 2009/10 values to aid comparison):

AMP 1	5 years to 31 March 1995	£136 million
AMP 2	5 years to 31 March 2000	£134 million
AMP 3	5 years to 31 March 2005	£124 million
AMP 4	5 years to 31 March 2010	£159 million
AMP 5	5 years to 31 March 2015	£244 million

Ofwat takes account of these investment programmes when setting price limits, as described below under "Price control". The regulator's primary duties include a requirement to secure that Regulated Companies are able to finance the proper carrying out of their functions.

The Issuer's capital expenditure (including infrastructure renewals expenditure but after deducting contributions) ("capex") for the year to 31 March 2010 was £21.1 million. The Issuer has completed its 2005-10 capital investment programme and commenced delivery of the next five-year capital investment programme. Forecast capital expenditure in the year to 31 March 2011 will be approximately £20 million. Capex will increase substantially for the remainder of the five-year period as the company now has certainty of its required outputs following the completion of the appeal to the CC described below.

Drinking Water Quality

The Issuer continually maintains and invests in its assets to ensure that a high standard of drinking water quality is maintained. To assess compliance with drinking water standards prescribed in the Water Supply (Water Quality) Regulations 2000, the Issuer monitors water quality through an extensive programme of plant and telemetry controls, regular sampling and analysis.

Regulation and Instrument of Appointment

The Issuer operates within a highly regulated industry in England and Wales and its operations are strongly influenced by economic, drinking water quality and environmental regulation. In particular, the Issuer's business and results are affected by the regulated tariff rates which the Issuer may charge its customers as approved by the economic regulator as well as by drinking water quality and environmental regulations and

the terms of its Instrument of Appointment (see “*Price control*” below). The Issuer has been appointed as a Regulated Company. Appointments were originally granted to each of the WaSCs and WOCs by the Secretary of State for the Environment in 1989. These Instruments of Appointment continue in force for an indefinite period, subject to potential termination rights as set out below. The statutory basis for the regulation of the activities of Regulated Companies is now the WIA as amended, including by the Water Act 2003 (the “WA”). The fundamental statutory duty of a Regulated Company in respect of its water business is to develop and maintain an efficient and economical system of water supply within its supply area.

Regulation pursuant to these Instruments of Appointment is currently the responsibility of Ofwat, the economic and customer service regulator for the water industry in England and Wales. The independent Consumer Council for Water represents the interests of the customers of Regulated Companies.

Ofwat

Ofwat is controlled by a board that currently consists of the chair, a chief executive, two executive board members and five non-executive directors. Appointments to the Ofwat board are made by the Secretary of State for Environment, Food and Rural Affairs in consultation with the Welsh Assembly Government.

Ofwat must comply with its statutory duties as primarily laid out in the WIA. It may receive guidance from the Government in relation to its contribution to social and environmental policies, and is obliged to have regard to any such guidance in exercising its statutory functions. It also receives views from the Government on matters such as the approach to price controls. However, Ofwat is not subject to direction about what its judgements should be and is independent of Government ministers.

Ofwat must exercise its powers and duties in the manner that it considers is best calculated to:

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

Ofwat also has secondary duties that include an obligation to promote efficiency and economy on the part of Regulated Companies in the carrying out of their functions as such and to contribute to the achievement of sustainable development. It also has duties in exercising its powers to have regard to the effect on the environment and to the desirability of preserving any rights of recreational access.

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

Instrument of Appointment provisions

The Issuer’s Instrument of Appointment is subject to a range of conditions including (amongst other things):

- provisions relating to the operation of price control (see “*Price control*” below);
- a prohibition on undue discrimination or undue preference in setting charges for water supply;

- restrictions on the payment of dividends. Dividends can only be declared or paid in accordance with a dividend policy approved by the board of the Issuer which will not impair its ability to finance its functions and will reward efficiency and the management of economic risk;
- provisions to ensure that the financial affairs of the Issuer can be separately assessed and reported on;
- maintaining at least three independent non-executive directors on the Board of the Issuer and complying with the UKLA Listing Rules regarding reporting and good corporate governance;
- obligations on the Issuer to ensure that it has adequate financial resources and facilities, management resources and systems of planning and internal control to carry out the regulated activities;
- maintaining an investment grade credit rating;
- restrictions on the disposal of land and an obligation on the Issuer 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 purpose of such an order could be achieved;
- an obligation on the Issuer to conduct its regulated business as if it was substantially the Issuer's sole business and the Issuer was a separate public limited company;
- provisions on the payment of fees and the supply of information to Ofwat;
- a provision allowing the Instrument of Appointment to be terminated on 25 years' notice;
- provisions relating to water supply licensing competition including those requiring compliance with an access code and the "Customer Transfer Protocol"; and
- restrictions on dealings with associated companies. The consent of Ofwat is required for certain transactions including transferring certain rights or assets, guaranteeing any liability, or lending any funds to an associated company and all transactions with associated companies must be on an arm's length basis without cross subsidy.

Instrument of Appointment conditions can be modified by Ofwat, either with the Regulated Company's agreement or following reference to the CC for a decision on public interest grounds. The Issuer understands Ofwat is minded to make further changes to Instruments of Appointment across the industry. Instrument of Appointment modifications can also result, in certain circumstances, from a merger or market investigation reference to the CC.

In September 2006 Ofwat proposed a modification to WOC and WaSC Instruments of Appointment in order to introduce cash lock-up provisions similar to those already applied to energy companies. These provisions prohibit, subject to certain limited exceptions, and without the regulator's prior consent, the transfer of cash or other assets to an associated company (including the payment of a dividend or other distribution out of distributable reserves) in certain circumstances where a Regulated Company's investment grade credit rating is threatened. These modifications were made to the Issuer's Instrument of Appointment in 2010. These Instrument of Appointment conditions, as amplified by explanatory side letters, contain provisions some of which are already included in substance within terms of the STID.

Price control

Ofwat regulates water charges by capping the average increase in charges to most customers that a company can impose in any year. Ofwat conducts a periodic review and sets price caps every five years. Following a consultation process in 2006, Ofwat announced that it intended to maintain this five-year review period of price controls but that it would also seek to place price limits within a longer-term framework. In particular,

Regulated Companies were required to submit to Ofwat a strategic direction statement (“**SDS**”) setting out the Regulated Company’s plans and vision over the longer term (at least 25 years ahead). Regulated Companies were also required to include a 25-year forward looking plan as part of their draft and final business plans. The Issuer revisited and updated its SDS in December 2007.

The price cap is set by reference to inflation as measured by the RPI in the U.K. together with an adjustment factor known as ‘K’, which is specific to each company and which can vary for each year of the review period. The size of a Regulated Company’s K factor (which can be positive, negative or zero) reflects the scale of its capital investment programme, its operating cost, its cost of capital and its operational and environmental obligations, taking into account the scope for it to improve efficiency.

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

For the 2009 price review, Ofwat introduced a new capex incentive scheme (the “**CIS**”) under which companies bear the cost of under-performance for five years, giving symmetry with treatment of efficiency savings. The CIS is designed to provide incentives for companies to put forward challenging and efficient business plans. The lower the CIS ratio of requested to allowed investment, the greater the proportion of requested capex funded through price limits in the 2010-15 period. If a Regulated Company spends more capex than included in price limit assumptions, the actual expenditure, if approved by Ofwat, will be reflected in the future RAV.

Companies were also incentivised to provide a high quality of customer service through the OPA and guaranteed standards schemes. OPA scores in the period 2004-05 to 2008-09 were taken into account at the 2009 price review, and Regulated Companies have been penalised if they provided a poor quality of service by means of adjustments to the K factor at the price review. In the case of the Issuer, which scored comparatively well on the OPA, a price increment of 0.2 per cent. was allowed from April 2010 to March 2015. A Regulated Company that fails to meet the requirements of the guaranteed standards scheme must make a specified payment to the customers affected.

For the 2010-15 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies’ service performance, replacing the OPA. The SIM compares companies’ performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon the Issuer’s relative performance under the SIM it could receive a revenue penalty or reward when price limits are next reset in 2014 for the following five year regulatory period.

Unexpected capital costs or savings arising from changes in certain regulatory assumptions during a review period are recorded and notified by the Issuer to Ofwat. This process, known as ‘logging up and down’, allows prices to be adjusted up or down at the next periodic review to compensate Regulated Companies or customers respectively for the unexpected costs or savings, to the extent agreed by Ofwat. In addition, where certain defined categories of change, changes in capital and operating costs or revenues exceed a specified materiality threshold, the Issuer can request, and Ofwat can instigate, a re-setting of its price limit during the five-year period, known as an Interim Determination of K or “**IDOK**”.

All Regulated Companies' Instruments of Appointment also include a 'shipwreck' or substantial effect clause, which allows Regulated Companies' price limits to be revised when events beyond their control have a significant effect (equivalent over 5 years to more than 20 per cent. of annual revenue).

2009 water price review

On 26 November 2009, Ofwat published its final determination of price limits for the period 1 April 2010 to 31 March 2015. For the Issuer, this included an allowed level of investment of £244 million (2007/08 values) and average annual real price increase of 1.8 per cent. over the five-year period, with the following profile:

	2010/11	2011/12	2012/13	2013/14	2014/15
K factor	0.6	4.2	4.0	0.3	-0.2

In January 2010, after a careful review, the Board of Directors of the Issuer rejected Ofwat's final determination.

As required by the WIA, Ofwat referred the Issuer's rejection to the CC. The rejection of Ofwat's final determination was based on the following principal points:

- it was not considered to be in the best interests of customers; and
- there was a high risk that the service obligations placed upon the Issuer by the final determination could not be delivered for the funding allowed.

On 4 August 2010, the CC redetermined the prices set by Ofwat and set an average K for the Issuer of 3.2 per cent. per annum, with the following profile:

	2010/11	2011/12	2012/13	2013/14	2014/15
K factor	0.6	3.9	3.9	3.9	3.8

The K determined for 2010/11 matched that of Ofwat since the Issuer had already issued water bills. The CC smoothed the K factor over the remaining four years to assist the Issuer's customers, by avoiding the sharper increase in 2011/12 that was required to provide a projected constant return on capital. As a result, the average domestic customer bill will rise from £157 in 2009/10 to £180 by 2014/15 (in 2009/10 values), an increase in real terms of 15 per cent. over the five-year review period.

The Issuer is satisfied with the outcome of the appeal to the CC. Although the allowed cost of capital included in prices has been reduced from that set by Ofwat in its final determination, significant additional allowances for operating costs have been included together with higher levels of allowed investment, particularly for maintenance and for meeting improvements required by the DWI. Specific protection was included should the cost of bad debts materially escalate above the level allowed.

Over the five-year period to 2015, the RAV will increase by approximately 30 per cent. in real terms to £353 million in 2009/10 values.

Certain proposals to provide greater security of supply in emergencies to customers were not funded but consequently there is no obligation on the Issuer to carry out the related schemes.

Whilst the settlement is challenging, the Issuer considers that, within the price limits set by the CC, it can meet the obligations set by Ofwat and confirmed by the CC, including the reduction in leakage, maintenance of customer service standards and asset serviceability, whilst at the same time maintaining an investment grade credit rating.

Litigation

The Issuer is not currently involved in any proceedings in any court or tribunal likely to have a significant effect on its business.

Enforcement and Special Administration

In practice, many regulatory issues arising between Regulated Companies and Ofwat are settled without the need to resort to formal enforcement proceedings. However, where Ofwat is satisfied that a Regulated Company is in breach of the conditions of its Instrument of Appointment or certain of its statutory obligations, it has powers to secure compliance by means of an enforcement order, and to impose financial penalties.

The imposition of financial penalties for breach of Instrument of Appointment conditions and other regulatory duties was introduced by the WA to bring Ofwat's powers into line with those of other regulators. Companies may face a penalty of up to ten per cent. of relevant regulated turnover for breaching Instrument of Appointment conditions, prescribed standards of performance or certain other statutory obligations. Ofwat has published a statement of the policy that it intends to apply to the imposition of any penalty and the determination of its amount. Such penalties can be appealed to the High Court on the grounds that their imposition is not within Ofwat's power, that Ofwat has failed to follow the procedure for imposing such penalties, or that the dates required for payment of such penalties are unreasonable.

Failure to comply with an enforcement order can lead to court action by Ofwat for an injunction and claims for compensation by any person who suffers loss or damage as a result of the breach. Alternatively, where actual or likely contravention of an enforcement order (or of one of a Regulated Company's principal statutory duties under the WIA) is so serious as to make it inappropriate for the Regulated Company to continue to hold its Instrument of 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 Regulated Company is, or is likely to be, unable to pay its debts.

A Special Administrator has powers similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. He is appointed only for the purposes of transferring to one or more different companies, as a going concern, so much of the business of the Regulated Company as is necessary to transfer in order to ensure the proper carrying out of its water supply functions, as the case may be, and, pending the transfer, of carrying out those functions (the “**transfer purpose**”). Once the relevant provisions of the Flood and Water Management Act 2010 are brought into force, where a Regulated Company 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 Regulated Company 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.

On any application for the winding up of a Regulated Company the court is obliged (if it is otherwise satisfied that it would be appropriate to make the order) to make a Special Administration Order instead. A Regulated Company also cannot be wound up voluntarily, or have an administration order made in relation to it, unless fourteen days' notice is given to the Secretary of State or Ofwat (which gives them time to decide whether to apply for a Special Administration Order). Notice must also be given before any step is taken by any person to enforce security over the Regulated Company's property (See the sub-section entitled “*Restrictions on the Enforcement of Security*” below).

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land (as defined in the WIA) except with the specific consent of, or in accordance with a general authorisation given by, the Secretary of State. A consent or authorisation may be given on such conditions as the Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge (see the sub-section entitled “*Restrictions on the Granting of Security*” below). All land disposals are reported to Ofwat in the Annual Return. Ofwat applies its price controls to ensure that 50 per cent. of the net gain from land disposals is returned to customers in the form of lower charges.

Restrictions on the Granting of Security

A Regulated Company’s ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its Instrument of Appointment. For example, all Instruments of Appointment (including the Issuer’s Instrument of Appointment) restrict a Regulated Company’s ability to dispose of Protected Land in this way (as described above in “*Protected Land*”). Accordingly, an Instrument of Appointment restricts a Regulated Company’s ability to create a charge or mortgage over Protected Land.

In addition, provisions in a Regulated Company’s Instrument of Appointment require the Regulated Company at all times:

- (a) to ensure, so far as is 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 purpose of such an order could be achieved; and
- (b) to act in the manner best calculated to ensure that it has adequate (i) financial resources and facilities, (ii) management resources and (iii) systems of planning and internal control, to enable it to carry out its regulated activities including the investment programme necessary to fulfil its obligations in respect of its Instrument of Appointment.

These requirements must not be dependent upon the discharge by any other person of any obligation under or arising from any agreement or arrangement under which that other person has agreed to provide any services to the Regulated Company in its capacity as the Regulated Company.

These provisions further limit the ability of the Issuer to grant security over its assets, in particular assets required for carrying out its regulated business, and limit in practice the ability to enforce such security.

In the case of the Issuer, the substantial majority of the Issuer’s assets by value is tangible property which is either Protected Land and/or assets that are required for carrying out the Issuer’s regulated business and cannot therefore be effectively secured. This necessarily affects the ability of the Issuer to create a floating charge over the whole or substantially the whole of its business. However, in any event, there is no right under the WIA to block the appointment of a Special Administrator equivalent to the right that a holder of a floating charge over the whole or substantially the whole of the business of a non-Regulated Company may have, in certain circumstances, to block the appointment of a conventional administrator under the Insolvency Act 1986.

Restrictions on the Enforcement of Security

Under the WIA, the enforcement of security given by a Regulated Company in respect of its assets is prohibited unless the person enforcing the security has first given 14 days’ notice to both the Secretary of State and Ofwat. If a petition for Special Administration has been presented leave of the Court is required before such security is enforceable or any administrative receiver can be appointed (or, if an administrative

receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a Special Administration Order is in force with some modification (see the sub-section entitled “*Enforcement and Special Administration*” above).

Once a Special Administrator has been appointed, he would have the power, without requiring the Court’s consent, to deal with property charged pursuant to a floating charge as if it were not so charged. When such property is disposed of under this power, the proceeds of the disposal would, however, be treated as if subject to a floating charge which had the same priority as that afforded by the original floating charge.

A disposal by the Special Administrator of any property secured by a fixed charge given by the Regulated Company could be made only under an order of the Court unless the creditor in respect of whom such security is granted otherwise agreed to such disposal. Such an order could be made if, following an application by the Special Administrator, the Court was satisfied that the disposal would be likely to promote one or more of the purposes for which the order was made (although the Special Administrator is subject to the general duty to manage the company in a manner which protects the respective interests of the creditors and members of the Regulated Company). Upon such disposal, the proceeds to which that creditor would be entitled would be determined by reference to the “best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order”, as opposed to an amount not less than “open market value”, which would apply in a conventional administration for a non-Regulated Company under the Insolvency Act.

Within three months of the making of a Special Administration Order or such longer period as the Court may allow, the Special Administrator must send a copy of his proposals for achieving the purposes of the order to, amongst others, the Secretary of State, Ofwat and the creditors of the Regulated Company. The creditors’ approval to the Special Administrator’s proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration under the Insolvency Act). The interests of creditors and members in a special administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company’s affairs, business and property are being or have been managed by the Special Administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the Special Administrator is/ or would be so prejudicial. Except as mentioned below, the Court may make such order as it thinks fit, and any order made by the Court may include an order to require the Special Administrator to refrain from doing or continuing an act about which there has been a complaint. The exception referred to above is that the Court may not make an order which would prejudice or prevent the achievement of the purposes of the Special Administration Order.

Competition in the Water Industry

There are two main forms of competition in the water industry: (i) inset appointments and (ii) water supply licensing. An inset appointment is made when an existing undertaker is replaced by another as the supplier of water and services for one or more customers within its licensed area. The WA has extended opportunities for competition in the water industry in England and Wales by introducing a new water supply licensing regime. From 1 December 2005, Regulated Companies have been able to provide either retail supply (i.e. the supply by a licensee of water purchased from a water undertaker’s supply system to an eligible customer) or combined supply (i.e. the introduction of water into an incumbent water company’s existing network for retail by the licensee to an eligible customer, plus retail supply) to non-household users with an annual consumption of not less than 50 megalitres. A water undertaker is obliged to allow a licensed water supplier to use its network for this purpose, subject to payment of charges and certain conditions and rights of refusal. The previous government had accepted the recommendation of the Cave Review (see “*Increased competition in*

the water industry could result in a reduced customer base and market share and could adversely affect profitability” in the section entitled “*Risk Factors*”) to reduce the threshold for competition for non-household users to 5 megalitres a year, but there is currently no indication of when this lower threshold will be brought into effect.

Environmental and Public Health Regulation

The water industry in the U.K. is subject to substantial domestic and EU regulation, placing significant statutory obligations on the Issuer with regard to, amongst other factors, the quality of treated water supplied and the effects of the Issuer’s activities on the environment, biodiversity and human health and safety. The ongoing development of environmental regulation could lead to additional obligations and restrictions being imposed on the Issuer which may adversely impact its operations and increase operating costs and/or capital expenditure.

All water companies have general duties, in exercising their functions, to conserve and enhance biodiversity and natural beauty and to promote efficient use of water. Environmental regulation is primarily the responsibility of the Secretary of State for Environment, Food and Rural Affairs together with:

- The EA, which is responsible for conserving and redistributing water resources and securing their proper use, including the licensing of water abstraction from, and the consenting of discharges to, controlled waters. The previous government had consulted on plans to convert all permanent abstraction licences to time limited licences. The Cave Review included recommendations to reform the abstraction licensing and discharge consenting regimes, which may be addressed in the proposed Water White Paper (see “*Increased competition in the water industry could result in a reduced customer base and market share and could adversely affect profitability*” in the section entitled “*Risk Factors*”).
- The Drinking Water Inspectorate, which enforces drinking water quality standards and is involved in ensuring that water companies are fulfilling their statutory duty as regards the supply of wholesome drinking water, and in prosecuting any Regulated Company that commits the offence of supplying water unfit for human consumption.
- Natural England, which is an independent public body responsible for the protection of designated sites for nature conservation, e.g. sites of special scientific interest. There is a statutory requirement to manage these sites to conserve or improve biodiversity. The Issuer participates in a scheme known as a “Sustainable Catchment Management Programme”.

EU directives including the Water Framework Directive and the Drinking Water Directive are implemented in the U.K. by primary and secondary legislation. The requirements of the Water Framework Directive, including the requirement on EU Member States to ensure that their waters achieve at least “good status” by 2015, may result in increased limitations on abstraction licences and restrictions on discharge consents. Any pollution of controlled waters or other environmental harm caused by the Issuer may result in liability for remedial or compensatory works under a number of statutory liability regimes, including that implemented in the U.K. pursuant to the EU Environmental Liability Directive.

Energy use in water treatment and other activities carried out by the Issuer results in indirect emissions of greenhouse gases. The Issuer is subject to the Climate Change Levy (which according to the Issuer’s own estimate will result in an annual cost of approximately £20,000) and the CRC Energy Efficiency Scheme, a mandatory U.K. emissions trading scheme for significant consumers of energy (which according to the Issuer’s own estimate will result in an annual cost of approximately £500,000).

Description of the Guarantor

The Guarantor is a private limited company registered in England and Wales. The Guarantor (then known as Precis (2332) Limited) was incorporated on 15 January 2003 under the Companies Act 1985 with registered number 4637554.

All of the Issuer's ordinary share capital is owned by the Guarantor, and the Guarantor is in turn a wholly owned subsidiary of BW Holdings.

Board of Directors

The directors of the Guarantor and their functions within the Guarantor are set out below. The business address of each of the directors is the Guarantor's registered office, which is PO Box 218, Bridgwater Road, Bristol, BS99 7AU.

Name	Function
Alan Parsons	Director ¹
Miquel Anglada	Director

¹ Alan Parsons will retire from the Board on 30 September 2011.

There is no existing or potential conflict of interest between the directors' duties to the Guarantor and/or their private interests or other duties. Where directors hold other directorships within the wider group, they take no part in authorising any related party transactions.

Company Secretary

The company secretary of the Guarantor is Stephen Robson.

Terms and Conditions of the Bonds

The following are the terms and conditions substantially in the form in which they will be endorsed on the Bonds:

The issue of the Bonds was authorised by a resolution of the Committee of the Board of Directors of the Issuer passed on 9 March 2011 and the Committee was given its authority by the resolution of the Board of Directors of the Issuer passed on 25 January 2011. The Bonds are constituted by a trust deed (the “**Trust Deed**”) dated 25 March 2011 between the Issuer and Capita Trust Company Limited (the “**Bond Trustee**”) which expression shall include all persons for the time being the bond trustee or bond trustees under the Trust Deed) as bond trustee for the holders of the Bonds (the “**Bondholders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the coupons relating to them (the “**Coupons**”). Copies of the Trust Deed, and of the paying agency agreement (the “**Paying Agency Agreement**”) dated 25 March 2011 relating to the Bonds between the Issuer, the Bond Trustee, Citibank, N.A., London Branch as agent bank (the “**Agent Bank**”) which expression includes the Agent Bank for the time being) and the initial principal paying agent and the other paying agents named in it and the STID (as defined below), are available for inspection during usual business hours at the principal office of the Bond Trustee (presently at 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE) and at the specified offices of the principal paying agent for the time being (the “**Principal Paying Agent**”) and the other paying agents for the time being (the “**Paying Agents**”, which expression shall include the Principal Paying Agent). The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the security trust and intercreditor deed dated 7 May 2003 (as amended and restated on 12 February 2004 and 15 June 2006) entered into between, amongst others, Capita IRG Trustees Limited (the “**Security Trustee**”) and the Issuer (the “**STID**”) and the other Security Documents and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

Capitalised terms used but not defined in these Conditions have the meaning ascribed to them in the STID and the Trust Deed. In the event of any inconsistency between the terms in the Trust Deed and the terms in the STID, the terms in the STID shall prevail.

1 Form, Denomination and Title

- (a) **Form and denomination:** The Bonds are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue.
- (b) **Title:** Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Bonds and Coupons constitute direct and unconditional obligations of the Issuer, are guaranteed and secured in the manner prescribed in Condition 4 (*Security, Priority and Relationship with Secured Creditors*), and shall at all times rank *pari passu* and without any preference among themselves.

3 Covenants

- (a) The Bonds have the benefit of the covenants set out in Clauses 6 (*Financial Covenants*), 7 (*Financial Information Covenants*), 8 (*Positive Covenants*) and 9 (*Negative Covenants*) of the STID, including a negative pledge, and Clause 6 (*Covenants*) of the Trust Deed.
- (b) So long as any Rated Bond remains outstanding, the Issuer shall not create, incur, guarantee or otherwise become liable in respect of any additional Qualifying Debt ("New Qualifying Debt") unless, following the incurrence of such New Qualifying Debt EITHER:
 - (A) (i) the 24 Month Due Amount does not exceed 20 per cent.; and
 - (ii) the Periodic Review Due Amount does not exceed 40 per cent. (such percentage to be adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years); OR
 - (B) the Issuer covenants in any Borrower Finance Document that it enters into in respect of New Qualifying Debt that it will:
 - (i) (on or around the date falling five years prior to the legal maturity date of Qualifying Debt not in compliance with Condition 3(b)(A) (the "**Relevant Maturity Date**"), open a sinking fund account; and
 - (ii) from the date falling four years prior to the Relevant Maturity Date and, thereafter, on the anniversary of such date up to and including the Relevant Maturity Date, transfer in equal instalments (as adjusted for any applicable indexation) an amount equal to the principal amount outstanding of the Relevant Aggregate Qualifying Debt such that, as at each Relevant Maturity Date, there shall be standing to the credit of the sinking fund account an amount equal to, but not exceeding, the outstanding principal amount of the Relevant Aggregate Qualifying Debt.
- (c) To the extent that the Issuer enters into any Borrower Finance Document in respect of New Qualifying Debt, the Issuer shall ensure that Conditions 3(b) and 3(c) are included as a covenant in such Borrower Finance Document.

For the purposes of this Condition 3:

"24 Month Aggregate Qualifying Debt" means all Qualifying Debt other than the Loans, unless the principal amount outstanding of the New Qualifying Debt and any Loans falls due within any period of 24 consecutive months (from and including the first day of any 24 month period to but excluding the day falling 24 months later), in which case, 24 Month Aggregate Qualifying Debt shall include those Loans which fall due within such 24 month period.

"24 Month Due Amount" means the aggregate principal amount outstanding of any 24 Month Aggregate Qualifying Debt which falls due within any period of 24 consecutive months (from and including the first day of any 24 month period to but excluding the day falling 24 months later) expressed as a percentage of RAV.

"Loans" means the loans under the Index-Linked Programme and Non Index-Linked Programme.

"Periodic Review Aggregate Qualifying Debt" means all Qualifying Debt other than the Loans, unless the principal amount outstanding of the New Qualifying Debt and any Loans falls due within the period from the first day of one Periodic Review to but excluding the first day of the next Periodic

Review, in which case, Periodic Review Aggregate Qualifying Debt shall include those Loans which fall due within such Periodic Review period.

“Periodic Review Due Amount” means the aggregate principal amount outstanding of any Periodic Review Aggregate Qualifying Debt which falls due within the period from the first day of one Periodic Review to but excluding the first day of the next Periodic Review expressed as a percentage of RAV.

“Relevant Aggregate Qualifying Debt” means an amount equal to the 24 Month Aggregate Qualifying Debt and / or the Periodic Review Aggregate Qualifying Debt as relevant less any Qualifying Debt falling due in the relevant period in respect of which the Issuer has a requirement to establish a sinking fund in accordance with Condition 3(b)(B) and the Loans (provided that no amount of Qualifying Debt shall be counted more than once).

“Rated Bond” means any bond issued by the Issuer to which a rating is ascribed by any of the Rating Agencies.

4 Security, Priority and Relationship with Secured Creditors

- (a) **Guarantee and Security:** Under the Security Documents, the Issuer and the Guarantor secure the obligations of the Issuer, and the Guarantor guarantees the obligations of the Issuer under the Borrower Finance Documents (the **“Guarantee”**) upon the whole of its property, undertaking, rights and assets, subject to certain specified exceptions and, in the case of the Issuer, to the terms of the Instrument of Appointment (as defined below) and any requirements thereunder or the WIA (as defined below) to the Security Trustee for itself and on behalf of the Borrower Beneficiaries (including, without limitation, the Bond Trustee for itself and on behalf of the Bondholders). The Bonds will share in the security (the **“Security”**) constituted by the Security Documents.
- (b) **Enforceable Security:** The STID provides that the Security Trustee (except in relation to Reserved Matters and Entrenched Rights and subject to certain exceptions) will act on instructions of the Controlling Finance Party and, when so doing, the Security Trustee is not required to have regard to the interests of any Borrower Finance Party (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting. In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Controlling Finance Party, enforce its rights with respect to the Security in accordance with the instructions of the Controlling Finance Party, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, **provided that** the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured and/or prefunded to its satisfaction.
- (c) **Application After Enforcement:** After enforcement of the Security, the Security Trustee shall (to the extent that such funds are available) use all available funds to make payments in accordance with the Post-Enforcement Payment Priorities (as defined below).
- (d) **Bond Trustee and Security Trustee not liable for security:** The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the

Security Documents whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

In these Conditions:

the "**WIA**" means the United Kingdom Water Industry Act 1991 (as amended); and "**Instrument of Appointment**" means the instrument of appointment dated 1989 as amended under which the Secretary of State for the Environment appointed the Issuer as a water undertaker under the WIA for the areas described in the Instrument of Appointment, as modified or amended from time to time; and

"**Post-Enforcement Payment Priorities**" means the payment priorities set out at paragraph 6.1 (*Borrower Security Trustee Application*) of Schedule 3 (*Security Trust Provisions*) of the STID.

5 Interest

- (a) **Interest:** The Bonds bear interest from and including 25 March 2011 at the rate of 2.701 per cent. per annum, adjusted for indexation in accordance with Condition 6 (*Indexation*), payable semi-annually in arrear on 25 March and 25 September in each year (each an "**Interest Payment Date**"). Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Bond Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

In these Conditions, the period beginning on and including 25 March 2011 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per £1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of 2.701 per cent. (adjusted for indexation in accordance with Condition 6(b) (*Application of the Index Ratio*)), the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

- (b) **Calculation of amount of interest and other amounts:** The Agent Bank will, as soon as possible on the first Business Day on which it is practicable to calculate the Index Ratio applicable to the relevant Calculation Date in accordance with Condition 6(a) (*Definitions*) or at such other times as the Agent Bank may be required to calculate any amount payable in accordance with Condition 7 (*Redemption and Purchase*) or Condition 10 (*Acceleration Events*), calculate the amount of interest payable per Calculation Amount for the relevant Interest Period and any amount of principal and accrued but unpaid interest payable in accordance with Condition 7 (*Redemption and Purchase*) or Condition 10

(*Acceleration Events*). The calculation of any such amount by the Agent Bank shall (in the absence of manifest error) be final and binding upon all parties.

- (c) **Publication of amount of interest payable per Calculation Amount:** The Agent Bank will cause the amount of interest payable per Calculation Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bond Trustee, each of the Paying Agents and any stock exchange on which the Bonds are for the time being listed and to be notified to Bondholders as soon as possible after its calculation but in no event later than the fourth Business Day thereafter. The amount of interest payable per Calculation Amount and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Bond Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Bonds become due and payable under Condition 10 (*Acceleration Events*), the accrued interest per Calculation Amount in respect of the Bonds shall nevertheless continue to be calculated as previously by the Agent Bank in accordance with this Condition and Condition 6(b) (*Application of the Index Ratio*) but no publication of the amount of interest payable per Calculation Amount so calculated need be made unless the Bond Trustee otherwise requires.
- (d) **Calculation by Bond Trustee:** If the Agent Bank does not at any time for any reason calculate the amount of interest payable per Calculation Amount for an Interest Period or any other amount payable in accordance with Condition 7 (*Redemption and Purchase*) or Condition 10 (*Acceleration Events*), the Bond Trustee or an agent on its behalf shall do so without liability to any person for so doing and such calculation shall be deemed to have been made by the Agent Bank. In doing so, the Bond Trustee shall apply the foregoing provisions of this Condition and Condition 6(b) (*Application of the Index Ratio*), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6 Indexation

- (a) **Definitions:**

“**Affiliate**” means in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company, including, for the avoidance of doubt, Agbar UK Limited;

“**Base Index Figure**” means (subject to Condition 6(c)(i) (*Change in base*)) 228.86452 (calculated as an interpolation between the U.K. Retail Price Index figures for December 2010 and January 2011);

“**Calculation Date**” means any date when a payment of interest or, as the case may be, principal falls due;

“**Holding Company**” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary;

“**Index**” or “**Index Figure**” means, in relation to any relevant month (as defined in Condition 6(c)(ii) (*Delay in publication of Index*)), subject as provided in Condition 6(c)(i) (*Change in base*), the U.K. Retail Price Index (RPI) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the U.K. Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Information on the U.K. Retail Price Index, including past and further performance of the U.K. Retail Price Index and its volatility, can be obtained from the Office for National Statistics and on the date of publication of the Prospectus

such information was accessible at the following website: <http://www.statistics.gov.uk/rpi>. The contents of this website are for information purposes only and do not form part of the Conditions;

Any reference to the “**Index Figure applicable**” to a particular Calculation Date shall, subject as provided in Condition 6(c) (*Changes in Circumstances Affecting the Index*) and Condition 6(e) (*Cessation of or Fundamental Changes to the Index*) below, be calculated in accordance with the following formula:

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

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

“**IFA**” means the Index Figure applicable;

“**RPI_{m-2}**” means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

“**RPI_{m-3}**” means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

“**Index Ratio**” applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

“**Reference Gilt**” means the 0.625 per cent. U.K. Treasury Index-Linked gilt due March 2040 for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an “**Indexation Adviser**”); and

“**Subsidiary**” means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

- (b) **Application of the Index Ratio:** Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio applicable to the month in which such payment falls to be made and rounded to the nearest pence (half a pence being rounded upwards).
- (c) **Changes in Circumstances Affecting the Index**
 - (i) *Change in base:* If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “**Index**” and “**Index Figure**” in Condition 6(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
 - (ii) *Delay in publication of Index:* If the Index Figure relating to any month (the “**relevant month**”) which is required to be taken account of for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth Business Day before the date on which any payment of interest or principal on the Bonds is due (the “**date for payment**”), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as the Indexation Adviser considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other

designated debt manager of Her Majesty's Treasury, from time to time) 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 an Indexation Adviser; or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 6(c)(i) (*Change in base*)) before the date for payment.

(d) **Application of Changes:** Where the provisions of Condition 6(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 6(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

- (i) in relation to a payment of interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 6(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) **Cessation of or Fundamental Changes to the Index**

- (i) If (1) the Bond Trustee has been notified by the Agent Bank that the Index has ceased to be published; or (2) 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 the Bond Trustee acting solely on the advice of an Indexation Adviser (and on whose opinion the Bond Trustee is entitled to rely absolutely and without liability), be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee (acting solely on the advice of the Indexation Adviser (on whose opinion the Bond Trustee is entitled to rely absolutely and without liability)) together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in 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.
- (ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer with the prior approval of the Bond Trustee or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the “**Expert**”), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in 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. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the

Expert and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond 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 Bond 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 other Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 16 (*Notices*) of such amendments as promptly as practicable following such notification.
- (iv) The Bond Trustee shall be entitled to rely absolutely on any determination of an Expert or the Indexation Adviser without liability to any person for doing so (and whether the liability of any such Expert or Indexation Adviser is limited by a monetary cap or otherwise).

7 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 25 March 2041, as adjusted for indexation in accordance with Condition 6(b) (*Application of the Index Ratio*). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.
- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), the Bond Trustee, the Security Trustee and the Controlling Finance Party, at their principal amount, and together with interest accrued to the date fixed for redemption, each adjusted in accordance with Condition 6(b) (*Application of the Index Ratio*), if (i) the Issuer satisfies the Bond Trustee immediately prior to the giving of such notice that it (or, if the Guarantee is called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 25 March 2011, and (ii) such obligation cannot be avoided by the Issuer or 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, if the Guarantee is called, the Guarantor) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Issuer shall deliver to the Bond Trustee (x) a certificate signed by two directors of the Issuer (or the Guarantor as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor as the case may be) taking reasonable measures available to it and the Bond Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will be obliged to pay such additional amounts as a result of such change or amendment.

- (c) **Redemption for Index Event:** Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), the Bond Trustee, the Security Trustee and the Controlling Finance Party, redeem all (but not some only) of the Bonds referable to the Index the subject of the Index Event on any Interest Payment Date at the principal amount plus accrued but unpaid interest (each as adjusted in accordance with Condition 6(b) (*Application of Index Ratio*)). Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Security Trustee and the Controlling Finance Party a certificate signed by two directors (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption and that any such redemption would not cause an Acceleration Event to occur or subsist and the Bond Trustee and the Security Trustee shall be entitled to rely on such certificate without liability to any person.

“**Index Event**” means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 6(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Agent Bank 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) the Indexation Adviser has not been able to recommend any amendment or substitution of the Index to the Issuer and become effective pursuant to Condition 6(e) (*Cessation of Fundamental Changes to the Index*) and such circumstances are continuing.

- (d) **Redemption at the option of the Issuer:** The Issuer may, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), the Bond Trustee, the Security Trustee and the Controlling Finance Party, redeem all, but not some only, of the Bonds at a price which shall be the higher of the following:
- (i) their principal amount (as adjusted for indexation); and
 - (ii) their principal amount (as adjusted for indexation) multiplied by that price (the “**Redemption Price**”), expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield (as defined below) on the Bonds, if they were to be purchased at such price on the second dealing day prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the 0.625 per cent. Treasury Stock 2040 or, if such stock is no longer in issue, of such other U.K. Government Stock as the Issuer, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the “**Reference Stock**”) on the basis of the middle market price of the Reference Stock prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by the Agent Bank. Any reference in these Conditions to principal shall, where applicable, be deemed to be a reference to the Redemption Price. The “Gross Redemption Yield” on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper “*Formulae for calculating Gilt Prices from Yields*” page 4, Section One: Price/Yield Formulae “*Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date*” (published 8 June 1998) (as supplemented, amended or replaced from time to time),

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

Notices of redemption will specify the date fixed for redemption and the applicable Redemption Price. No such notice of redemption may be given by the Issuer unless it shall have delivered to the Bond Trustee a certificate signed by two directors of the Issuer (upon which the Bond Trustee may rely absolutely and without liability to any person) that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at the Redemption Price plus accrued interest on the date specified for redemption. Upon the expiry of any notice of redemption delivered in accordance with this Condition 7(d), the Issuer shall be bound to redeem the Bonds called for redemption in accordance with this Condition 7(d).

- (e) **Notice of redemption:** All Bonds in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.
- (f) **Purchase:** The Issuer or any of its Subsidiaries (as defined in the Trust Deed) (if any) or the Guarantor may at any time purchase Bonds in the open market or otherwise at any price (provided that they are purchased together with all unmatured Coupons relating to them). The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 13(a) (*Meetings of Bondholders, Modification, Waiver and Substitution*).
- (g) **Cancellation:** All Bonds so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold.

8 Payments

- (a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent outside the United States of America by a Sterling denominated cheque drawn on, or by transfer to a Sterling denominated account maintained by the payee with, a bank in London. Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable laws and regulations, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.
- (c) **Surrender of unmatured Coupons:** Each Bond shall be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount 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 relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 9 (*Taxation*)) for the relevant payment of principal.
- (d) **Payments on business days:** A Bond or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a Sterling denominated account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this Condition 8 falling after the due date. In this Condition “**business day**” means a day on which commercial banks and foreign exchange markets are open in the relevant city.

- (e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the approval of the Bond Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Principal Paying Agent, (ii) Paying Agents having specified offices in at least two major European cities approved by the Bond Trustee and (iii) a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC (the “**Savings Directive**”) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Bondholders.

9 Taxation

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

- (a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon or where the withholding or deduction could be avoided by the holder making a declaration of non-residence or other similar claim for exemption to the appropriate authority; or
- (b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union.

“**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in London by the Principal Paying Agent or the Bond Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

10 Acceleration Events

If any Acceleration Event occurs and is continuing in relation to the Issuer, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the Trust Deed and the STID) and if so directed by an Extraordinary Resolution or if so requested in writing by holders of at least one fifth in principal amount of the Bonds then outstanding shall, in each case, subject to being indemnified and/or secured and/or prefunded to its satisfaction serve an Emergency Instruction Notice and/or give notice to the Issuer and the Security Trustee that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest (each as adjusted in accordance with Condition 6(b) (*Application of the Index Ratio*)).

11 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 7 (*Redemption and Purchase*) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in London subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

13 Meetings of Bondholders, Modification, Waiver and Substitution

- (a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or the Coupons, or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) **Modification and Waiver:** The Bond Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed which is, in the opinion of the Bond Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Bond Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and the Couponholders and, if the Bond Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Bond Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Bond Trustee may require, but without the consent of the Bondholders or the Couponholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds. In the case of such a substitution the Bond Trustee may agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Bond Trustee be materially prejudicial to the interests of the Bondholders.
- (d) **Entitlement of the Bond Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Bond Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Bond Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

14 Enforcement

The Security Trustee will act on the instructions of the Controlling Finance Party pursuant to the STID, and neither the Bond Trustee nor the Security Trustee shall be bound to take any such step, action or proceedings unless it is indemnified and/or secured and/or prefunded to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing. No Bondholder or Couponholder may proceed directly against the Issuer unless the Bond Trustee, having become bound so to proceed and permitted to do so under the STID, fails to do so within a reasonable time and such failure is continuing.

15 Indemnification of the Bond Trustee

The Trust Deed contains provisions for the indemnification of the Bond Trustee and for its relief from responsibility, including provisions relieving it from taking any action (including taking any proceedings against the Issuer and/or any other person) unless indemnified and/or secured and/or prefunded to its satisfaction. The Bond Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Bond Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Bond Trustee or in any other manner) by reference to a

monetary cap, methodology or otherwise. The Bond Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Bond Trustee and the Bondholders.

The Bond Trustee, in the absence of its own wilful misconduct, negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Controlling Finance Party or Borrower Finance Parties (or their representatives) (as appropriate), shall not in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non-exercise of any consent, waiver, power, trust, authority or discretion vested in the Bond Trustee pursuant to the STID.

The Bond Trustee shall be entitled to rely absolutely (and without liability to any person for so doing) on instructions or directions given by the Controlling Finance Party as if any such instructions or directions had been given by way of an Extraordinary Resolution passed at a Bondholders' meeting.

16 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Bond Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

17 Contracts (Rights of Third Parties) Act 1999

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

18 Governing Law

- (a) **Governing Law:** The Trust Deed, the Bonds and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Coupons may be brought in such courts. Pursuant to the Trust Deed, the Issuer irrevocably submits to the jurisdiction of such courts.

Summary of Provisions relating to the Bonds while in Global Form

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

1 Nominal Amount and Exchange

The nominal amount of the Bonds shall be the aggregate amount from time to time entered in the records of Euroclear Bank S.A/N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) or any alternative clearing system approved by the Bond Trustee (each a “**relevant Clearing System**”). The records of such relevant Clearing System shall be conclusive evidence of the nominal amount of Bonds represented by the Temporary Global Bond and the Global Bond and a statement issued by such relevant Clearing System at any time shall be conclusive evidence of the records of that relevant Clearing System at that time.

The Temporary Global Bond is exchangeable in whole or in part for interests recorded in the records of the relevant Clearing Systems in the Global Bond on or after a date which is expected to be 4 May 2011, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the definitive Bonds described below if the Global Bond is held on behalf of a relevant Clearing System and such relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the holder may give notice to the Principal Paying Agent of its intention to exchange the Global Bond for definitive Bonds on or after the Exchange Date specified in the notice.

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

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

2 Payments

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Global Bond will be made to its holder. The Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant Clearing System and, in the case of payments of principal, the nominal amount of the Bonds will be reduced accordingly. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing System shall not affect such discharge. Condition 8(e)(iii) (*Paying Agents*) and Condition 8(d) (*Payments on business days*) will apply to the definitive Bonds only. For the purpose of any payments made in respect of a Global Bond, Condition 8(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a

day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Bonds.

3 Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a relevant Clearing System, notices to Bondholders may be given by delivery of the relevant notice to that relevant Clearing System for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

4 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9 (*Taxation*)).

5 Meetings

The holder of the Global Bond shall (unless the Global Bond represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond for which the Global Bond may be exchanged.

6 Purchase and Cancellation

On cancellation of any Bond required by the Conditions to be cancelled following its purchase, the Issuer shall procure that details of such cancellation shall be entered *pro rata* in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Bonds recorded in the records of the relevant Clearing Systems and represented by this Global Bond shall be reduced by the aggregate nominal amount of the Bonds so cancelled.

7 Bond Trustee's Powers

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

Intercreditor and Security Arrangements

The following is a summary of certain terms of the STID and the Security Documents. The information below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the terms of the STID (as amended from time to time) and the Security Documents.

The Artesian Financing and other Qualifying Debt

On 7 May 2003, the Issuer originally entered into an index-linked loan facility and a fixed rate loan facility with RBS. RBS then novated (a) the £15 million index-linked loan facility to Artesian Finance plc (the “**First Artesian Loan**”) and (b) the £30 million fixed rate loan facility to Artesian Finance II plc (the “**Second Artesian Loan**”). Artesian Finance plc advanced to the Issuer a further £26 million in February 2004 and £50.1 million in June 2005 under the First Artesian Loan. Artesian Finance II plc advanced to the Issuer a further £27.5 million in February 2004 under the Second Artesian Loan. Each of Artesian Finance plc and Artesian Finance II plc funded its respective Artesian Loan by the issuance of bonds guaranteed by AGE.

As part of the structure of the Artesian Financing, the Issuer entered into the STID through which it established a common covenant, intercreditor and security package for benefit of the First Artesian Loan, the Second Artesian Loan and any other Qualifying Debt raised by the Issuer from time to time. As at 28 February 2011, the aggregate principal amount outstanding of the Issuer’s Qualifying Debt is as follows:

First Artesian Loan (Index-Linked)	£110,100,000
Second Artesian Loan (Fixed Rate)	£57,500,000
Other Qualifying Debt	£47,600,000
TOTAL	£215,200,000
Bonds	£40,000,000
TOTAL FOLLOWING ISSUE OF BONDS	£255,200,000

Pursuant to the terms of the STID, the Controlling Finance Party shall be the party that holds the greatest proportion of the aggregate principal amount outstanding under any Qualifying Debt (see the section entitled “*Controlling Finance Party*” below). As at the date of this Prospectus, the Controlling Finance Party is the Artesian Security Trustee. Under the terms of the Artesian Financing, the Artesian Security Trustee is required to act upon the instructions of the “controlling creditor” of the Artesian Companies which, as at the date of this Prospectus, is AGE.

The STID

The intercreditor arrangements in respect of the Issuer are contained in the STID. The STID regulates the claims of the Secured Creditors of the Issuer (including, upon execution by the Bond Trustee of a Deed of Accession, the Bond Trustee (for itself and on behalf of Bondholders)).

Unsecured creditors will not become parties to the STID and, although ranking behind the Secured Creditors in an administration or other enforcement, will have unfettered, independent rights of action in respect of their debts. However, the incurrence of unsecured Indebtedness is restricted under the STID.

The STID provides for the ranking in point of payment of the claims of the Secured Creditors, both before and after any enforcement of the Security, and for the subordination of all claims by any Subordinated Creditor.

On or after receipt by the Security Trustee of an Enforcement Notice, or upon any Qualifying Debt becoming immediately due and payable pursuant to the STID, the Security Trustee shall distribute all proceeds of enforcement towards payment of amounts due on the Debenture Stock; to satisfy fees, costs, charges, expenses and liabilities (together with accrued interest) payable to the Security Trustee and any Receiver; to make payments on the Liquidity Facility and, thereafter, on a *pro rata* basis in respect of all interest (including any interest on overdue amounts) and principal to the holders of the Qualifying Debt (including the Bonds).

The STID also contains certain (i) representations and warranties, (ii) positive, negative and financial covenants, (iii) trigger events and (iv) acceleration events, a summary of which is set out below in the sections entitled “*Financial covenants*”, “*Covenants*”, “*Representations and warranties*”, “*Trigger Events*” and “*Acceleration Events*”.

Financial covenants

Financial ratios

The Issuer is required on each STID Calculation Date to:

- (a) maintain an Interest Cover Ratio of at least 1.1:1; and
- (b) maintain a Regulated Asset Ratio of not more than 0.95:1,

and, for the avoidance of doubt, immediately following any acquisition of assets made in respect of a water undertaker (as defined in the WIA), or any amalgamation, demerger, merger, consolidation, corporate reconstruction or any such like arrangement with the prior written consent of the Controlling Finance Party, the Issuer, or such merged entity shall maintain an Interest Cover Ratio and a Regulated Asset Ratio as provided in paragraphs (a) and (b) above, calculated on the basis of the financial statements of the newly merged entity from such date until the following STID Calculation Date.

Price determination requests

The Issuer shall submit a business plan to Ofwat which reflects a revised price determination on each scheduled price determination date under the Instrument of Appointment so as to maintain:

- (a) a Forward-looking Interest Cover Ratio of at least 1.50:1; and
- (b) a Regulated Asset Ratio of less than or equal to 0.85:1,

in each case on each STID Calculation Date up to and including the Date Prior which is subsequent to the current Date Prior, save to the extent that, due to Ofwat guidance applicable at the time, the Issuer is not able to comply with this obligation. In such circumstances the Issuer shall notify Ofwat that it is prevented by the Ofwat guidance from fulfilling its obligations under the STID.

IDOK requests

The Issuer shall apply to Ofwat for an IDOK when permitted under the Instrument of Appointment (or use any other means available to it to apply for an IDOK) in each case where consistent with prudent management if:

- (a) the Forward-looking Interest Cover Ratio on any STID Calculation Date up to and including the Date Prior is less than 1.20:1; or
- (b) the Regulated Asset Ratio on any STID Calculation Date up to and including the Date Prior is equal to or greater than 0.925:1.

Changes to Applicable Accounting Principles

In the event that the aggregate changes to the Issuer's Financial Statements, as a result of changes to the Applicable Accounting Principles used therein, would or would reasonably be expected to lead to an increase or decrease in any of:

- (a) the Backward-looking ICR;
- (b) the Forward-looking ICR; or
- (c) the Regulated Asset Ratio,

of 0.005 or more compared to what it would have been without such changes, then an amendment to the basis of calculation of, in the case of paragraph (a), the Historic Net Cash Flow, in the case of paragraph (b), the Forecast Net Cash Flow and, in the case of paragraph (c), Total Net Indebtedness will be made to ensure that the result is the same as if such changes to the Applicable Accounting Principles had not occurred. The Issuer and the Security Trustee (acting on the sole instructions of the Controlling Finance Party) (in each case, acting reasonably) shall agree in writing to the amendments required to such financial covenants and related definitions as described above, together with any other changes to the STID required as a consequence thereof, in accordance with the following guiding principles:

- (i) to the extent that any element of the aggregate changes to the Issuer's Financial Statements relates to a new gain or loss being included in operating profit or an existing gain or loss being removed from operating profit, such element shall be (in the case of a new gain or loss included) deducted from or (in the case of an existing gain or loss removed) added back to the calculation for future calculation periods; and
- (ii) to the extent that any element of the aggregate changes to the Issuer's Financial Statements relates to a change in the measurement basis of a gain or loss in operating profit, the Issuer shall determine an appropriate adjustment to the method of calculation of such gain or loss.

For the avoidance of doubt, any such modification may, subject as aforesaid, occur more than once and may occur each time there are any changes to the Applicable Accounting Principles which would or would reasonably be expected to have the effect as aforesaid.

Covenants

The Issuer will also give certain covenants which (subject to agreed exceptions and materiality qualifications) include the following:

Relevant Payments

The Issuer shall not pay, make or declare, or otherwise make any payment in respect of, any Relevant Payment unless:

- (a) if a notice to terminate the Instrument of Appointment has been served, an independent financial adviser (selected by the Security Trustee) has certified to the Security Trustee that a transfer scheme as defined in Schedule 2 of the Act has been established or other satisfactory security has been provided and that such transfer scheme as defined in Schedule 2 of the Act will not be materially prejudicial to the interests of any Secured Creditor. The costs and expenses reasonably incurred of any independent financial adviser shall be borne by the Issuer;
- (b) as at the STID Calculation Date immediately following the applicable Relevant Payment assuming that the proposed Relevant Payment had been made:

- (i) no Potential Trigger Event, Trigger Event, Potential Acceleration Event or Acceleration Event would occur and be continuing taking into account any developments in or changes to any information (financial or otherwise) which would have occurred since the immediately preceding STID Calculation Date;
 - (ii) the ICR would be greater than or equal to 1.4:1 in any STID Calculation Period up to and including the Final Forecast Date;
 - (iii) the RAR would be less than or equal to 0.86:1 at that STID Calculation Date and any STID Calculation Date up to and including the Final Forecast Date;
 - (iv) in respect of Relevant Payments to be made after September 2003, the Controlling Finance Party is satisfied with the Updated Capital Expenditure Programme (in accordance with Clause 7.2.2 of the STID), failing which the Agreed Updated Capital Expenditure Programme, in each case in respect of the preceding STID Calculation Date, will be used for the purposes of calculating the ICR and RAR under Clauses 9.12.2(ii) and 9.12.2(iii) of the STID as appropriate; and
 - (v) save for any Relevant Payments made before the first STID Calculation Date and prior to the delivery of the Updated Capital Expenditure Programme in accordance with Clause 7.2.2 of the STID, the Issuer has complied with the procedure in Clause 7.2.2 of the STID and either (a) is substantially in compliance with the Agreed Updated Capital Expenditure Programme, or (b) the Controlling Finance Party is satisfied with the Updated Capital Expenditure Programme in accordance with Clause 7.2.2 of the STID, or (c) the Updated Capital Expenditure Programme is more than 85 per cent. of the Capital Expenditure shown in the Original Capital Expenditure Programme;
- (c) there is no outstanding principal or interest or any other sum due and payable from the Issuer to a Non-Group Subordinated Creditor in respect of any Subordinated Liabilities at the time of the making of the Relevant Payment, in the currency and in the manner specified therein and (in the case of a sum other than principal or interest) no such failure has continued unremedied for a period of (i) 10 Business Days after the relevant due date or (ii) any applicable grace period, whichever is the later for payment of such sum;
- (d) two directors of the Issuer are able to certify that it will be able to fully comply with its obligations under Clause 15.7 (*Debt Service Payment Account - Deposits*) of the STID for the period up to and including the next succeeding STID Calculation Date and that in respect of any Relevant Payments to be paid, made or declared, it has complied with the criteria set out in Clause 9.12.2 of the STID; or
- (e) the Issuer may not make a Relevant Payment if on the date upon which such Relevant Payment is proposed to be made, the shadow rating of the Issuer by either of the Rating Agencies has fallen below Investment Grade or will fall below Investment Grade when the Relevant Payment is made, or the Issuer has been placed on credit watch with negative implications and it is reasonably likely that such shadow rating will fall below Investment Grade, unless the Controlling Finance Party confirms to the Issuer that it is satisfied (such confirmation not to be unreasonably withheld or delayed provided that, if the Controlling Finance Party is the relevant Artesian Security Trustee, the Controlling Finance Party shall only be required to give such confirmation if directed to do so by the controlling creditor (as defined in relation to the relevant Programme)) that the making of such Relevant Payment would not negatively affect the shadow rating of the Issuer.

Restrictions on Indebtedness

The Issuer shall not create, incur, guarantee or otherwise become liable in respect of, or permit to subsist, any Indebtedness for Borrowed Money unless (A) such Indebtedness for Borrowed Money is Permitted Indebtedness (where in the case of Permitted Indebtedness falling within paragraphs (c), (e), (f) or (h) of the definition of such term, the party to whom such Indebtedness is owed has acceded to the STID) or (B) any of the following occur:

(a)

- (i) the most recent ICR (calculated on a pro forma basis taking into account the proposed Indebtedness with respect to the Forward-looking ICR only) for any STID Calculation Period up to and including the Final Forecast Date is equal to or greater than 1.4:1;
- (ii) the most recent Regulated Asset Ratio (taking into account the proposed Indebtedness for each subsequent STID Calculation Date only) up to and including the Final Forecast Date is less than or equal to 0.86:1; and
- (iii) such Indebtedness for Borrowed Money ranks no higher than *pari passu* with each Artesian Loan and the providers of such Indebtedness for Borrowed Money have acceded to the STID;

or

(b)

- (i) the most recent ICR (calculated on a pro forma basis taking into account the proposed Indebtedness with respect to the Forward-looking ICR only) is equal to or greater than 1.2:1 (but less than 1.40:1) at any STID Calculation Date up to and including the Date Prior;
- (ii) the most recent Regulated Asset Ratio (taking into account the proposed Indebtedness) or the Regulated Asset Ratio on each STID Calculation Date up to and including the Final Forecast Date is less than or equal to 0.925:1;
- (iii) such Indebtedness for Borrowed Money ranks no higher than *pari passu* with each Artesian Loan and the providers of such Indebtedness for Borrowed Money have acceded to the STID;
- (iv) such Indebtedness for Borrowed Money does not result in the downgrading of the Shadow Rating below Investment Grade; and
- (v) the Issuer obtains the prior written consent of the Controlling Finance Party;

or

(c)

- (i) the Rating Agencies who have then assigned a current Shadow Rating confirm that such further Indebtedness for Borrowed Money does not have an adverse effect on the then current Shadow Rating;
- (ii) such Indebtedness for Borrowed Money ranks no higher than *pari passu* with the Indebtedness for Borrowed Money created under the relevant Facility Agreement and the providers of such Indebtedness for Borrowed Money have acceded to the STID; and
- (iii) the Issuer obtains the prior written consent of the Controlling Finance Party,

provided that, in each case, affirmations or confirmations by the Rating Agencies shall not be the only consideration for the Controlling Finance Party in granting its consent under paragraphs (b) and (c) above.

Qualifying Debt

The Issuer shall not incur Qualifying Debt which is Restricted Debt except with the prior written consent of the Controlling Finance Party.

Negative pledge

The Issuer shall not create or permit to subsist any encumbrance over all or any of its present or future revenues or assets other than Permitted Encumbrances.

Additional covenants

Additional covenants set out in the STID include, in summary: (a) information covenants relating to the provision of financial information and compliance with financial covenants; (b) restrictions on certain disposals and acquisitions; (c) restrictions on certain transactions with Affiliates; (d) maintenance of insurance and compliance with laws (including environmental laws); and (e) the conduct of the Issuer's business in accordance with its Instrument of Appointment and good industry practice.

Representations and warranties

In addition, the Issuer and the Guarantor shall, on the date that the Bond Trustee executes the Deed of Accession, make to the Secured Creditors certain representations and warranties, subject to agreed exceptions and qualifications as to materiality and reservations of law, including in relation to the following: (a) its corporate status, power and capacity; (b) non-conflict with laws or regulation; (c) in the case of the Guarantor, its legal and beneficial ownership of all of the issued share capital of the Issuer; (d) no litigation proceedings, which if decided adversely would have a Material Adverse Effect on it, having been commenced or threatened; (e) no actual or Potential Trigger Event or Acceleration Event or default under any other agreement which would have a Material Adverse Effect having occurred in respect of it or being continuing; (f) its ownership of the assets over which security interests has been created under the Security Documents; and (g) there having been no change in its business, assets, financial condition or results of operation which would have a Material Adverse Effect.

Trigger Events

The STID sets out certain Trigger Events, the occurrence of which will entitle the Controlling Finance Party under the STID to take certain actions. Trigger Events include the following:

ICR and RAR

- (a) At a STID Calculation Date, the ICR in any STID Calculation Period up to and including the Final Forecast Date is or is expected to be less than 1.3:1.
- (b) At a STID Calculation Date and as forecast for any subsequent STID Calculation Dates up to and including the Final Forecast Date the RAR is greater than or is expected to be greater than 0.9:1.

Termination of Instrument of Appointment

The giving of a 25-year notice to terminate the Instrument of Appointment without an acceptable transfer scheme approved by the Secretary of State in accordance with the provisions of Schedule 2 of the WIA (*Transitional Provision on Termination of Appointments*) being in place within five years following the date of such notice.

In addition, the following are summaries of certain other Trigger Events:

- (a) the failure to maintain required balances in certain of the Issuer's accounts;
- (b) the occurrence of an Acceleration Event or Potential Acceleration Event;
- (c) the issue of certain enforcement orders under the WIA in relation to the Issuer;

- (d) the commencement of material litigation proceedings; and
- (e) the occurrence of certain circumstances under Clause B13.3 of the Issuer's Instrument of Appointment which permits the Issuer to refer certain questions to Ofwat for determination, known as "shipwreck".

Following the occurrence of a Trigger Event, unless it has been waived by the Controlling Finance Party or remedied to the satisfaction of the Controlling Finance Party, the Controlling Finance Party may take certain actions including all or some of the following: (a) restricting payments by the Issuer to any Affiliate; (b) requiring the Issuer to pay certain surplus funds into a designated account(s); (c) the commission of an independent review conducted by a person approved by the Controlling Finance Party to examine the cause of the relevant Trigger Event and to recommend corrective measures; and (d) requiring the delivery of additional financial information.

Acceleration Events

The STID also sets out Acceleration Events which (subject to agreed exceptions and materiality qualifications) include:

Ratios

If on any STID Calculation Date:

- (a) the Interest Cover Ratio in respect of the immediately preceding STID Calculation Period or the next following STID Calculation Period is or is below 1.1:1;
- (b) the Regulated Asset Ratio in respect of the relevant STID Calculation Date and any STID Calculation Date falling in the immediately following STID Calculation Period is greater than 0.95:1; or
- (c) where a Periodic Review falls or is subsisting during a STID Calculation Period, the RAR for the next 12 month period based on the best information available at the relevant time is greater than 0.95:1.

Failure to pay (Senior Finance Documents)

The Issuer fails to pay principal or interest or any other sum due and payable from it under any of the Senior Finance Documents to which it is a party at the time, in the currency and in the manner specified therein unless (a) such non-payment is in respect of principal or interest and caused by administrative or technical error; and (b) such payment is made within three Business Days of its due date and (in the case of a sum other than principal or interest) such failure continues unremedied for a period of 10 Business Days after the due date for payment of such sum.

Instruments of Appointment, approvals and consents

The Instrument of Appointment, any necessary licence, consent, authorisation or Environmental Approval:

- (a) for the carrying out in all material respects of the Business or the Issuer's business and operations generally; or
- (b) for the performance by an Obligor in all material respects of its obligations under the Relevant Documents; or
- (c) for the performance in all material respects or the exercise of rights by any Obligor or any other person who is or becomes a party to a Relevant Document to which that Obligor is a party,

is not obtained when required, is revoked, ceases to be in full force and effect or is altered in each case in a manner which would have a Material Adverse Effect and in the case of such necessary licence, consent, authorisation or Environmental Approval, the Controlling Finance Party is not reasonably satisfied within a

period of 10 Business Days that it will be restored within such reasonable period as the Controlling Finance Party considers appropriate in the circumstances.

Government intervention

The commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) which is in substantially the same form as prior readings and the enactment of such legislation would have a Material Adverse Effect (taking into account the regulatory regime applicable to the Business of the Issuer at such time) or any of the following steps are taken:

- (a) the management of the Obligor is wholly or partially displaced or the authority of the Obligor in the conduct of its business is wholly or partially curtailed such that this would have a Material Adverse Effect; or
- (b) all or any part of the issued shares of the Issuer or the whole or any part of its revenues or assets is seized, nationalised, expropriated, requisitioned or compulsorily acquired such that this would have a Material Adverse Effect.

Appointment of Receiver, legal process

An encumbrancer takes possession of, or a trustee, special administrator or administrative or other receiver or similar officer is appointed in respect of, all of the business or assets of the Issuer, or any part of the business or assets in excess of one per cent. of the regulatory asset base of the Issuer most recently published by Ofwat in current prices, or distress or any form of execution is levied or enforced upon or sued out against any such assets and is not discharged within 30 days of being levied, enforced or sued out.

Insolvency

- (a) Any Obligor is unable to pay its debts within the meaning of Section 123(1) (other than Section 123(1)(a), where the amount of £750 is replaced by an amount of £250,000, such amount to be indexed with the Retail Price Index) of the Insolvency Act 1986; or
- (b) Any Obligor becomes unable to pay its debts as they fall due or suspends or threatens to suspend making payments (whether as to principal, interest or otherwise) with respect to all or any class of debts.

Composition

Any Obligor makes any arrangement or composition with, or any assignment for the benefit of, its creditors generally or convenes a meeting of its creditors for the purpose of considering any such arrangement, composition or assignment.

Administration, winding up and Special Administration

A petition is presented, or a meeting is convened for the purpose of considering a resolution or other steps are taken for making an administration order against or for the winding up of the Obligor or for the appointment of a liquidator, receiver, administrator, special administrator, administrative receiver or similar official of it or any or all of its revenues or assets or a petition is presented under Section 24 of the WIA in respect of the Issuer or an administration order or a winding up order is made against any Obligor save for any such proceedings which are taken for the purpose of and followed by a solvent reorganisation or merger (which has received the prior written approval of the Controlling Finance Party pursuant to Clause 9.3 (*Merger*) of the STID) and save for such proceedings which are withdrawn, dismissed or discharged within 14 days of being commenced.

Special Administration

A Special Administration Order is made in respect of the Issuer under the WIA.

Notice to terminate Instrument of Appointment

Following notice of the termination of the Instrument of Appointment, failure to put in place an approved transfer scheme as defined in Schedule 2 of the WIA by a date less than five years prior to the expiration of such notice.

Cross-acceleration

Any Indebtedness for Borrowed Money in excess of two per cent. of the Issuer's RAV is declared to be or otherwise becomes due and payable prior to its specified maturity by reason of default by the Issuer.

Material Proceedings

Any litigation against the Issuer or its assets or revenues results in judgment (being both final and without the opportunity for the Issuer to appeal against it) is passed against the Issuer which has or would have a Material Adverse Effect.

In addition, the following shall also constitute Acceleration Events:

- (a) it becoming illegal for the Issuer or the Guarantor to perform its obligations under the documents associated with an Artesian Loan;
- (b) any representation or warranty given by or on behalf of the Issuer or the Guarantor being incorrect or misleading when given or breach by any of them of certain covenants; and
- (c) breach of certain covenants in respect of the Issuer or the Guarantor.

Enforcement

Upon the occurrence of an Acceleration Event which has occurred and has not been waived by, or remedied to the satisfaction of the Controlling Finance Party, and subject to Clause 11.3 (*Acceleration Event Remedies*) of the STID and Entrenched Rights and Reserved Matters, the Controlling Finance Party will have certain rights, including to: (a) direct the enforcement of the Charged Assets; (b) accelerate the repayment of the Artesian Loans and any other Qualifying Debt; (c) direct that steps be taken to perfect the Security; (d) direct that certain actions be taken (or not taken) by the Issuer; and (e) require that the net present value of the Issuer's obligations under the Artesian Loans and any other Qualifying Debt be defeased.

Emergency Instruction Notice

Upon the occurrence of an Acceleration Event which has not been waived by, or remedied to the satisfaction of the Controlling Finance Party, any Qualifying Debt Representative may instruct the Security Trustee to enforce the security constituted by the Security Documents provided that such instructions are accompanied by an Emergency Instruction Notice (as defined). An "**Emergency Instruction Notice**" means a notice given in writing by any Qualifying Debt Representative certifying that an enforcement event (however described) has occurred and is continuing unremedied and unwaived and that, in its opinion, acting reasonably and in good faith:

- (a) any of the Charged Assets expressed to be subject to security constituted by the Security Documents are in danger of being seized or sold under any form of distress, attachment, execution or other legal process or to be otherwise in jeopardy;
- (b) the relevant enforcement is necessary or reasonably prudent for any other reason in order to preserve or protect the security constituted by the Security Documents or any part thereof; or
- (c) the whole or a substantial part of the assets of any Obligor have been destroyed or materially damaged.

Upon receipt of an Emergency Instruction Notice, the Security Trustee shall comply with such instructions as soon as reasonably practicable, whether or not the Security Trustee receives subsequent instructions to the contrary from any person. Such Emergency Instruction Notice shall be irrevocable.

Exercise of Rights

Each of the Secured Creditors agrees that, subject to:

- (a) any Entrenched Rights and Reserved Matters (see the sections entitled “*Entrenched Rights*” and “*Reserved Matters*” below);
- (b) the service of an Emergency Instruction Notice (see the section entitled “*Emergency Instruction Notice*” below); or
- (c) the limited circumstances where the Controlling Finance Party does not hold more than 50 per cent. of the aggregate amount outstanding of the Qualifying Debt (see the section entitled “*Controlling Finance Party*” below); and
- (d) in the case of the Security Trustee, the Security Trust Provisions and the STID,

the Controlling Finance Party is entitled (but not obliged), in respect of any of the Finance Documents, to direct the relevant Secured Creditors as to the exercise of any of such party’s Finance Rights (including the right to accelerate the relevant Qualifying Debt and to enforce the Security). Each Secured Creditor agrees that (subject to its Reserved Matters and any Entrenched Rights) it will, and will only, exercise any Finance Right at the behest of, and as instructed, or as consented to, by the Controlling Finance Party (to the extent that such Finance Right is not already so restricted in any Finance Document).

Save where it is or becomes the Controlling Finance Party, none of the Secured Creditors shall, subject to their Reserved Matters and any Entrenched Rights, have any right, power or authority to veto or direct the actions of the Security Trustee or, subject to its Entrenched Rights and Reserved Matters, the Issuer or the Controlling Finance Party, nor any right to direct the exercise of any rights conferred on the Security Trustee under any of the Finance Documents or under law against the Charged Assets or to direct the Security Trustee to take any action with respect to the Charged Assets (including any assertion of any legal or equitable right to seek appointment of a Receiver) or require the Security Trustee to enforce the performance of any covenant or obligation by an Obligor or otherwise to direct the Security Trustee in the performance of its duties under the Finance Documents. Save where it is or becomes the Controlling Finance Party, none of the Secured Creditors shall have any independent power to enforce the Security Documents or to exercise any rights, discretions or powers or to grant any consents or releases under or pursuant to the Security Documents except through the Security Trustee. Save where it is or becomes the Controlling Finance Party, none of the Secured Creditors shall have any right to institute and shall be precluded from instituting any legal, judicial or administrative proceeding with respect to any rights it may have under the Relevant Documents or for the appointment of a Receiver or trustee or for any other remedy under the Relevant Documents other than, in the case of any Secured Creditor, in respect of any Reserved Matter or any Entrenched Right.

The provisions of the above paragraph shall not apply in relation to Reserved Matters, which may be exercised without the consent or control of the Controlling Finance Party. No Secured Creditor may exercise any Finance Right which is or would contravene an Entrenched Right unless it receives the prior written consent of the Finance Party having the benefit of such Entrenched Right.

Any consent or waiver given by the Controlling Finance Party in relation to the exercise of Finance Rights shall be deemed to be given by all the Secured Creditors.

Controlling Finance Party

The Controlling Finance Party shall be determined as follows:

- (a) the Qualifying Debt Representative for the Qualifying Debt which holds the greatest proportion of the aggregate principal amount outstanding under any Qualifying Debt; or
- (b) where two or more Qualifying Debt Representatives satisfy the requirements of paragraph (a) above and one of those Qualifying Debt Representatives is the Qualifying Debt Representative in relation to the Artesian Loan, the Qualifying Debt Representative in relation to an Artesian Loan; or
- (c) where two or more Qualifying Debt Representatives satisfy the requirements of paragraph (a) above but neither of those Qualifying Debt Representatives is the Qualifying Debt Representative in relation to an Artesian Loan, the Qualifying Debt Representative chosen by the Qualifying Debt Representatives,

provided that, for so long as more than one Artesian Loan is outstanding, “Qualifying Debt Representative in relation to the Artesian Loan” shall mean the Qualifying Debt Representatives in relation to the Artesian Loans acting jointly and in determining the Qualifying Debt Representative holding the greatest proportion of the aggregate principal amount outstanding of any Qualifying Debt, the Artesian Loans shall be aggregated.

Where the STID provides that the Security Trustee is to act on the instructions of the Controlling Finance Party given before the Discharge Date when the Controlling Finance Party does not hold or represent Qualifying Debt Holders who hold, more than 50 per cent. of the aggregate principal amount outstanding under the Qualifying Debt, the Security Trustee on receipt of instructions from the Controlling Finance Party shall supply a copy of such instructions to each Qualifying Debt Representative (including the Bond Trustee).

If, within 21 days of the date of such instructions being sent, the Security Trustee receives notices of objection to such instructions from Qualifying Debt Representatives whose aggregate outstanding amount under the Qualifying Debt, when aggregated with the outstanding debt of the provider of the instructions, exceeds 50 per cent. of the aggregate principal amount outstanding under the Qualifying Debt, the Security Trustee shall not act on the instructions of the Controlling Finance Party.

Entrenched Rights

Entrenched Rights are rights that cannot be modified or waived in accordance with the STID without the consent of the Secured Creditor having the Entrenched Right.

The Entrenched Rights of the Qualifying Debt Representatives (including the Bondholders) are the following Finance Rights:

- (a) any change in the date fixed for payment of principal or interest in respect of the Qualifying Debt, or any reduction in the amount of principal or interest payable on any date in respect of the Qualifying Debt, or any alteration in the method of calculating the amount of any payment in respect of the Qualifying Debt or the date for any such payment;
- (b) any exchange of the Qualifying Debt for, or the conversion of the Qualifying Debt into shares, bonds or other obligations of the Obligor, or any other person or the substitution of any person for the Obligor as principal obligor under the Qualifying Debt;
- (c) a change in the currency of payments under the Qualifying Debt;
- (d) a change to the quorum required at any meeting or the majority required to pass an Extraordinary Resolution (as such term is defined in the document or documents which constitute the Qualifying Debt);

- (e) a release of the Security (unless equivalent replacement security is taken at the same time) unless such release is required in accordance with the terms of the relevant Security Document, or any alteration of the rights of priority and enforcement of the Qualifying Debt Holders under this Deed other than as expressly contemplated in the documents constituting such Security; and
- (f) any amendment to Schedule 2 (*Intercreditor Arrangements*) of the STID other than any amendment which is of a formal, minor or technical nature; or is made to correct a manifest error in accordance with paragraph 7.7.1 of Schedule 2 (*Intercreditor Arrangements*) of the STID.

Reserved Matters

Reserved Matters are matters which, subject to the STID, a Secured Creditor is free to exercise in accordance with its own finance arrangements and so are not exercisable by or by direction of the Controlling Finance Party.

The Reserved Matters of the Qualifying Debt Representatives (including the Bondholders) will include each and every right, power, authority and discretion of, or exercisable by a Qualifying Debt Representative (whether expressed as a right, power, authority or discretion of that Qualifying Debt Representative or obligation of any other party):

- (a) to make any determination contemplated or required under the document or documents which constitute the Qualifying Debt as to the occurrence or otherwise of a default in relation to its Reserved Matters and in relation to its Entrenched Rights;
- (b) which is provided for the purpose of enabling the Qualifying Debt Representative to protect its own position and interests in its personal capacity (including its own personal financial interests) or which the Qualifying Debt Representative acting reasonably determines to be necessary or appropriate to exercise for the protection of its own position and interests in its personal capacity and not as a Qualifying Debt Holder;
- (c) which relates to the application and/or investment by any Qualifying Debt Representatives when it receives amounts pursuant to the terms of the document or documents which constitutes the Qualifying Debt from the Issuer or the Guarantor or as Enforcement Proceeds;
- (d) to determine amounts due in relation to and to claim under indemnities in favour of the Qualifying Debt Representatives (as the case may be) in its own capacity or for and on behalf of Qualifying Debt Holders under the Finance Documents;
- (e) to receive any amounts owing to it for its own account in accordance with the provisions of the Finance Documents;
- (f) to determine the amount of sums due in relation to expenses and stamp duties pursuant to the Finance Documents;
- (g) to make a claim for expenses under the Finance Documents;
- (h) to receive notices, certificates, communications or other documents or information, to direct that such notices, certificates, communications or other documents or information shall be provided (or shall not be provided) to it or any other party, or, where applicable, to determine the form and content of any notice, certificate or communication;
- (i) which relieves or exempts any Qualifying Debt Representative from liability and exculpates or exonerates it and is passive on the part of any Qualifying Debt Representative (including any right of any Qualifying Debt Representative under any of the Finance Documents to make assumptions as to,

or to rely on any notice, certificate or other communication confirming, the existence or non-existence of any fact, circumstance or event);

- (j) against or in relation to the Qualifying Debt Holders;
- (k) to communicate or negotiate with (including any right of any Qualifying Debt Representative under the terms of the document or documents which constitute the Qualifying Debt to enter into any supplemental agreement with):
 - (i) the UKLA, London Stock Exchange or any relevant alternative listing authority stock exchange; or
 - (ii) Euroclear or Clearstream, Luxembourg or any relevant alternative clearing system;
- (l) to enforce any rights under Part I of Appendix A (*Reserved Matters*) of Schedule 2 (*Intercreditor Arrangements*) to the STID;
- (m) save where the relevant Qualifying Debt Representative is in default of a material obligation under a Relevant Document, to agree that that person need not be a Qualifying Debt Representative; and
- (n) to agree to any amendment to Clause 2.1 (*Acknowledgment*) of the STID.

The Security Arrangements

Subject to the restrictions set out in the WIA and the Instrument of Appointment, the Issuer has, pursuant to the Issuer Debenture, created fixed and floating security over assets including, but not limited to, its bank accounts, its accounts receivables, its rights under certain contracts with third parties, its rights under the Finance Documents and its land and other property, but only to the extent that such security would not otherwise contravene the terms of the Act or the Instrument of Appointment. No notice of the creation of the security by the Issuer has been given to its customers. In addition, the Guarantor has created fixed and floating security over its assets, including a fixed charge over all its shares in the Issuer.

The enforcement of security granted by the Guarantor would not be subject to the same restrictions on enforcement applicable to security granted by a Licensed Undertaker under the WIA. However, given the duties of Ofwat under the WIA to exercise its powers and duties to, *among other things*, secure that the functions of a Licensed Undertaker are properly carried out, it is expected that any enforcement of the security over the shares of a Licensed Undertaker and subsequent disposal thereof would require consultation with Ofwat. In addition, depending on the circumstances, merger control provisions could also apply.

Use of Proceeds

The net proceeds of the issue of the Bonds, expected to amount to approximately £39,811,025 after deduction of fees and expenses incurred in connection with the issue of the Bonds, will be used for general corporate purposes.

The total expenses related to the admission to trading are expected to amount to £8975.

Taxation

The comments below are of a general nature based on current United Kingdom law and HM Revenue & Customs practice and are not intended to be exhaustive. Any Bondholders who are in doubt as to their own tax position should consult their professional advisers.

Interest on the Bonds

The Bonds issued will constitute “quoted Eurobonds” provided that they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange.

Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of United Kingdom tax.

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

In all other cases, interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes. However, in relation to amounts payable on the redemption of such Bonds, HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2011.

EU Directive on the Taxation of Savings Income

Under the Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual or to certain other persons in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other territories).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission’s advice on the need for changes to the Savings Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved amendments to this proposal on 24 April 2009. If any of those proposed changes are

made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above. Prospective Bondholders who are in any doubt as to their position should consult their professional advisers.

Subscription and Sale

HSBC Bank plc (the “**Manager**”) has, pursuant to a Subscription Agreement dated 25 March 2011, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Bonds at 100.00 per cent. of their principal amount less a combined management, underwriting and selling commission. In addition, the Issuer has agreed to reimburse the Manager its expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Manager to terminate it in certain circumstances prior to payment being made to the Issuer. The yield of the Bonds is 2.701 on an annual basis. The yield is calculated as at 23 March 2011 on the basis of the issue price. It is not an indication of future yield.

General

Neither the Issuer nor the Manager has made any representation that any action will be taken in any jurisdiction by the Manager or the Issuer that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions.

United States

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

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

The Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

United Kingdom

The Manager has represented and agreed that:

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

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

General Information

1. The listing of the Bonds on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the Market will be granted on or before 28 March 2011, subject only to the issue of a temporary or permanent Global Bond. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Committee of the Board of Directors of the Issuer passed at a meeting of the Board held on 9 March 2011 pursuant to the authority granted by the Board of Directors of the Issuer on 25 January 2011.
3. There has been no significant change, save (in respect of the Issuer) as disclosed in the paragraph entitled “*Pensions*” on page 26, in the financial or trading position of the Issuer since 30 September 2010 or of the Guarantor since 31 December 2010 and no material adverse change in the financial position or prospects of the Issuer since 31 March 2010 or of the Guarantor since 31 December 2010.
4. No member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor or the Group.
5. Each Bond and Coupon will bear the following legend: “*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*”.
6. The Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 060900370. The International Securities Identification Number (ISIN) for the Bonds is XS0609003701.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.
7. No material contract has been entered into other than in the ordinary course of the business which could result in any member of the Group being under an obligation or entitlement that is material to any of the Issuer’s or the Guarantor’s ability to meet its obligations to holders of the Bonds.
8. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
9. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuer and the Principal Paying Agent:

- (a) the Trust Deed (which includes the form of the Global Bonds, the definitive Bonds and the Coupons);
- (b) the Paying Agency Agreement;
- (c) the STID;
- (d) the Memorandum and Articles of Association of the Issuer;
- (e) the published annual report and audited accounts of the Issuer for the two financial years most recently ended 31 March 2009 and 31 March 2010, the unaudited interim accounts of the Issuer for the six-month period to 30 September 2010 and the audited annual accounts of the Guarantor for the two years ended 31 December 2009 and 31 December 2010;
- (f) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

10. Statutory accounts for the Issuer for the two financial years ended 31 March 2009 and 31 March 2010 and for the Guarantor for the two financial years ended 31 December 2009 and 31 December 2010 have been delivered to the Registrar of Companies in England and Wales. The auditors of the Issuer and the Guarantor have made a report under Section 495 of the Companies Act on the last statutory accounts that was not “qualified” within the meaning of Section 539 of the Companies Act and did not contain a statement made under Section 498(2) or Section 498(3) of the Companies Act. The report of the auditors of the Issuer and the Guarantor contained the following statement: *“To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.”*
11. The current auditors of the Issuer and the Guarantor are Ernst & Young LLP, of the Paragon, Counterslip, Bristol BS1 6BX, a member of the Institute of Chartered Accountants in England and Wales. The former auditors, Deloitte LLP, of 3 Rivergate, Temple Quay, Bristol BS1 6GD, a member of the Institute of Chartered Accountants in England and Wales, have audited the accounts of (a) the Issuer without qualification for each of the three years ended on 31 March 2010 and (b) the accounts of the Guarantor without qualification for each of the two years ended on 31 December 2009. Ernst & Young LLP have reviewed the unaudited interim accounts of the Issuer for the six-month period to 30 September 2010 and have audited the accounts of the Guarantor without qualification for the year ended on 31 December 2010.
12. Neither the Issuer nor the Guarantor intends to provide any post-issuance information in relation to the issue of the Bonds.

Auditors' Report and Financial Statements of the Guarantor
Part I – 2010 Audited Financial Statements

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the company during the year was that of a holding company for Bristol Water plc, the principal trading subsidiary of the ultimate UK parent company, Agbar UK Limited.

The directors expect the current level of activity to be sustained for the foreseeable future.

REVIEW OF THE BUSINESS

The results for the year are set out in the Profit and Loss account on page 5. The company made a profit for the year of £2,904,000 (2009: £10,204,000).

The following dividends (total: £2,904,000) were paid during the year (2009: £10,204,000):

First interim - £1,448,000 - 24.14 pence per share paid on 29 March 2010

Second interim - £1,456,000 - 24.27 pence per share paid on 29 September 2010

The directors do not recommend the payment of a final dividend.

There have been no events since the balance sheet date which materially affect the position of the company.

GOING CONCERN

The main risks facing the company are those related to its regulated subsidiary, Bristol Water plc. Bristol Water plc has adequate resources to continue in business for the foreseeable future in so far that it has significant cash resources and an unutilised committed borrowing facility of £30m. However, it is not immune from financial market uncertainties in the medium term.

Bristol Water plc is regulated by the Water Services Regulatory Authority ("Ofwat"). In 2010 Bristol Water plc rejected Ofwat's price limits for the five year regulatory period beginning 1 April 2010. Following due process, Ofwat referred the case to the Competition Commission ("CC") who announced its re-determination of prices on 4 August 2010.

The revised price limits (or 'K' factors) compound to 17.1% (before inflation) for the regulatory period and are significantly higher than the 9.1% in the rejected Ofwat determination. Bristol Water plc is pleased with the settlement in many respects, although in such a complex matter it is not surprising that it does not agree with all of the CC's conclusions. The distraction and uncertainty of the CC appeal is now in the past and Bristol Water plc is focused on delivering what is required by the price re-determination.

The directors report that, after making enquiries, they have concluded that the company will continue in operation for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing these accounts, as do the directors of Bristol Water plc in its accounts.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The company continued to act as a holding company for Bristol Water plc, an appointed water undertaker under the terms of the Water Industry Act 1991, as amended, including by the Water Act 2003.

The risks and uncertainties faced by the company are essentially through ownership of its subsidiary Bristol Water plc. These risks and uncertainties cover three main areas:

Operational

- contamination or interruption of water resources and/or supplies;
- failure of key assets to maintain expected outputs, adversely affecting the ability to maintain supplies to customers;
- climate/weather pattern change affecting resource availability and/or customer demand;
- retention and recruitment of key staff; and
- serious health and safety related accidents.

Regulatory

- failure to meet existing regulatory requirements which could result in penalties or enforcement action by Ofwat, the EA or the DWI;
- increased costs of meeting regulatory requirements;
- impact of legislative changes including those related to environmental or drinking water quality requirements;
- significant development of competition within the water sector; and
- impact of future periodic and/or interim determinations of price limits by Ofwat.

Financial

- loss of major customers as a result of closure of their facilities;
- pensions - funding requirements of the scheme are subject to a range of factors including longevity assumptions, investment allocation and investment returns, additionally changes in pension regulations could have a significant impact on future company contributions;
- worsening debt collection experience, particularly in relation to household debt giving rise to increasing levels of bad debts;
- inflation or deflation affecting operating costs, the capital investment programme and index-linked debt;
- failure to meet banking covenants; and
- future increases in energy prices;
- changes in the taxation regime;
- financial markets turmoil impacting the ability to raise additional future financing.

Bristol Water plc has a range of risk management strategies to mitigate the impact of these risks and uncertainties.

The directors expect the current level of activity to be sustained for the foreseeable future as the company continues to act as a holding company for its subsidiary.

DIRECTORS

The directors of the company who held office during the year are as follows:

Mr A Parsons - Chairman
Mr M Anglada

Mr A Parsons has stated his intention to retire from the company on 30 September 2011.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

DIRECTORS' REPORT (continued)

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Following the resignation of the former auditors, Deloitte LLP, on 13 September 2010, Ernst & Young LLP were appointed auditors.

By order of the Board



S Robson
Secretary
PO Box 218, Bridgwater Road
Bristol
28 February 2011

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Operating profit	2	-	-
Income from shares in group undertaking		2,904	10,204
Profit on ordinary activities before taxation		2,904	10,204
Taxation	3	-	-
Profit for the year	7	2,904	10,204

All activities relate to the continuing operations of the company.

The company has no recognised gains and losses other than the profit for the year stated above and therefore no separate statement of total recognised gains and losses has been presented.

The accompanying notes on pages 7 to 11 form an integral part of this statement.

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010

BALANCE SHEET

at 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Investment	5	5,998	5,998
Total assets		<u>5,998</u>	<u>5,998</u>
Capital and reserves			
Share capital	6	5,998	5,998
Profit and loss account	7	-	-
Shareholders' funds	7	<u>5,998</u>	<u>5,998</u>

The financial statements of Bristol Water Core Holdings Limited, registered number 4637554, were approved by the board of directors and authorised for issue on 28 February 2011.



A Parsons, Chairman



M Anglada, Director

The accompanying notes on pages 7 to 11 form an integral part of this statement.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of preparation

The accounts have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Going concern

The directors report that, after making enquiries, they have concluded that the company will continue in operation for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing these accounts. Further information is provided in the Directors' Report.

Consolidated accounts

The company has taken advantage of the exemption under section 400 of the Companies Act 2006, from preparing group accounts on the grounds that it is a wholly owned subsidiary and consolidated accounts are prepared by the ultimate parent company, Suez Environnement Company S.A.

Cash flow statement

The company is exempt from the requirements of Financial Reporting Standard (FRS) 1 'Cash Flow Statements' to prepare a cash flow statement as it is a wholly owned subsidiary.

The largest group in which this company is consolidated is Suez Environnement Company S.A., and copies of its consolidated annual report are available from 1, Rue D'Astorg 75008 Paris, France.

The smallest group in which this company is consolidated is Sociedad General de Aguas de Barcelona, S.A. (Agbar), and copies of its consolidated annual report are available from Torre Agbar, Avda. Diagonal, 211, Planta 19-08018, Barcelona, Spain.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less where appropriate, provision for impairment.

Income from investments

Dividends from investments are reflected in the financial statements when received.

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. ACCOUNTING POLICIES (continued)

Distributions to shareholders

Dividends and other distributions to shareholders are reflected in the financial statements when approved by shareholders in a general meeting, except for interim dividends which are included in the financial statements when paid by the company. Accordingly, proposed dividends are not included as a liability in the financial statements.

2. OPERATING PROFIT

Audit fees totalling £1,575 for the year ended 31 December 2010 (2009: £1,750) have been borne by Agbar UK Limited.

	2010	2009
	£000	£000
Directors' emoluments:		
Aggregate emoluments of all directors being remuneration, bonus and benefits in kind	<u>417</u>	<u>465</u>

The average number of employees during the year was nil (2009: nil).

Directors' emoluments were paid by Bristol Water plc and Agbar UK Limited during the year.

None of the directors received any additional remuneration or benefits for their services to this company (2009: £nil).

During 2010 one director (2009: one director) accrued retirement benefits in the Bristol Water plc defined benefit scheme however this ceased at 31 December 2010.

The aggregate emoluments of the highest paid director during the year were £286,000 (2009: £256,000) paid by Bristol Water plc. At the end of the year the highest paid director had an accrued pension entitlement available on his normal retirement date of £71,000 (2009: £58,000).

No director waived emoluments in respect of the year ended 31 December 2010 (2009: none).

3. TAXATION

	2010	2009
	£000	£000
UK corporation tax at 28%	-	-
Total current tax charge	<u>-</u>	<u>-</u>

The company has no deferred tax liability (2009: £nil).

The current tax charge for the year is lower (2009: lower) than the standard rate of corporation tax in the United Kingdom (28%). The differences are explained below:

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3. TAXATION (continued)

	2010 £000	2009 £000
Profit on ordinary activities before taxation	<u>2,904</u>	<u>10,204</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 28%	813	2,857
Effect of: Dividends not taxable	(813)	(2,857)
Total current tax charge	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

In the 2010 Budget the Chancellor announced a reduction in the corporation tax rate from 28% to 27% with effect from 1 April 2011. This change does not have any impact in these financial statements. The company is not aware of any other factors that may affect future tax charges.

4. DIVIDENDS

	2010 £000	2009 £000
On ordinary shares:		
Dividend in respect of the 2009 trading period:		
First interim dividend of 24.14 pence per share	-	1,448
Second interim dividend of 60.02 pence per share	-	3,600
Third interim dividend of 24.27 pence per share	-	1,456
Fourth interim dividend of 61.69 pence per share	-	3,700
Dividend in respect of the current trading period:		
First interim dividend of 24.14 pence per share	1,448	-
Second interim dividend of 24.27 pence per share	1,456	-
	<u>2,904</u>	<u>10,204</u>

5. INVESTMENT

	2010 £000	2009 £000
Cost		
At 1 January and 31 December	<u>5,998</u>	<u>5,998</u>

Bristol Water Core Holdings Limited owns all of the issued ordinary shares of Bristol Water plc, whose principal activity is the provision of water supply and related services, and which is registered in England and Wales.

The last audited financial statements of Bristol Water plc at 31 March 2010 show a profit on ordinary activities after taxation of £18.6m (2009: £12.1m) and net assets of £84.9m (2009: £76.7m).

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

6. SHARE CAPITAL

Issued, called up and fully paid:

The issued, called up and fully paid share capital of the company comprises 5,998,027 (2009: 5,998,027) ordinary shares of £1 each.

Mr A Parsons has one nominee share (2009: one share) in this company held jointly with Bristol Water Holdings Limited (the immediate parent company).

7. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Profit and loss account £000	Total 2010 £000	Total 2009 £000
Opening shareholders' funds	5,998	-	5,998	5,998
Profit for the year	-	2,904	2,904	10,204
Dividends paid	-	(2,904)	(2,904)	(10,204)
Closing shareholders' funds	<u>5,998</u>	<u>-</u>	<u>5,998</u>	<u>5,998</u>

8. COMMITMENTS AND CONTINGENCIES

The company is a member of a VAT group and is jointly liable for the VAT liabilities of its principal subsidiary. The group has contingent liabilities in respect of contracts in the normal course of business. Other than as shown in these financial statements the directors are not aware of any other contingent liabilities that require disclosure.

9. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Until 7 June 2010 the ultimate parent company was considered by the directors to be Sociedad General de Aguas de Barcelona S.A. (Agbar), a company incorporated in Spain. On 8 June 2010 Suez Environnement Company S.A. (partly owned by the French group GDF Suez) increased their control of Agbar to 75.23%, and are now regarded as the ultimate parent company.

The largest group in which this company is consolidated is Suez Environnement Company S.A. and copies of its consolidated annual report are available from 1, Rue D'Astorg 75008 Paris, France.

The smallest group in which this company is consolidated is Agbar, and copies of its consolidated annual report are available from Torre Agbar, Avda. Diagonal, 211, Planta 19-08018, Barcelona, Spain.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

10. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions within FRS 8 (Related Party Disclosures) and not disclosed transactions with other Agbar group undertakings with the exception of security for borrowings below.

Security for borrowings

The majority of Bristol Water plc's financial liabilities are partly secured by a fixed charge over Bristol Water Core Holdings Limited's shares (as its immediate parent) in Bristol Water plc together with a floating charge over the whole of its undertaking.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRISTOL WATER CORE HOLDINGS LIMITED

We have audited the financial statements of Bristol Water Core Holdings Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Ernst & Young LLP

**Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
28 February 2011**

Part II – 2009 Audited Financial Statements

BRISTOL WATER CORE HOLDINGS LIMITED ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the company during the year was that of a holding company for Bristol Water plc, the principal trading subsidiary of the ultimate UK parent company, Agbar UK Limited (formerly Bristol Water Group Limited).

The directors expect the current level of activity to be sustained for the foreseeable future.

REVIEW OF THE BUSINESS

The results for the year are set out in the Profit and Loss account on page 5. The company made a profit for the year of £10,204,000 (2008: £11,864,000).

The following dividends (total: £10,204,000) were paid during the year (2008: £11,864,000 - 197.80 pence per share):

First interim - £1,447,898 - 24.14 pence per share paid on 1 April 2009

Second interim - £3,600,000 - 60.02 pence per share paid on 28 September 2009

Third interim - £1,455,854 - 24.27 pence per share paid on 30 September 2009

Fourth interim - £3,700,000 - 61.69 pence per share paid on 20 November 2009

The directors do not recommend the payment of a final dividend.

There have been no events since the balance sheet date which materially affect the position of the company.

GOING CONCERN

The directors report that, after making enquiries, they have concluded that the company will continue in operation for the foreseeable future.

The main risks facing the company are those related to its regulated subsidiary, Bristol Water plc. Bristol Water plc has adequate resources to continue in business for the foreseeable future in so far that it has significant cash resources and an unutilised committed borrowing facility of £30m. However, it is not immune from financial market and regulatory uncertainties in the medium term.

Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 in November 2009 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's final determination. As required by the relevant legislation, Ofwat has referred Bristol Water plc rejection to the Competition Commission ("CC"), primarily on the grounds that price limits were too low for the outputs required. The CC is in the process of re-determining the price limits for the period and is expected to publish its findings by 6 August 2010.

Bristol Water plc's directors are confident that the company's case is strong, and has been prepared robustly and thoroughly for the CC. For this reason, they are confident that the outcome of the CC review will be successful. In addition they note the legal obligations placed on CC to ensure that regulatory settlements can be funded appropriately.

After considering these matters, the directors of the company and of Bristol Water plc continue to adopt the going concern basis for preparing the accounts.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The company continued to act as a holding company for Bristol Water plc, an appointed water undertaker under the terms of the Water Industry Act 1991. Bristol Water plc's vision is 'to provide water in a sustainable and affordable way on a highly reliable basis that customers have confidence in and are happy to drink'.

The risks and uncertainties faced by the company are essentially those of its subsidiary Bristol Water plc. These risks and uncertainties cover three main areas:

Operational – contamination or interruption of water resources and/or supplies; failure of key assets to maintain expected outputs, adversely affecting the ability to maintain supplies to customers; climate/weather pattern change affecting resource availability and/or customer demand; retention and recruitment of key staff.

Regulatory – failure to meet existing regulatory requirements which could result in penalties or enforcement action by Ofwat, the EA or the DWI; increased costs of meeting regulatory requirements; impact of legislative changes including those related to environmental or drinking water quality requirements; significant development of competition within the water sector; impact of future periodic and/or interim determinations of price limits by Ofwat.

Financial – loss of major customers as a result of closure of their facilities; pensions - funding requirements of the scheme are subject to a range of factors including longevity assumptions, investment allocation and investment returns, additionally changes in pension regulations could have a significant impact on future company contributions; worsening debt collection experience, particularly in relation to household debt giving rise to increasing levels of bad debts; inflation or deflation affecting operating costs, the capital investment programme and index-linked debt; future increases in energy prices, changes in the taxation regime; failure to meet banking covenants; financial markets turmoil impacting the ability to raise additional future financing.

Bristol Water plc has a range of risk management strategies to mitigate the impact of these risks and uncertainties.

The directors expect the current level of activity to be sustained for the foreseeable future as the company continues to act as a holding company for its subsidiary.

DIRECTORS

The directors of the company who held office during the year are as follows:

Mr A Parsons - Chairman	
Mr S Pellegri	(resigned 30 November 2009)
Mr M Anglada Gali	(appointed 1 December 2009)

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

DIRECTORS' REPORT (continued)

AUDITORS (continued)

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of Annual General Meeting.

This directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

By order of the Board



S Robson
Secretary
PO Box 218, Bridgwater Road
Bristol
16 April 2010

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Operating profit	2	-	-
Income from shares in group undertaking		10,204	11,864
Profit on ordinary activities before taxation		10,204	11,864
Taxation	3	-	-
Profit for the year	7	10,204	11,864

All activities relate to the continuing operations of the company.

The company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

The accompanying notes on pages 7 to 11 form an integral part of this statement.

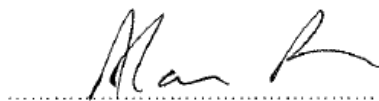
BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

BALANCE SHEET

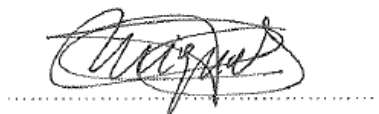
as at 31 December 2009

	Note	2009 £000	2008 £000
Fixed assets			
Investment	5	5,998	5,998
Total assets		<u>5,998</u>	<u>5,998</u>
Capital and reserves			
Share capital	6	5,998	5,998
Profit and loss account	7	-	-
Shareholders' funds	7	<u>5,998</u>	<u>5,998</u>

The financial statements of Bristol Water Core Holdings Limited, registered number 4637554, were approved by the board of directors and authorised for issue on 16 April 2010.



A Parsons, Chairman



M Anglada Gali, Director

The accompanying notes on pages 7 to 11 form an integral part of this statement.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of preparation

The accounts have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Going concern

The directors report that, after making enquiries, they have concluded that the company will continue in operation for the foreseeable future.

The main risks facing the company are those related to its regulated subsidiary, Bristol Water plc. Bristol Water plc has adequate resources to continue in business for the foreseeable future in so far that it has significant cash resources and an unutilised committed borrowing facility of £30m. However, it is not immune from financial market and regulatory uncertainties in the medium term.

Ofwat set final determinations of price limits and regulatory output requirements for the five years ended March 2015 in November 2009 for all water companies in England and Wales. Bristol Water plc rejected Ofwat's final determination. As required by the relevant legislation, Ofwat has referred Bristol Water plc rejection to the Competition Commission ("CC"), primarily on the grounds that price limits were too low for the outputs required. The CC is in the process of re-determining the price limits for the period and is expected to publish its findings by 6 August 2010.

Bristol Water plc's directors are confident that the company's case is strong, and has been prepared robustly and thoroughly for the CC. For this reason, they are confident that the outcome of the CC review will be successful. In addition they note the legal obligations placed on CC to ensure that regulatory settlements can be funded appropriately.

After considering these matters, the directors of the company and of Bristol Water plc continue to adopt the going concern basis for preparing the accounts.

Consolidated accounts

The company has taken advantage of the exemption, under section 400 of the Companies Act 2006, from preparing group accounts on the grounds that it is a wholly owned subsidiary and consolidated accounts are prepared by the ultimate parent company, Sociedad General de Aguas de Barcelona, S.A. (Agbar).

Cash flow statement

The company is exempt from the requirements of Financial Reporting Standard (FRS) No. 1 'Cash Flow Statements' (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Agbar. A consolidated cash flow statement is included within the accounts of the ultimate parent company.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less where appropriate, provision for impairment.

Income from investments

Dividends from investments are reflected in the financial statements when received.

Distributions to shareholders

Dividends and other distributions to shareholders are reflected in the financial statements when approved by shareholders in a general meeting, except for interim dividends which are included in the financial statements when paid by the company. Accordingly, proposed dividends are not included as a liability in the financial statements.

Pension schemes

The company participates in group operated defined benefit pension arrangements. Given that it has not been possible to identify the underlying assets and liabilities attributable to each participating company, multi-employer treatment is applied, which results in accounting on a defined contribution basis. Contributions payable to the scheme are charged to the profit and loss account and accrued when necessary.

2. OPERATING PROFIT

Audit fees totalling £1,750 for the year ended 31 December 2009 (2008: £1,750) have been borne by Agbar UK Limited (formerly Bristol Water Group Limited).

	2009	2008
	£000	£000
Directors' emoluments:		
Aggregate emoluments of all directors being remuneration, bonus and benefits in kind	<u>465</u>	<u>442</u>

The average number of employees during the year was nil (2008: nil).

In total, at 31 December 2009 one director (2008: one director) was accruing retirement benefits in the Bristol Water plc defined benefit scheme.

Directors' emoluments were paid by Bristol Water plc and Agbar UK Limited (formerly Bristol Water Group Limited) during the year. All executive directors' service contracts are with Bristol Water plc.

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

2. OPERATING PROFIT (continued)

The remuneration of each executive director is established by the Remuneration Committee of Bristol Water plc on the basis of duties and responsibilities held using market data for comparable positions in other companies. Bonuses relate to the achievement of corporate objectives and are subject to a maximum of either 30% or 50% (2008: 30% or 50%) of basic salary at the beginning of each financial year.

The aggregate emoluments of the highest paid director during the year were £256,000 (2008: £268,000) paid by Bristol Water plc.

At the end of the year the highest paid director had an accrued pension entitlement available on his normal retirement date of £nil (2008: £nil).

3. TAXATION

	2009 £000	2008 £000
UK corporation tax at 28% (2008: weighted average rate of 28.5%)	-	-
Total current tax charge	-	-

The company has no deferred tax liability.

Reconciliation of the current tax charge:

The current tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the United Kingdom (28%). The differences are explained below:

	2009 £000	2008 £000
Profit on ordinary activities before taxation	10,204	11,864
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 28% (2008: weighted average rate of 28.5%)	2,857	3,381
Effect of: Dividends not taxable	(2,857)	(3,381)
Total current tax charge	-	-

Factors that may affect future tax charges

The company is not aware of any other factors that may affect future tax charges.

**BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

4. DIVIDENDS

	2009 £000	2008 £000
On ordinary shares:		
Dividend in respect of 2007 trading period:		
Third interim dividend of 51.68 pence per share	-	3,100
Final dividend of 98.37 pence per share		5,900
Dividend in respect of 2008 trading period:		
First interim dividend of 23.47 pence per share	-	1,408
Second interim dividend of 24.27 pence per share	-	1,456
Dividend in respect of the current trading period:		
First interim dividend of 24.14 pence per share	1,448	-
Second interim dividend of 60.02 pence per share	3,600	-
Third interim dividend of 24.27 pence per share	1,456	-
Fourth interim dividend of 61.69 pence per share	3,700	-
	<u>10,204</u>	<u>11,864</u>

5. INVESTMENT

	2009 £000	2008 £000
Cost		
At 1 January and 31 December	<u>5,998</u>	<u>5,998</u>

Bristol Water Core Holdings Limited owns all of the issued ordinary shares of Bristol Water plc, whose principal activity is the provision of water supply and related services, and which is registered in England and Wales.

The last audited financial statements of Bristol Water plc at 31 March 2009 show a profit on ordinary activities after taxation of £12.1m (2008: £14.5m) and net assets of £76.7m (2008: £78.5m).

6. SHARE CAPITAL

Issued, called up and fully paid:

The issued, called up and fully paid share capital of the company comprises 5,998,027 (2008: 5,998,027) ordinary shares of £1 each.

BRISTOL WATER CORE HOLDINGS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2009

7. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £000	Profit and loss account £000	Total 2009 £000	Total 2008 £000
Opening shareholders' funds	5,998	-	5,998	5,998
Profit for the year	-	10,204	10,204	11,864
Dividends paid	-	(10,204)	(10,204)	(11,864)
Closing shareholders' funds	<u>5,998</u>	<u>-</u>	<u>5,998</u>	<u>5,998</u>

8. COMMITMENTS AND CONTINGENCIES

The company is a member of a VAT group and is jointly liable for the VAT liabilities of its principal subsidiary. The group has contingent liabilities in respect of contracts in the normal course of business. Other than as shown in these financial statements the directors are not aware of any other contingent liabilities that require disclosure.

9. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Until 30 September 2009 the ultimate UK parent and controlling company was Agbar UK Ltd (formerly Bristol Water Group Ltd). The ultimate parent company was believed by the Directors to be Sociedad General de Aguas de Barcelona S.A. (Agbar), a company incorporated in Spain.

In October 2009 it was announced that Suez Environnement (partly owned by the French group GDF Suez) planned to take 75% control of Agbar, subject to shareholder and regulatory approvals. The outcome may change the identity of Bristol Water Core Holdings Ltd's ultimate parent company, which is currently considered to be Agbar.

Full disclosure of the affairs of the Agbar UK Limited group of companies is made in the annual report of Agbar. Copies of its consolidated annual report are available from Torre Agbar, Avda. Diagonal, 211, Planta 19-08018, Barcelona, Spain.

10. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptions within Financial Reporting Standard 8 (Related Party Disclosures) and not disclosed transactions with other Agbar UK Limited group undertakings with the exception of security for borrowings below.

Security for borrowings

The majority of Bristol Water plc's financial liabilities are partly secured by a fixed charge over Bristol Water Core Holdings Limited's shares (as its immediate parent) in Bristol Water plc together with a floating charge over the whole of its undertaking.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRISTOL WATER CORE HOLDINGS LIMITED

We have audited the financial statements of Bristol Water Core Holdings Limited for the year ended 31 December 2009, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

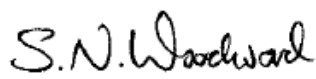
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRISTOL WATER CORE HOLDINGS LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statement in accordance with the small companies regime or take advantage of the small companies exemption in preparing the directors' report.



Stuart Woodward (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Bristol, United Kingdom
16 April 2010

Glossary

“Acceding Creditor” means any creditor of the Issuer which becomes or has become a party to the STID pursuant to a Deed of Accession.

“Acceleration Event” means the occurrence of any of the events described as such in Clause 11 (*Acceleration Events, their Consequences and Remedies*) of the STID.

“Acceptable Letter of Credit” means a letter of credit which:

- (a) shall be issued in favour of the Issuer and/or the Security Trustee by a bank which at all times shall be a Qualifying Bank;
- (b) has a residual maturity of not less than three months; and
- (c) is in full force and effect,

provided that if at any time the provider of any such Acceptable Letter of Credit ceases to be a Qualifying Bank, the relevant letter of credit shall not cease to be an Acceptable Letter of Credit until the date which is one month after the Issuer becomes aware that the provider ceases to be a Qualifying Bank.

“Account Bank” means National Westminster Bank plc in its capacity as holder of, inter alia, the Accounts and/or such other bank(s) as may be appointed replacement holder in accordance with the Account Bank Agreement.

“Account Bank Agreement” means the agreement dated 7 May 2003 between the Issuer, the Account Bank and the Security Trustee in relation to the establishment and operation of the Accounts held with the Account Bank together with any bank mandate, fee letters or safekeeping agreements between the Issuer and the Account Bank in relation thereto as such agreement may be amended and/or restated from time to time.

“Accounts” means the Operating Account, the Proceeds Account, the Debt Service Payment Account, the Sinking Fund Account and all amounts (including interest) standing to the credit thereof from time to time, the right to receive interest in respect thereof and the debts represented by each of the foregoing and **“Account”** means any one of them.

“Administration Agreements” means (i) the administration agreement dated 19 June 2002 between Artesian Finance plc and the Administrator in respect of the Index-Linked Programme and (ii) the administration agreement dated 16 April 2003 between Artesian Finance II plc and the Administrator in respect of the Non Index-Linked Programme, each an **“Administration Agreement”**.

“Administrator” means The Royal Bank of Scotland plc as administrator under the Administration Agreements.

“Affiliate” means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company, including, for the avoidance of doubt, Agbar UK Limited.

“AGE” means Assured Guaranty (Europe) Ltd (formerly Financial Security Assurance (U.K.) Limited).

“Agent” means The Royal Bank of Scotland plc in its capacity as agent in respect of the Artesian Loans to which the issue of Artesian Bonds under the Index-Linked Programme and the Non Index-Linked Programme relate.

“Agreed Updated Capital Expenditure Programme” means an Updated Capital Expenditure Programme which, if the Capital Expenditure shown in the Updated Capital Expenditure Programme is less than 85 per cent. of the Capital Expenditure shown in the Original Capital Expenditure Programme (excluding the

reduction in Capital Expenditure referred to in Clause 5.18.2 of the STID), is reviewed by the Controlling Finance Party against the Issuer's most recent operating budget, the Financial Statements and the Original Capital Expenditure Programme, and if the Controlling Finance Party, acting reasonably, is not satisfied with the Updated Capital Expenditure Programme within 2 weeks of receipt of the Updated Capital Expenditure Programme, an Updated Capital Expenditure Programme which is agreed or determined pursuant to either (i) a recalculation by the Issuer of the ratios specified in Clauses 9.12.2 (iii) and 10.1.1(ii) of the STID on the basis that RAV is reduced by the difference between the Updated Capital Expenditure Programme and the Original Capital Expenditure Programme or (ii) a referral of the matter by the Controlling Finance Party for determination in accordance with the procedure set out in Schedule 8 (Alternate Dispute Resolution Procedure) of the STID.

"Applicable Accounting Principles" means accounting principles, standards and practices generally accepted in the United Kingdom as applied from time to time to any entity carrying on the Business.

"Artesian Bonds" means guaranteed, secured, index-linked bonds or guaranteed, secured, fixed rate bonds issued under the Index-Linked Programme or the Non Index-Linked Programme, respectively.

"Artesian Bond Trust Deeds" means (i) the bond trust deed dated 19 June 2002 (as amended, supplemented or replaced from time to time) between Artesian Finance plc, AGE and the Artesian Bond Trustee in respect of the Index-Linked Programme and (ii) the bond trust deed dated 16 June 2003 (as amended, supplemented or replaced from time to time) between Artesian Finance II plc, AGE and the Artesian Bond Trustee in respect of the Non Index-Linked Programme, each an **"Artesian Bond Trust Deed"**.

"Artesian Bond Trustee" means Capita IRG Trustees Limited as bond trustee under the Artesian Bond Trust Deeds.

"Artesian Calculation Agent" means Citibank N.A. as calculation agent under the Artesian Paying Agency Agreements.

"Artesian Debenture" means, as applicable, (i) the debenture dated 19 June 2002 (as amended, supplemented or replaced from time to time) between Artesian Finance plc and the Artesian Security Trustee in respect of the Index-Linked Programme or (ii) the debenture dated 16 April 2003 (as amended, supplemented or replaced from time to time) between Artesian Finance II plc and the Artesian Security Trustee in respect of the Non Index-Linked Programme.

"Artesian Paying Agency Agreements" means (i) the paying agency agreement dated 19 June 2002 (as amended, supplemented or replaced from time to time) between the Artesian Principal Paying Agent, Artesian Finance plc and the Artesian Bond Trustee in respect of the Index-Linked Programme and (ii) the paying agency agreement dated 16 April 2003 (as amended, supplemented or replaced from time to time) between the Artesian Principal Paying Agent, Artesian Finance II plc and the Artesian Bond Trustee in respect of the Non Index-Linked Programme, each an **"Artesian Paying Agency Agreement"**.

"Artesian Paying Agents" means the paying agents under the Artesian Paying Agency Agreements.

"Artesian Principal Paying Agent" means Citibank N.A. as principal paying agent under the Artesian Paying Agency Agreements.

"Artesian Security Trustee" means Capita IRG Trustees Limited in its capacity as the security trustee under the Artesian STIDs.

"Artesian STIDs" means (i) the security trust and intercreditor deed dated 19 June 2002 (as amended, supplemented or replaced from time to time) between, among others, Artesian Finance plc, AGE and the Artesian Security Trustee in respect of the Index-Linked Programme and (ii) the security trust and intercreditor deed dated 16 April 2003 (as amended, supplemented or replaced from time to time) between,

among others, Artesian Finance II plc, AGE and the Artesian Security Trustee in respect of the Non Index-Linked Programme.

“**ASUP**” mean Anglo Scottish Utilities Partnership 1, acting by its partners Lloyds Portfolio Leasing Limited, Capital Bank Leasing 9 Limited, Wood Street Leasing Limited and RB Leasing (September) Limited.

“**ASUP Entrenched Rights**” means, in accordance with paragraph 7 (*Exercise of Finance Rights*) of Schedule 2 (*Intercreditor Arrangements*) of the STID, the following Finance Rights which may not be exercised without the prior written consent of ASUP: (i) any amendment to any provisions in the ASUP Finance Lease relating to the calculation of rental payments and/or any sums due upon termination of the ASUP Finance Lease; and (ii) any amendment to any provisions relating to the provision of insurance in connection with the ASUP Finance Lease.

“**ASUP Finance Lease**” means the equipment lease dated 13 January 1993 between the partners of ASUP and the Issuer, as amended pursuant to an amendment agreement entered into on 19 May 2006 between ASUP and the Issuer, together with the two side letters in respect of that lease, each dated 13 January 1993 from the Issuer to ASUP.

“**ASUP Reserved Matters**” means each and every right, power, authority and discretion of, or exercisable by ASUP (whether expressed as a right, power, authority or discretion of ASUP or obligation of any other party) to: (i) make calculations relating to rental payments and/or sums due upon termination of the ASUP Finance Lease in accordance with its provisions; and (ii) receive any sums owing to it for its own account relating to any insurance entered into in connection with the ASUP Finance Lease.

“**Authorised Investments**” means:

- (a) securities issued by the government of the United Kingdom;
- (b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-term Rating and (if the relevant Authorised Investments have an original maturity in excess of one year) Minimum Long-term Rating;
- (c) money market funds provided that they comply with the Minimum Short-term Rating; and
- (d) any other obligations provided that in each case the relevant investment has the Minimum Short-term Rating or (if the relevant Authorised Investments have an original maturity in excess of one year) the Minimum Long-term Rating and in each case is either denominated in sterling or (following redenomination after the U.K. becomes a participating Member State) euro.

“**Backward-looking ICR**” means, in relation to a STID Calculation Date, the ratio of:

- (a) Historic Net Cash Flow for the STID Calculation Period ending on or immediately prior to such STID Calculation Date; to
- (b) Historic Debt Service (in respect of interest payments only) for the STID Calculation Period ending on or immediately prior to such STID Calculation Date,

and in respect of the determination of (b) above, only the net payments made or received under any swap, collar, option, cap, floor or other derivative or hedging instrument shall be taken into account.

“**Bank Facility**” means any bank facility entered into by the Issuer and any Qualifying Debt Holder.

“**Bondholders**” means the persons who, for the time being, are holders of the Bonds.

“**Bonds**” means the £40,000,000 2.701 per cent. index-linked secured, guaranteed bonds due 2041.

“**Bond Trustee**” means Capita Trust Company Limited.

“**BW Group**” means Bristol Water Group plc incorporated and registered in England and Wales under the Companies Act 1985 with registered number 4789566.

“**BW Group Intercompany Loan**” means (i) the £47,000,000 intercompany loan from the Issuer to Agbar UK Ltd on or about 12 February 2004 and (ii) any other intercompany loan dated after 12 February 2004 from the Issuer to Agbar UK Ltd or any of its Affiliates (other than a Permitted Loan), made in accordance with the STID, including Clause 9.12 (*Relevant Payments*) of the STID.

“**Business**” means the business of a water undertaker (as that term is defined in the WIA and the Instrument of Appointment) in England and Wales.

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in London and New York.

“**Capital Expenditure**” means the capital expenditure (as such term is used in and calculated in accordance with the methodology used in the most recent final price determination made by Ofwat) of the Issuer, net of capital grants and contributions.

“**Capital Expenditure Programme**” means the programme for Capital Expenditure to be delivered by the Issuer in the form set out in Schedule 10 (Capital Expenditure Programme) of the STID or as otherwise agreed to by the Controlling Finance Party.

“**Cash and Cash Equivalents**” means, at any time the aggregate of the amounts represented by:

- (a) the credit balances on the Accounts;
- (b) any other cash on deposit with any acceptable bank;
- (c) any Authorised Investments to the extent not taken into account under paragraph (a) above by virtue of Clause 16.6 (Value of Authorised Investments) of the STID; and
- (d) any Acceptable Letter of Credit,

in each case, to which the Issuer is beneficially entitled at that time and which is capable of being applied against its obligations under each Loan. An “acceptable bank” for this purpose is a commercial bank or trust company which has a rating of A or higher (or equivalent rating) issued by one of the Rating Agencies.

“**Cash Flow Forecast**” means a forecast of revenues (including investment income, the net proceeds of asset disposals, the proceeds of loss of anticipated revenue and loss of revenue (business interruption and delay in start up) insurance, tax rebates and projected changes in forecast Total Net Indebtedness) and expenditure of the Issuer for each STID Calculation Period from the date of such forecast to the next water charges review date prepared and delivered in accordance with the terms of the STID.

“**Cash Management Agreements**” means (i) the cash management agreement dated 19 June 2002 (as amended, supplemented or replaced from time to time) between the Cash Manager and Artesian Finance plc in respect of the Index-Linked Programme and (ii) the cash management agreement dated 16 April 2003 (as amended, supplemented or replaced from time to time) between the Cash Manager and Artesian Finance II plc in respect of the Non Index-Linked Programme, each a “**Cash Management Agreement**”.

“**Cash Manager**” means The Royal Bank of Scotland plc as cash manager under the Cash Management Agreements.

“**Charged Assets**” means the Issuer Charged Assets and the Guarantor Charged Assets and references to the Charged Assets include reference to any part thereof.

“**Competent Authority**” includes any court of competent jurisdiction and any local, national or supranational agency, inspectorate, department, local authority, minister, ministry, official or public or statutory person (whether autonomous or not) in or of the government of the United Kingdom or of the European Union having authority.

“**Corporate Services Agreements**” means (i) the corporate services agreement dated 19 June 2002 between Artesian Finance I plc and the Corporate Services Provider in respect of the Index-Linked Programme and (ii) the corporate services agreement dated 16 April 2003 between Artesian Finance II plc and the Corporate Services Provider in respect of the Non Index-Linked Programme.

“**Corporate Services Provider**” means Capita Trust Company Limited in its capacity as corporate services provider under the Corporate Services Agreements.

“**Date Prior**” means at any time the date which is one day before the next Periodic Review under and as defined in the Instrument of Appointment.

“**Debenture Stock**” means: (i) the 4 per cent. consolidated irredeemable debenture stock in an amount of £1,405,218; (ii) the 4 per cent. perpetual irredeemable debenture stock in an amount of £54,875; (iii) the 4.25 per cent. perpetual irredeemable debenture stock in an amount of £36,740; and (iv) the 3.50 per cent. perpetual irredeemable debenture stock in an amount of £72,900 (in each case, as at 7 May 2003 (or with such amendments as the Controlling Finance Party shall have given its prior written consent to)).

“**Debt**” means the Issuer’s obligations under and in connection with each Artesian Loan and the relevant Facility Agreement.

“**Debt Service Payment Account**” means the Account designated as the Debt Service Payment Account in the name of the Issuer and having sort code 56-00-05 and account number 21015945 opened with the Account Bank and maintained pursuant to Clause 15 (*Accounts*) of the STID.

“**Deed of Accession**” means a deed in substantially the form set out in Schedule 4 (*Form of Deed of Accession*) of the STID.

“**Discharge Date**” means the date the Senior Liabilities and the Non-Group Subordinated Liabilities have been discharged in full.

“**Enforcement Date**” means the date upon which the Security Trustee (acting on the instructions of the Controlling Finance Party) enforces the Security or any part thereof or, having indicated to the Issuer that it will seek to enforce the Security if any secured amounts are not paid, demands the payment or discharge of all or any part of the secured amounts or takes any other action all as permitted by Clause 11.2 (*Consequences of Acceleration Events*) of the STID following an Acceleration Event.

“**Enforcement Proceeds**” means all and any sums of money received or recovered on or after the Enforcement Date or after any Qualifying Debt becoming immediately due and payable from or on behalf of an Obligor by the Security Trustee or any other Secured Creditor or by any insolvency officer on its or their behalf and any distribution on or after the Enforcement Date in cash or in kind on account of any or all of the secured amounts, whether through enforcement of any Security Document, the exercise of set-off, the receipt or recovery of payments through unsecured claims or otherwise and any consideration received on or after the Enforcement Date by or for the account of a Secured Creditor for a discharge or agreement not to enforce any of the secured amounts.

“**Entrenched Rights**” means, in respect of any Qualifying Debt Representatives, the rights listed in Appendix B Part I of Schedule 2 (*Intercreditor Arrangements*) of the STID, in respect of the Security Trustee, the rights listed in Part II of Appendix B to Schedule 2 (*Intercreditor Arrangements*) of the STID, in respect of any Non-Group Subordinated Creditors, the rights listed in Part III of Appendix B to Schedule 2 (*Intercreditor*

Arrangements) of the STID, in respect of ASUP, the ASUP Entrenched Rights, in respect of Lombard, the Lombard Entrenched Rights and in respect of RB Leasing, the RB Leasing Entrenched Rights, and for the avoidance of doubt, the ASUP Entrenched Rights, the Lombard Entrenched Rights and the RB Leasing Entrenched Rights shall be in addition to, and not to the exclusion of, any Entrenched Rights enjoyed by ASUP, Lombard and RB Leasing respectively in their capacity as Qualifying Debt Representatives.

“Environmental Approval” means any permit, licence, authorisation, filing, registration, consent or other approval required under Environmental Laws in connection with the Business or part of the Business.

“Environmental Laws” means the common law and any applicable law, statute and subordinate legislation, European Community Regulations and Directives, judgments and decisions, notices, orders, circulars and codes of practice and guidance notes issued thereunder, with which the Issuer is legally obliged to comply and including any amendment, re-enactment, consolidation or other legislation (whether or not applicable at the date hereof including Part II and schedule 22 of the Environment Act 1995) to the extent they relate to:

- (a) the pollution or protection of or compensation for damage to the environment;
- (b) harm to the health of humans, animals or plants including relating to workers’ health and safety;
- (c) emissions, discharges or releases into, or the presence in, the environment of chemicals or any other pollutants or contaminants, or industrial, radioactive, dangerous, toxic or hazardous substances or wastes (whether in solid, semi-solid, liquid or gaseous form and including noise) (together **“Hazardous Substances”**); or
- (d) the manufacture, processing, use, treatment, storage, distribution, disposal, transportation or handling of Hazardous Substances.

“Facility” means the secured term credit facility made available under a Facility Agreement.

“Facility Agreement” means each facility agreement dated 7 May 2003 between the Issuer, the Guarantor and The Royal Bank of Scotland plc (acting as arranger, original lender and agent).

“Fee Letter” means any letters dated on or about 7 May 2003 signed by the Issuer in respect of fees payable, *inter alia*, in connection with the transactions contemplated by the respective Facility Agreements.

“Final Forecast Date” means the later of (a) the Date Prior and (b) the last day of the STID Calculation Period falling on or immediately prior to the date two years after the most recent STID Calculation Date.

“Finance Documents” means the STID, the Facility Agreements, the Fee Letters, the Account Bank Agreement, the Security Documents, the ASUP Finance Lease, the Lombard Finance Lease, the RB Leasing Finance Lease, the documents establishing a Liquidity Facility (if any), any document giving rise to Indebtedness for Borrowed Money of the Issuer the counterparty to which has become an Acceding Creditor (including, from the date of the Secured Creditor Accession Deed, the Issue Documents), any Deed of Accession to the STID and any other document as may from time to time be agreed between the Controlling Finance Party and the Issuer to be a Finance Document.

“Finance Leases” means:

- (a) the ASUP Finance Lease;
- (b) the Lombard Finance Lease;
- (c) the RB Leasing Finance Lease; and
- (d) the Schedule 11 Finance Leases.

“Finance Rights” means, in respect of any Secured Creditor, all rights, claims, discretions and benefits which it has under each Relevant Document including:

- (a) to consent or direct any other person to consent to any amendment, waiver, modification or extension of any such document;
- (b) to exercise or direct any other person to exercise any right, power or discretion of or under any of the provisions of any such document;
- (c) to commence or direct any other person to commence litigation, arbitration or other proceedings in respect of matters arising from, or in connection with, any provision of any such document;
- (d) to commence or direct any other person to commence any investigations and to make any recommendations;
- (e) to accelerate any amounts due from an Obligor;
- (f) to direct the Security Trustee with respect to each and every right, power and discretion under the Relevant Documents to which the Security Trustee is party which may be, or are, expressed to be in favour of, and exercisable by, the Security Trustee (including where such exercise is stated as being “at its absolute discretion”) or any other rights conferred upon the Security Trustee pursuant to the Relevant Documents to which the Security Trustee is a party (other than any Reserved Matter in respect of the Security Trustee);
- (g) to direct the Security Trustee to take any action to enforce or protect the Security created by any Finance Document and any document referred to therein;
- (h) the granting of any waiver of, or the consenting to any amendment to, the terms of any of the Relevant Documents; and
- (i) the granting of any consent under the terms of any Relevant Document.

“Financial Statements” means, in respect of an Obligor, the most recent annual audited statements of the Obligor delivered to the Controlling Finance Party pursuant to the STID.

“Financial Year” means, for the Issuer, the period of 12 months ending on 31 March in each year and for the Guarantor means the period of 12 months ending on 31 December in each year or, in each case, such other period as may be approved by the Controlling Finance Party (acting reasonably).

“Forecast Net Cash Flow” means in relation to any period an amount equal to:

- (a) the aggregate of:
 - (i) the projected operating profit (but adding back pension charges, exceptional operating items, depreciation, amortisation, fair value changes on financial instruments and infrastructure renewals charge);
 - (ii) all projected drawings to be made by the Issuer from the Proceeds Account to the Operating Account to the extent that such amounts would be available to be drawn at the relevant time; and
 - (iii) projected interest income of the Issuer (other than (A) projected interest income paid on the Proceeds Account, (B) any interest income of the Issuer to be received in respect of an Agbar UK Ltd Intercompany Loan and (C) any finance income on pension scheme assets/liabilities under the financial reporting standard issued by the UK Accounting Standards Board relating to accounting for retirement and pension benefits),

(as such terms are used in, and each calculated in accordance with the methodology used in, the Issuer's Financial Statements), less

- (b) the aggregate of:
- (i) all sums projected to be transferred from the Operating Account to the Proceeds Account;
 - (ii) the projected Capital Expenditure;
 - (iii) Forecast Net Tax Payable, excluding deferred tax charges;
 - (iv) pension contributions; and
 - (v) exceptional operating items when paid,

in the case of both (a) and (b) as projected and estimated in the Cash Flow Forecast in respect of the relevant period which is to be delivered to the Controlling Finance Party within 60 days of the STID Calculation Date falling immediately after the commencement of that period.

"Forecast Net Tax Payable" means, in relation to any period, an amount equal to:

- (a) tax payable (as projected and estimated in the Cash Flow Forecast in respect of the relevant period); less
- (b) an amount equal to the projected interest income of the Issuer projected to be actually received in the relevant period multiplied by the rate at which the Issuer is projected to pay corporation tax for the relevant period (if different rates of tax are payable in respect of the relevant period a weighted average shall be used); plus
- (c) an amount equal to any payments projected to be made by the Issuer less any payments projected to be received by the Issuer in respect of group relief (as projected and estimated in the Cash Flow Forecast in respect of the relevant period).

"Forward-looking Interest Cover Ratio" or **"Forward-looking ICR"** means, in relation to a STID Calculation Date, the ratio calculated in respect of each STID Calculation Period ending after such STID Calculation Date, up to and including the Final Forecast Date or such other period expressly stated, of:

- (a) Forecast Net Cash Flow for such STID Calculation Period; to
- (b) Projected Debt Service (with respect to interest payments only) for such STID Calculation Period,

and in respect of the determination of (b) above, only the net payments projected to be made or received under any swap, collar, option, cap, floor or other derivative or hedging instrument shall be taken into account.

"FSMA" means the Financial Services and Markets Act 2000.

"Group" means the Guarantor and its subsidiaries from time to time.

"Guarantor" means Bristol Water Core Holdings Limited.

"Guarantor Charged Assets" means all of the present or future rights, claims, property, undertaking, revenues and assets of the Guarantor which are for the time being comprised in or subject to the Security and references to the Guarantor Charged Assets include reference to any part of it.

"Guarantor Debenture" means the fixed and floating security document dated 7 May 2003 between the Guarantor and the Security Trustee.

“Historic Debt Service” means, in relation to any STID Calculation Date, the aggregate of interest (adjusted for indexation where relevant in accordance with the relevant Finance Document) due and payable on all Senior Liabilities during the STID Calculation Period ending on such STID Calculation Date (such period to be extended or shortened, if necessary, to ensure it includes only two Scheduled Payment Dates).

“Historic Net Cash Flow” means, in relation to any period, an amount equal to:

- (a) the aggregate of:
 - (i) the actual operating profit (but adding back pension charges, exceptional operating items, depreciation, amortisation, fair value changes on financial instruments and infrastructure renewals charge);
 - (ii) all drawings made by the Issuer from the Proceeds Account to the Operating Account; and
 - (iii) interest income of the Issuer (other than (A) interest income paid on the Proceeds Account, (B) any interest income of the Issuer received in respect of a BW Group Intercompany Loan and (C) any finance income on pension scheme assets/liabilities under the financial reporting standard issued by the UK Accounting Standards Board relating to accounting for retirement and pension benefits),

(as such terms are used in, and each calculated in accordance with the methodology used in, the Issuer’s Financial Statements), less

- (b) the aggregate of:
 - (i) all sums transferred from the Operating Account to the Proceeds Account;
 - (ii) the Capital Expenditure;
 - (iii) Historic Net Tax Payable excluding deferred tax charges;
 - (iv) pension contributions; and
 - (v) exceptional operating items when paid,

in each case as calculated by reference to the audited or unaudited financial statements of the Issuer (as the case may be) relating to the relevant period delivered to the Secured Creditors.

“Historic Net Tax Payable” means in relation to any period an amount equal to:

- (a) tax payable (as in the Issuer’s audited/unaudited financial statements (as the case may be) relating to the relevant period); less
- (b) an amount equal to the interest income of the Issuer actually received in the relevant period multiplied by the rate at which the Issuer pays corporation tax for the relevant period (if different rates of tax are payable in respect of the relevant period a weighted average shall be used); plus
- (c) an amount equal to any payments made by the Issuer less any payments received by the Issuer in respect of group relief (as in the Issuer’s audited/unaudited financial statements (as the case may be) relating to the relevant period).

“Holding Company” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“IDOK” means an Interim Determination (as that term is defined in paragraph 13.1 of Condition B of the Instrument of Appointment) of K (as that term is defined in the Instrument of Appointment).

“Indebtedness” means any obligation (whether incurred as principal or as surety) for the payment or repayment of money whether present or future, actual or contingent.

“Indebtedness for Borrowed Money” means any Indebtedness of the Issuer for or in respect of:

- (a) money borrowed or raised (whether or not for cash);
- (b) amounts raised by acceptance under any acceptance credit facility;
- (c) amounts raised under any note purchase facility;
- (d) amounts payable in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the United Kingdom, be treated as finance or capital leases;
- (e) amounts payable for assets or services, the payment of which is deferred for a period in excess of 90 days after the date of the relevant invoice;
- (f) redeemable preference shares, to the extent that the same are capable of redemption (whether on maturity or at the option of the Issuer or the holder thereof) prior to the date falling one week after the final Scheduled Payment Date;
- (g) net termination amounts which become due and payable under any swap, option, cap, collar, floor or other derivative or hedging instrument;
- (h) any Third Party Guarantee;
- (i) loan stock, loan notes or bonds; or
- (j) amounts raised under any other transaction (including any forward sale, sale of receivables, securitisation or purchase agreement) having the commercial effect of a borrowing.

“Index-Linked Programme” means the £750,000,000 programme for the issue of guaranteed secured index-linked bonds established by Artesian Finance plc.

“Insolvency Officer” means any liquidator, provisional liquidator, administrator, special administrator, administrative receiver, receiver, trustee in bankruptcy, supervisor of a voluntary arrangement or any similar or equivalent official in any relevant jurisdiction.

“Instrument of Appointment” means the Instrument of Appointment dated August 1989 made under Sections 11 and 14 of the Water Act 1989 (as in effect from 28 August 1989) as subsequently modified and varied by Ofwat under Sections 11 to 17 of the WIA appointing the Issuer as a water undertaker.

“Interest Cover Ratio” (or **“ICR”**) means the Backward-looking ICR and the Forward-looking ICR.

“Intra-Group Subordinated Creditors” means (A) the Guarantor; (B) Bristol Water Holdings Limited; and (C) any Affiliates of the Issuer to which the Issuer owes any Indebtedness for Borrowed Money.

“Investment Grade” means a rating of at least BBB- by S&P or Baa3 by Moody’s.

“Issue Documents” means the Bonds, the Trust Deed and the Paying Agency Agreement.

“Issuer” means Bristol Water plc.

“Issuer Charged Assets” means all of the present or future rights, claims, property, undertaking, revenues and assets of the Issuer which are for the time being comprised in or subject to the Security and references to the Issuer Charged Assets include reference to any part of it.

“Issuer Debenture” means the fixed and floating security document dated 7 May 2003 (as varied, amended and restated from time to time) entered into between the Issuer and the Security Trustee.

“Lender Administration Costs” means such amount, payable semi-annually in arrear on each Scheduled Payment Date and on any other date notified by the Agent, calculated:

- (a) in respect of the Index-Linked Programme, by reference to costs and expenses of the Issuer payable to:
 - (i) the Cash Manager pursuant to the relevant Cash Management Agreement;
 - (ii) each of the Artesian Principal Paying Agent, the Artesian Paying Agents and the Artesian Calculation Agent pursuant to the relevant Artesian Paying Agency Agreement;
 - (iii) the Administrator pursuant to the relevant Administration Agreement;
 - (iv) the Corporate Services Provider pursuant to the relevant Corporate Services Agreement;
 - (v) the Account Bank pursuant to the relevant Account Bank Agreement;
 - (vi) the Artesian Security Trustee pursuant to the relevant Artesian Debenture or the relevant Artesian Security Trust and Intercreditor Deed;
 - (vii) the Artesian Bond Trustee pursuant to the relevant Artesian Bond Trust Deed;
 - (viii) the auditors of Artesian Finance plc;
 - (ix) each of the Rating Agencies for fees and expenses in connection with any rating or the maintenance of that rating of any Artesian Bonds issued under the relevant Programme to finance the acquisition by Artesian Finance plc of an index-linked Artesian Loan made to the Issuer;
 - (x) legal counsel to Artesian Finance plc in respect of legal fees and expenses of Artesian Finance plc;
 - (xi) any Competent Authority in respect of any governmental fee, charge or tax;
 - (xii) any stock exchange on which that Programme is listed in respect of any listing fees or charges;
 - (xiii) the relevant Agent pursuant to an agency fee letter entered into between that Agent and Artesian Finance plc on or about February 2003; and
 - (xiv) any other costs properly and directly incurred by or in relation to that Programme or the relevant Facility Agreement,

other than any such fees or charges which relate to issues of Artesian Bonds under the relevant Programme where the related borrower is not the Issuer and which are or will be due and payable on such Scheduled Payment Date and divided by the number of borrowers contributing to the costs as notified to the Issuer by the Agent pursuant to the relevant Facility Agreement but without double counting any costs included in the definition of STID Administration Costs or any costs for which Artesian Finance plc is indemnified pursuant to the applicable indemnification clause of the relevant Post Novation Facility Agreement or for which Artesian Finance plc is indemnified for by other borrowers whose borrowing relates to the relevant Programme pursuant to any provision which is of similar effect to the applicable indemnification clause of the relevant Post Novation Facility Agreement; and

- (b) in respect of the Non Index-Linked Programme, by reference to costs and expenses of the Issuer payable to:

- (i) the Cash Manager pursuant to the relevant Cash Management Agreement;
- (ii) each of the Artesian Principal Paying Agent, the Artesian Paying Agents and the Artesian Calculation Agent pursuant to the relevant Artesian Paying Agency Agreement;
- (iii) the Administrator pursuant to the relevant Administration Agreement;
- (iv) the Corporate Services Provider pursuant to the relevant Corporate Services Agreement;
- (v) the Account Bank pursuant to the relevant Account Bank Agreement;
- (vi) the Artesian Security Trustee pursuant to the relevant Artesian Debenture or the relevant Artesian Security Trust and Intercreditor Deed;
- (vii) the Artesian Bond Trustee pursuant to the relevant Artesian Bond Trust Deed;
- (viii) the auditors of Artesian Finance II plc;
- (ix) each of the Rating Agencies for fees and expenses in connection with any rating or the maintenance of that rating of any Artesian Bonds issued under the relevant Programme to finance the acquisition by Artesian Finance II plc of a non index-linked Artesian Loan made to the Issuer;
- (x) legal counsel to Artesian Finance II plc in respect of legal fees and expenses of Artesian Finance II plc;
- (xi) any Competent Authority in respect of any governmental fee, charge or tax;
- (xii) any stock exchange on which that Programme is listed in respect of any listing fees or charges;
- (xiii) the relevant Agent pursuant to an agency fee letter entered into between that Agent and Artesian Finance II plc on or about August 2003;
- (xiv) any other costs properly and directly incurred by or in relation to that Programme or the relevant Facility Agreement,

other than any such fees or charges which relate to issues of Artesian Bonds under the relevant Programme where the related borrower is not the Issuer and which are or will be due and payable on such Scheduled Payment Date and multiplied by a fraction the numerator of which is the principal amount of Artesian Bonds issued under that Programme in relation to which the Issuer is the relevant borrower and the denominator of which is the principal amount of all Artesian Bonds issued under that Programme from time to time as notified to the Issuer by the Agent pursuant to the relevant Facility Agreement but without double counting any costs included in the definition of STID Administration Costs or any costs for which Artesian Finance II plc is indemnified pursuant to the applicable indemnification clause of the relevant Post Novation Facility Agreement or for which Artesian Finance II plc is indemnified for by other borrowers whose borrowing relates to the relevant Programme pursuant to any provision which is of similar effect to the applicable indemnification clause of the relevant Post Novation Facility Agreement.

“Licensed Undertaker” means the Issuer in its capacity as a licensed water undertaker as appointed by the Secretary of State for the Environment under the Instrument of Appointment.

“Liquidity Facility” means an available committed liquidity facility with the prior consent of the Controlling Finance Party.

“Lombard” means Lombard Corporate Finance (June 2) Limited.

“Lombard Entrenched Rights” means, in accordance with paragraph 7 (*Exercise of Finance Rights*) of Schedule 2 (*Intercreditor Arrangements*) of the STID, the following Finance Rights which may not be exercised without the prior written consent of Lombard: (i) any amendment to any provisions in the Lombard Finance Lease relating to the calculation of rental payments and/or any sums due upon termination of the Lombard Finance Lease; and (ii) any amendment to any provisions relating to the provision of insurance in connection with the Lombard Finance Lease.

“Lombard Finance Lease” means the master leasing agreement dated 10 May 2001 between W&G Equipment Leasing Limited and the Issuer, as amended pursuant to an amendment agreement entered into on 19 May 2006 between Lombard and the Issuer, and any Lease Contracts (as defined in the master leasing agreement) entered into pursuant thereto including (i) Lease Contract no. WE200-0002-0 dated 10 May 2001 between W&G Equipment Leasing Limited and the Issuer and (ii) Lease Contract no. WE200-0003-0 dated 10 May 2001 between W&G Equipment Leasing Limited and the Issuer (together, the **“Lombard Lease Contracts”**) each of the master leasing agreement and Lombard Lease Contracts as assigned to Lombard pursuant to a deed of sale, assignment and amendment dated 28 February 2003 and made between W&G Equipment Leasing Limited, Lombard and the Issuer.

“Lombard Reserved Matters” means each and every right, power, authority and discretion of, or exercisable by, Lombard (whether expressed as a right, power, authority or discretion of Lombard or obligation of any other party) to: (i) make calculations relating to rental payments and/or sums due upon termination of the Lombard Finance Lease in accordance with its provisions; and (ii) receive any sums owing to it for its own account relating to any insurance entered into in connection with the Lombard Finance Lease.

“Material Adverse Effect” means the effect of any event or circumstance which is or would be reasonably likely to be materially adverse to:

- (a) the ability of the Issuer to perform or comply with any of its obligations under the Instrument of Appointment or the WIA or to carry on the Business generally;
- (b) the ability of the Issuer to perform or comply with any of its payment or other material obligations under the Finance Documents or Qualifying Debt; or
- (c) the validity or enforceability of the Security created by the Issuer or the Guarantor.

“Member State” means the 27 countries within the European Union.

“Minimum Long-term Rating” means, in respect of any person, such person’s long-term unsecured debt obligations being rated, in the case of Moody’s, Aa3 and in the case of S&P, AA-.

“Minimum Short-term Rating” means, in respect of any person, such person’s short-term unsecured debt obligations being rated, in the case of Moody’s, P-1 and in the case of S&P, A-1.

“Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and any successor thereto and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, Moody’s shall be deemed to refer to any other internationally recognised rating agency designated by the Controlling Finance Party.

“Non-Group Subordinated Creditors” means any creditor (other than an Intra-Group Subordinated Creditor) to which the Issuer owes any Indebtedness for Borrowed Money and the incurrence of such Indebtedness for Borrowed Money was made on the basis that such creditor accedes to the STID as a Non-Group Subordinated Creditor.

“Non Index-Linked Programme” means the £500,000,000 programme for the issue of guaranteed secured fixed rate bonds established by Artesian Finance II plc.

“**Obligor**” means the Issuer or the Guarantor.

“**Ofwat**” means the Water Services Regulation Authority, including any successor office or body.

“**Operating Account**” means the accounts designated as the Operating Account in the name of the Issuer listed in Schedule 12 of the STID opened with the Account Bank and maintained pursuant to Clause 15 (*Accounts*) of the STID.

“**Original Capital Expenditure Programme**” means the Capital Expenditure Programme from and in accordance with the most recent final price determination made by Ofwat on a five yearly basis, as subsequently adjusted by agreement with Ofwat.

“**Original Lender**” means The Royal Bank of Scotland plc, in its capacity as an Original Lender under each Facility Agreement.

“**Original Qualifying Debt Holder**” means The Royal Bank of Scotland plc, in its capacity as an Original Lender under each Facility Agreement.

“**Original Qualifying Debt Representative**” means The Royal Bank of Scotland plc, in its capacity as Agent under each Facility Agreement.

“**Overdraft Facility**” means the overdraft facility, if any, on the Operating Account provided to the Issuer in an amount of up to 125 per cent. or one twelfth of annual turnover (shown in the most recent audited annual financial statements of the Issuer) in accordance with the Finance Documents.

“**Paying Agency Agreement**” means the paying agency agreement dated 25 March 2011 between the Issuer, the Bond Trustee, the Principal Paying Agent, the Agent Bank and the Paying Agents.

“**Periodic Review**” means the periodic review of K (as that term is defined in the Instrument of Appointment) made by Ofwat and currently occurring every five years.

“**Periodic Review Effective Date**” means the date with effect from which the new K (as that term is defined in the Instrument of Appointment) will take effect, following a Periodic Review.

“**Permitted Encumbrance**” means:

- (a) encumbrances arising under the Finance Documents;
- (b) encumbrances arising solely by operation of law;
- (c) encumbrances arising in the ordinary course of business and securing amounts not more than 180 days overdue or which are being contested in good faith;
- (d) encumbrances arising from retention of title rights on normal commercial terms in respect of goods supplied, including contractual liens and rights of set off in respect of goods or services supplied, in the ordinary course of the business of the Issuer;
- (e) encumbrances arising under any finance lease, hire purchase lease or other similar agreement for the acquisition of assets on deferred purchase terms provided that the acquisition of the underlying asset would not breach the provisions of Clause 9.2 (*Acquisitions*) of the STID;
- (f) encumbrances approved in writing by the Controlling Finance Party;
- (g) encumbrances arising under the Debenture Stock;
- (h) encumbrances arising under the existing Finance Leases;

- (i) encumbrances in relation to taxes not yet assessed or, if assessed, not yet due or actively contested in good faith by appropriate proceedings (and for the payment of which adequate reserves have been made, if appropriate to do so, or when required in order to pursue such proceedings an adequate bond has been provided); or
- (j) encumbrances arising out of judgments with respect to which at the time (i) an appeal or proceeding for review is actively being prosecuted in good faith and for the payment of which adequate reserves have been made, if appropriate to do so, or where required in order to pursue such proceedings, an adequate bond has been provided; and (ii) a stay of execution shall have been secured (and is still in force) pending such appeal or proceeding for review.

“Permitted Incurrence” means any refinancing of the Debt as the Controlling Finance Party shall in its absolute discretion agree with the Issuer.

“Permitted Indebtedness” means indebtedness incurred which, *inter alia*:

- (a) arises under or in respect of (a) the Schedule 11 Finance Leases; and (b) (other than the ASUP Finance Lease, the Lombard Finance Lease and the RB Leasing Finance Lease) any agreement for the Issuer to acquire, by finance lease, hire purchase, lease or other similar agreement, entered into primarily as a method of financing, the use of the asset which is the subject of such lease or agreement or hire purchase, the use of operating equipment required for the business of the Issuer, in respect of which the total outstanding amount under such agreement(s) does not exceed 2.5 per cent. of the Regulated Asset Value; or
- (b) arises from any rights of retention in the ordinary course of the business of the Issuer; or
- (c) arises under any Subordinated Liabilities; or
- (d) arises under the Overdraft Facility; or
- (e) arises under any Liquidity Facility; or
- (f) arises by virtue of a Permitted Incurrence; or
- (g) arises under transactions entered into for the hedging of actual or projected exposures arising in the ordinary course of the Business of the Issuer on normal commercial terms carried out in compliance with the terms of the Finance Documents and not entered into for speculative purposes; or
- (h) arises with the prior written consent of the Controlling Finance Party.

“Permitted Loans” means any loans made by the Issuer to its customers or employees or Affiliates (other than a BW Group Intercompany Loan), provided that at any one time the aggregate principal amount of such loans shall not exceed 2 per cent. of the regulated asset base of the Issuer most recently published by Ofwat in current prices in aggregate.

“Post Novation Facility Agreement” means a Facility Agreement at any time after a transfer of such Facility Agreement in accordance with the applicable assignment clause therein.

“Potential Acceleration Event” means any event which would (with the expiry of any relevant grace period or the giving of notice hereunder or the making of any determination hereunder or any combination thereof) if not remedied or waived become an Acceleration Event.

“Potential Trigger Event” means any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event.

“Preference Shares” means preference shares of the Issuer from time to time.

“Proceeds Account” means the account designated as the Proceeds Account in the name of the Issuer and having sort code 56-00-05 and account number 21015937 with the Account Bank and maintained pursuant to Clause 15 (Accounts) of the STID.

“Programme” means the Index-Linked Programme and the Non Index-Linked Programme.

“Projected Debt Service” means the aggregate of interest (adjusted for indexation where relevant in accordance with the relevant Finance Documents) due and payable on all Senior Liabilities during any STID Calculation Period.

“Protected Land” means (as the term is defined in the WIA), in relation to a Regulated Company, any land which, or any interest or right in or over land which:

- (a) was transferred to that company in accordance with a scheme under Schedule 2 to the Water Act 1989 or, where that company is a statutory water company (as defined in Section 219 of the WIA), was held by that company at any time during the financial year ended 31 March 1990;
- (b) is or has at any time on or after 1 September 1989 been held by that company for purposes connected with the carrying out of its functions as a water undertaker or sewerage undertaker; or
- (c) has been transferred to that company in accordance with a scheme under Schedule 2 to the WIA from another company in relation to which that land was protected when the other company held an Instrument of Appointment,

as such definition may be amended by statute or law.

“Qualifying Bank” means any bank which is authorised to accept deposits (for the purposes of the Financial Services and Markets Act 2000) and whose short term debt is rated at least A-1 by S&P and P-1 by Moody’s and whose long-term debt is at least AA by S&P and at least Aa3 by Moody’s, or in the case of a bank whose long-term debt is not rated, a bank of equivalent standing approved by the Controlling Finance Party or any bank specifically approved in writing by the Controlling Finance Party, provided that such bank has at all times its short term debt rated at least A-1 by S&P and P-1 by Moody’s.

“Qualifying Debt” means each Loan, any Indebtedness for Borrowed Money under the ASUP Finance Lease, any Indebtedness for Borrowed Money under the Lombard Finance Lease, any Indebtedness for Borrowed Money under the RB Leasing Finance Lease, and any Bank Facility or any other Indebtedness for Borrowed Money which, in each case, ranks pari passu with the Loans.

“Qualifying Debt Holder” means:

- (a) any Original Qualifying Debt Holder; and
- (b) each person who has become a holder of any Qualifying Debt,

who in each case has not ceased to be a holder of any Qualifying Debt and “Qualifying Debt Holders” means all such parties.

“Qualifying Debt Representative” means:

- (a) in relation to each Loan, the Original Qualifying Debt Representative or such other facility agent appointed by the relevant Qualifying Debt Holder (as lender) or instructing group acting on behalf of the Qualifying Debt Holders (as lenders) in accordance with the terms of the relevant Facility Agreement or, if Artesian Finance plc or Artesian Finance II plc is the sole Qualifying Debt Holder in relation to the relevant Loan, the Artesian Security Trustee;

- (b) in relation to any Bank Facility, the facility agent appointed by the relevant Qualifying Debt Holder (as lender) or instructing group acting on behalf of the Qualifying Debt Holders (as lenders) or, if there is only one Qualifying Debt Holder (as lender) in respect of the relevant Bank Facility, such Qualifying Debt Holder, in each case, in accordance with the terms of the relevant facility agreement; and
- (c) in relation to any other Indebtedness for Borrowed Money of the Issuer, the representative appointed by the relevant Qualifying Debt Holder (as creditor) or instructing group acting on behalf of the Qualifying Debt Holders (as creditors) or, if there is one Qualifying Debt Holder (as creditor), such Qualifying Debt Holder, in each case in accordance with the terms of the relevant agreement,

who in each case has not ceased to be the representative of the relevant Qualifying Debt Holders and “**Qualifying Debt Representatives**” means all such persons.

“**Rating Agencies**” means S&P and Moody’s.

“**RB Leasing**” means RB Leasing (September) Limited.

“**RB Leasing Entrenched Rights**” means, in accordance with paragraph 7 (*Exercise of Finance Rights*) of Schedule 2 (*Intercreditor Arrangements*) of the STID, the following Finance Rights which may not be exercised without the prior written consent of RB Leasing: (i) any amendment to any provisions in the RB Leasing Finance Lease relating to the calculation of rental payments and/or any sums due upon termination of the RB Leasing Finance Lease; and (ii) any amendment to any provisions relating to the provision of insurance in connection with the RB Leasing Finance Lease.

“**RB Leasing Finance Lease**” means the equipment master leasing agreement dated 29 September 1995 between RB Leasing and the Issuer, as amended pursuant to an amendment agreement entered into on 19 May 2006 between RB Leasing and the Issuer, and any Lease Contracts (as defined in the master leasing agreement) entered into pursuant thereto including the Lease Contract dated 29 September 1995 between RB Leasing and the Issuer in respect of certain specified equipment.

“**RB Leasing Reserved Matters**” means each and every right, power, authority and discretion of, or exercisable by, RB Leasing (whether expressed as a right, power, authority or discretion of RB Leasing or obligation of any other party) to: (i) make calculations relating to rental payments and/or sums due upon termination of the RB Leasing Finance Lease in accordance with its provisions; and (ii) receive any sums owing to it for its own account relating to any insurance entered into in connection with the RB Leasing Finance Lease.

“**Receiver**” means any person or persons appointed and any additional person or persons appointed or substituted as receiver, administrative receiver, receiver and manager or similar insolvency officer appointed by the Security Trustee pursuant to any of the Security Documents.

“**Regulated Asset Ratio**” or “**RAR**” means, in relation to a STID Calculation Date, the ratio of:

- (a) Total Net Indebtedness; to
- (b) Regulated Asset Value,

on such STID Calculation Date and as forecast for any subsequent STID Calculation Dates up to and including the Final Forecast Date or in such other period expressly stated in each case, based on the best information available and provided that, where a draft Ofwat determination is available prior to the publication of a final Ofwat determination, the figures set out in such draft Ofwat determination shall be used, unless otherwise agreed by the Controlling Finance Party.

“Regulated Asset Value” or **“RAV”** means the regulatory asset base of the Issuer most recently published by Ofwat for the applicable Financial Year end, adjusted for inflation to that Financial Year end, based on the best available information and provided that where a draft Ofwat determination is available, the figures set out in such draft Ofwat determination shall be used, adjusted for inflation, unless otherwise agreed by the Controlling Finance Party.

“Regulated Company” means a company appointed as a water undertaker or a water and sewerage undertaker under Section 6 of the WIA.

“Relevant Documents” means in relation to any person each of the Finance Documents to which that person is expressed to be a party and any other document which is agreed by the Controlling Finance Party, the Issuer and such person to be a Relevant Document.

“Relevant Payments” means (i) any payment to the Guarantor or any other Affiliate of the Issuer made by or on behalf of the Issuer whether by way of dividend, loan (or repayment of any loan), redemption, purchase, discharge by way of set-off, counterclaim, other distribution of any sort, or otherwise, whether in cash or in kind, and whether pursuant to the terms of any agreement or otherwise or by way of gift, (ii) the payment of any rebate (but excluding any compensation payments to any class of customers) to any customer of the Issuer made by or on behalf of the Issuer, (iii) the payment of any Subordinated Liabilities and (iv) the payment of any dividends, redemption amounts or any other amounts in respect of the Preference Shares and for the purposes of Clauses 9.12 (*Relevant Payments*) and 10.2.1 (*Payments*) (and any related provisions) of the STID. **“Relevant Payments”** shall mean the maximum aggregate amount that would (if were it not for the operation of those Clauses and the other relevant provisions of the STID) have been capable of being paid as a Relevant Payment. Relevant Payments do not include any payments to Wessex Water Limited or Wessex Water Services Ltd in respect of the joint billing arrangements between Wessex Water Limited, Wessex Water Services Limited, the Issuer and the Guarantor as set out in the Shareholders Agreement dated 28 June 2001.

“Reserved Matters” means, in respect of any Qualifying Debt Representative, the matters listed in Part I of Appendix A to Schedule 2 (*Intercreditor Arrangements*) of the STID, in respect of the Security Trustee, the matters listed in Part II of Appendix A to Schedule 2 (*Intercreditor Arrangements*) of the STID, in respect of any Subordinated Creditor, the matters listed in Part III of Appendix A to Schedule 2 (*Intercreditor Arrangements*) of the STID, in respect of ASUP, the ASUP Reserved Matters, in respect of Lombard, the Lombard Reserved Matters and in respect of RB Leasing, the RB Leasing Reserved Matters, and for the avoidance of doubt, the ASUP Reserved Matters, the Lombard Reserved Matters and the RB Leasing Reserved Matters shall be in addition to, and not to the exclusion of, any Reserved Matters in respect of ASUP, Lombard and RB Leasing respectively in their capacity as Qualifying Debt Representatives.

“Restricted Debt” means any Qualifying Debt the terms of which include events of default, acceleration events, events entitling acceleration of repayment obligations or analogous events (however described) which relate to any third party which is not an affiliate of the Issuer or which relate to any affiliate of the Issuer, other than any such events which relate to the Guarantor and which are the same as those relating to the Guarantor as set out in the relevant Facility Agreement.

“S&P” means Standard & Poor’s Rating Services, a division of Standard & Poor’s Credit Market Services Europe Ltd. and any successor thereto, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other internationally recognised rating agency designated by the Controlling Finance Party.

“Schedule 11 Finance Leases” means the primary and secondary finance leases listed in Schedule 11 (*Finance Leases*) of the STID.

“Scheduled Payment Date” means 31 March and 30 September in each year until and including 30 September 2032 in the case of the Loan to which the issue of Artesian Bonds under the Index-Linked Programme relates and 30 September 2033 in the case of the Loan to which the issue of Artesian Bonds under the Non Index-Linked Programme relates (except that if any Scheduled Payment Date would otherwise fall on a day which is not a Business Day, it will instead be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day).

“Secretary of State” means one of Her Majesty’s principal secretaries of state.

“Secured Creditors” means the Security Trustee, any Acceding Creditor, any Qualifying Debt Holder and any Qualifying Debt Representative but, for the avoidance of doubt, excludes any Obligor and **“Secured Creditor”** means any of them.

“Secured Creditor Accession Deed” means the Deed of Accession entered into by the Bond Trustee on or around the Closing Date.

“Secured Liabilities” means all monies, liabilities and obligations which may be due, owing or payable by the Issuer and/or the Guarantor actually or contingently, as principal or as surety on any account, pursuant to the Finance Documents.

“Security” means the encumbrances created or contemplated by the Security Documents.

“Security Documents” means:

- (a) the Issuer Debenture;
- (b) the Guarantor Debenture;
- (c) the STID;
- (d) any other document from time to time executed in favour of the Security Trustee with the knowledge of the Issuer for the purpose of securing all or any of the Secured Liabilities; and
- (e) any other document or agreement entered into pursuant to, or contemplated in, any of the foregoing, including all notices and acknowledgements of assignment.

“Security Trustee” means Capita IRG Trustees Limited.

“Senior Finance Documents” means each of the Finance Documents other than the Subordinated Documents.

“Senior Liabilities” means all present and future sums, liabilities and obligations (actual or contingent) payable, owing, due or incurred by the Issuer or the Guarantor to the Secured Creditors (other than the Subordinated Creditors) under, in respect of or in connection with the Finance Documents, together with:

- (a) any refinancing, novation, refunding, deferral or extension of any of those sums, liabilities and obligations;
- (b) any claim for damages or restitution in the event of rescission of any of those liabilities;
- (c) any claim against the Issuer or the Guarantor flowing from any recovery by the Issuer or the Guarantor of a payment or discharge in respect of those liabilities on grounds of preference or otherwise; and
- (d) any amounts (such as post-insolvency interest) which would be included in any of the above but for any discharge, non-provability, unenforceability or non-allowability of the same in any insolvency or other proceedings.

“Shadow Rating” means the rating that would be assigned to the relevant Facility by the Rating Agencies from time to time as notified by the Rating Agencies to the Controlling Finance Party.

“Sinking Fund Account” means the account designated as the Sinking Fund Account in the name of the Issuer to be opened with any Qualifying Bank and maintained pursuant to Clause 15 (*Accounts*) of the STID.

“Special Administration” means the insolvency process specific to Regulated Companies under Sections 23 to 25 of the WIA.

“Special Administration Order” means an order of the High Court under Sections 23 to 25 of the WIA under the insolvency process specific to Regulated Companies.

“Special Administrator” means the person appointed by the High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force.

“STID” means the security trust and intercreditor deed dated 7 May 2003 (as amended and restated on 12 February 2004 and 15 June 2006) entered into between, amongst others, the Secured Creditors and the Issuer.

“STID Administration Costs” means in respect of any period, any amount which falls due or which has fallen due to be paid to the Security Trustee and any Receiver appointed by it or any Qualifying Debt Representative under any Finance Document and all fees, costs, expenses, charges and liabilities and other amounts, together in each case with interest, VAT and any other tax payable in respect of such amounts but without double counting any costs included in the definition of Lender Administration Costs.

“STID Calculation Date” means 31 March and 30 September in each year until the final Scheduled Payment Date.

“STID Calculation Period” means each period of 12 months commencing on 1 April in each year.

“Subordinated Creditors” means Intra-Group Subordinated Creditors and Non-Group Subordinated Creditors.

“Subordinated Documents” means any document evidencing indebtedness between the Issuer and a Subordinated Creditor.

“Subordinated Liabilities” means all present and future sums, liabilities and obligations (actual or contingent) payable, owing, due or incurred by the Issuer to (i) any Intra-Group Subordinated Creditor (and in the case of the Guarantor, whether in the Guarantor’s capacity as a guarantor of the Issuer pursuant to the Guarantor Debenture or otherwise) and (ii) any Non-Group Subordinated Creditor in respect of or in connection with Indebtedness for Borrowed Money, together with in each case:

- (a) any refinancing, novation, refunding, deferral or extension of any of those sums, liabilities and obligations;
- (b) any claim for damages or restitution in the event of rescission of any of those liabilities;
- (c) any claim against the Issuer flowing from any recovery by the Issuer of a payment or discharge in respect of those liabilities on grounds of preference or otherwise; and
- (d) any amounts (such as post-insolvency interest) which would be included in any of the above but for any discharge, non-provability, unenforceability or non-allowability of the same in any insolvency or other proceedings.

“Subscription Agreement” means the subscription agreement entered into between the Issuer and the Manager on or around the Closing Date.

“**Subsidiary**” means a subsidiary within the meaning of section 1159 of the Companies Act 2006 and, for the purpose of Clause 7 (*Financial Information Covenants*) of the STID and in relation to financial statements of the Group, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“**Third Party Guarantee**” means any guarantee, indemnity or other assurance against financial loss (whether actual or contingent, future or present) given in respect of the Indebtedness for Borrowed Money of another person.

“**Total Net Indebtedness**” means, as at the relevant date, each Loan (indexed in the case of each Loan to which an issue of Artesian Bonds under the Index-Linked Programme relates) and any other Indebtedness for Borrowed Money of the Issuer (including drawings under the Overdraft Facility and excluding any Subordinated Liabilities) less Cash and Cash Equivalents other than Cash and Cash Equivalents credited to the Operating Account on such date.

For the avoidance of doubt, no component of Total Net Indebtedness will be calculated on a fair value basis but instead will be calculated on face value basis subject to indexation as appropriate.

“**Trigger Event**” means any of the events identified as such in Clause 10 (*Trigger Events, their Consequences and Remedies*) of the STID.

“**Trust Deed**” means the Trust Deed dated 25 March 2011 between the Issuer and the Bond Trustee.

“**Updated Capital Expenditure Programme**” means an updated Capital Expenditure Programme prepared by the Issuer and delivered to the Controlling Finance Party no less than seven weeks and no more than nine weeks prior to each STID Calculation Date, reflecting the then current Capital Expenditure programme (including aggregate Capital Expenditure from the Periodic Review Effective Date and forecast Capital Expenditure up to the Date Prior and expressed at a similar price base to the Original Capital Expenditure Programme).

“**VAT**” means value added tax as provided for in the Value Added Tax Act 1994 and any other tax of a similar nature.

“**WIA**” means the Water Industry Act 1991, as amended.

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