

## SUPPLEMENTARY OFFERING CIRCULAR DATED 8 AUGUST 2012



### UNITED UTILITIES PLC

*(incorporated with limited liability in England)*

### UNITED UTILITIES WATER PLC

*(incorporated with limited liability in England)*

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

### **Euro Medium Term Note Programme**

This supplement (the "Supplement") to the offering circular dated 14 November 2011 (the "Offering Circular"), which comprises a base prospectus for each of United Utilities PLC ("UU") and United Utilities Water PLC ("UUW") (each an "Issuer" and together, the "Issuers"), constitutes a supplementary prospectus in respect of the Offering Circular for the purposes of Section 87G of the Financial Services and Markets Act 2000 ("FSMA"). This Supplement is prepared in connection with the Euro Medium Term Note Programme (the "Programme") established by the Issuers and incorporates by reference the auditors' reports and statutory annual financial statements for the financial year ended 31 March 2012 in respect of each of the Issuers.

This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Issuers. Terms defined in the Offering Circular have the same meaning when used in this Supplement.

Each of the Issuers (together, the "Responsible Persons") accepts responsibility for the information contained in this Supplement. To the best knowledge and belief of the Responsible Persons (each having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of this Supplement are available on the London Stock Exchange website (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

Investors should be aware of their rights under Section 87Q(4) of FSMA.

#### **Purpose**

The purpose of this Supplement is to incorporate by reference the latest financial statements of each of the Issuers for the financial year ended 31 March 2012 into the Offering Circular and to introduce risk factors into the Offering Circular which the Issuers consider to be significant concerning: (i) the Government's market reform agenda and policy priorities for the water industry; (ii) the proposed reform of the methodology by which Ofwat sets price limits; and (iii) litigation between UUW and the Manchester Ship Canal Company.

#### **Annual reports and accounts**

On 27 June 2012, UUW published its report and financial statements for the financial year ended 31 March 2012 (the "UUW Report") and UU published its report and financial statements for the financial year ended 31 March 2012 (the "UU Report"). By virtue of this Supplement, the independent auditors' report and the statutory financial statements (and accompanying notes) of both UU (pages 38 to 103 of the UU Report) and UUW (pages 42 to 80 of the UUW Report) are incorporated in, and form part of, the Offering Circular. The remainder of the UUW Report and

the UU Report are not incorporated by reference into the Offering Circular and are either not relevant for the purposes of the Offering Circular or are covered elsewhere in the Offering Circular.

#### *Risk factors*

#### **Government Market Reform Agenda**

The government's White Paper (Water for Life) was published on 8<sup>th</sup> December 2011 and highlighted the government's key policy priorities for the water industry. These include: protecting water and the natural environment; tackling water pollution; tackling over abstraction; water's role in the green economy; reforming and extending competition; supporting growth and innovation; affordability and bad debt; and changing the way we use and value water.

The draft Water Bill was published on 10<sup>th</sup> July 2012 and incorporates changes to legislation that would be required to enable many of the changes set out in the White Paper. These include measures that provide for extending competition to all non household customers for both water and wastewater, facilitating bulk supplies of water, changes to the special merger regime to allow regulators to balance loss of comparators with customer benefit and reform of the inset appointment regime. Whilst a relatively small proportion of the Group's profits derive from the sale of water and wastewater services to non-household customers, if competition is expanded, there would be opportunities for the Group to participate in a wider market in England and, potentially, Scotland. However, the Group recognises that reforms to the pricing rules that govern access to the Group's water and wastewater assets and networks and greater upstream competition could put at risk a greater proportion of the Group's profits.

#### **Future price limits**

Ofwat has undergone a lengthy process of ongoing consultation over its proposals for long term reform of the methodology for setting prices, and will begin implementation at the 2014 price control review. In anticipation of future market reform, The principal decision to date is that they will set two distinct price controls (for retail and wholesale respectively).

Ofwat have proposed a large number of further changes, including:

- Setting default tariffs for contestable customers;
- Assessing non-contestable retail costs relative to the industry average;
- Assessing wholesale costs in total (operating and capital expenditure together) rather than having separate assessments;
- Monitoring the delivery of higher level company outcomes rather than individual outputs; and
- Creation of a number of new incentive mechanisms, e.g. an incentive to reduce the environmental damage from water abstractions, and a network optimisation incentive aimed at enhancing the efficiency and flexibility of companies' water supply assets.

It is possible that these proposals may have a material impact on the income recovered from customers. However, these proposals are still in an early stage of development, and as such it is difficult to assess the likely net impact on the company (positive or negative). Ofwat currently plans to publish its overall price review methodology in spring 2013, following a consultation in the winter of 2012.

Ofwat has also made proposals to modify the licences of the water and wastewater industry to allow it to remove reference to the use of the retail price index (RPI) in price setting and allow flexibility in the number of price limits set and the duration of price controls. Discussion on the eventual form and content of any modifications are ongoing. These proposals, if implemented, could adversely affect the Group's results of operations.

## **MSCC Litigation**

In March 2010, MSCC Manchester Ship Canal Company (“MSCC”), owners of the Manchester Ship Canal (the “Canal”), issued proceedings, seeking, amongst other relief, damages alleging trespass against UUW in respect of UUW’s discharges of water and treated effluent into the Canal. The respective legal rights of MSCC and UUW relating to the discharges are unclear. Accordingly, the relevant legal principles need to be tested through court process. Although UUW won a ‘summary judgment’ application against MSCC in January on a significant element of the claim, MSCC has served notice that it intends to appeal this decision.

### ***General***

If documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Supplement for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended, except where such information or other documents are specifically incorporated by reference in or are attached to this Supplement.

Copies of all of the documents incorporated by reference in the Offering Circular can be obtained from the registered offices of each Issuer and from the specified offices of the Paying Agents, for the time being in London and Frankfurt. Copies of this Supplement and all documents incorporated by reference in the Offering Circular are available on the London Stock Exchange website (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in, or incorporated by reference in, the Offering Circular, the statements in this Supplement will prevail.

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Offering Circular since the publication of the Offering Circular.

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

Neither the delivery of the Offering Circular and/or this Supplement nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same.