

TERMS AND CONDITIONS OF THE NOTES

Pursuant to clause 8 (Securitisation Event Covenant) of the Original Trust Deed (as defined below) and Condition 13 (Securitisation Event), the Original Trustee (as defined below) has, inter alia, been required by the Issuer to make certain modifications to the Terms and Conditions of the Notes set forth in the Original Trust Deed. The following text sets forth for illustrative purposes only the said modifications to the Terms and Conditions by the deletion of the words shown struck out and the addition of the words shown underlined.

For the avoidance of doubt, the following is not a comprehensive restatement of the Terms and Conditions relating to the Notes and must be read in conjunction with all the relevant provisions of the Original Trust Deed as amended pursuant to clause 8 (Securitisation Event Covenant) of the Original Trust Deed.

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

The issue of the Notes (as defined below) was authorised by a resolution of the board of directors of Affinity Water Finance 2004 Limited (formerly known as Three Valleys Water Finance plc and then Veolia Water Central Finance plc (the "Issuer") passed on 24 June 2004 and the original guarantee of the Notes was authorised by a resolution of the board of directors of Affinity Water Limited (formerly known as Three Valleys Water plc and then Veolia Water Central Limited) (the "Original Guarantor") passed on 24 June 2004. The £200,000,000 5.7/8 per cent. Guaranteed Notes due 2026 (the "Notes", ~~which expression in these Terms and Conditions, unless the context otherwise requires, includes any further notes issued pursuant to Condition 15 (Further Issues) and forming a single series with the Notes) of Three Valleys Water Finance PLC (the "Issuer")~~ are subject to, and have the benefit of, constituted by a trust deed dated 13th 13 July, 2004 (as amended or supplemented from time to time and restated on 16 August 2004 with effect as of 13 July 2004 (together, the "Original Trust Deed")) between the Issuer, ~~Three Valleys Water PLC as guarantor (the "Guarantor")~~ the Original Guarantor and Citicorp Trustee Company Limited as trustee (the "Original Trustee").

On or about [] January 2013, the Original Trustee has been replaced by Deutsche Trustee Company Limited as the new trustee under the Trust Deed pursuant to the deed of variation dated on or about [] January 2013 between the Issuer, the Original Guarantor, Affinity Water Holdings Limited and Affinity Water Programme Finance Limited as new guarantors (the "New Guarantors", and the Original Guarantor and the New Guarantors, the "Guarantors" and each a "Guarantor"), the Original Trustee and Deutsche Trustee Company Limited as the new trustee (the "New Trustee" or the "Trustee", which expression ~~includes~~ shall include all persons for the time being the trustee or trustees ~~appointed under the Trust Deed) and are the subject of an~~ under the Trust Deed (as defined below) as trustee for the holders of the Notes (the "Noteholders") (the "Deed of Variation", and together with the Original Trust Deed, the "Trust Deed") and certain amendments have been made to the original terms and conditions of the Notes (as amended by the Deed of Variation, the "Terms and Conditions") and to the Original Trust Deed as requested by the Issuer pursuant to clause 8 (Securitisation Event Covenant) of the Original Trust Deed.

Pursuant to clause 8 (Securitisation Event Covenant) of the Original Trust Deed, the Original Trustee has been requested by the Issuer to enter into each of:

- (i) the security trust and intercreditor deed ("STID") with, inter alios, the Issuer, the Security Trustee and other Secured Creditors and pursuant to which the Security Trustee holds the Security on trust for the Secured Creditors on the terms set out therein and the Secured Creditors agree to certain intercreditor arrangements;
- (ii) the common terms agreement ("CTA") with, inter alios, the Obligors, the Security Trustee and the other Secured Creditors, and which contains certain representations and covenants of the Obligors and Events of Default in relation to the Notes; and
- (iii) the master definitions agreement (the "Master Definitions Agreement") with, inter alios, the Obligors and the Security Trustee.

The Issuer may enter into liquidity facility agreements with certain liquidity facility providers pursuant to which the liquidity facility providers agree to make certain facilities available to meet liquidity shortfalls (including debt service liquidity shortfalls).

The Issuer may enter into certain currency, index linked and interest rate hedging agreements to hedge certain of its currency and interest rate obligations.

The Trust Deed, the Notes, the Bond Trust Deed, the Bonds (including the applicable Final Terms or Drawdown Prospectus), the Security Agreement, the STID (the STID, the Security Agreement and any other documentation evidencing or creating security over any asset of an Obligor to a Secured Creditor under the Finance Documents being together the "Security Documents"), the Finance Lease Documents, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Programme Issuer/AWL Loan Agreements, the Existing Issuer/AWL Loan Agreement, the CTA, the CP Agreement, the Existing Authorised Credit Facilities, any other Authorised Credit Facilities, the Master Definitions Agreement, the account bank agreement between, among others, the account bank, the Programme Issuer and the Security Trustee (the "Account Bank Agreement") and the Tax Deed of Covenant will be, in relation to the Notes, (and together with each other agreement or instrument between AWL and the Issuer or the Programme Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by the Transaction Agent, the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the "Finance Documents".

Defined terms in these Terms and Conditions shall have the meanings given to them in Condition 18 (Definitions). Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Copies of, *inter alia*, the Finance Documents and the paying agency agreement dated 13th July, 2004 (as amended or supplemented from time to time, the "Agency Agreement") ~~Paying Agency Agreement~~) between the Issuer, the Guarantors, Citibank, N.A. as principal paying agent (the "Principal Paying Agent", which expression ~~includes~~ shall include any successor ~~principal~~ in such capacity) and the other paying agent ~~appointed from time to time in connection with the Notes~~, the paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee, which expression shall include any additional or successor paying agents) and the Trustee are available for inspection during normal business hours by the Noteholders and the holders of the Coupons appertaining to the Notes (the "Couponholders") at the registered office for the time being of the Trustee, being at the date of the Deed of Variation at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified office of each of the Paying Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the STID, the Security Agreement and the CTA and to have notice of those provisions of the other Finance Documents applicable to them.

Certain provisions of these Terms and Conditions are summaries of the Trust Deed and the Paying Agency Agreement and subject to their detailed provisions.— The holders of the Notes (the "Noteholders") and the holders of the related interest coupons (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof ~~Citicorp Deutsche~~ Trustee Company Limited, ~~14th Floor, Citigroup Centre, Canada Square, Canary Wharf~~ Winchester House, 1 Great Winchester Street, London ~~E14 5LB, EC2N 2DB~~ and at the Specified Offices (as defined in the Paying Agency Agreement) of each of the Paying Agents.

1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in the denominations of £1,000, £10,000 and £100,000 each with Coupons and talons (each, a "Talon") for further Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or

not the Note, Coupon or Talon is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Note, Coupon or Talon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. **Status and ~~Guarantee~~ Further Issues**

(a) Status of the Notes and Coupons:

~~(a)~~ The Notes and Coupons constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Notes and Coupons are secured in the manner described in Condition 3 (Security).

~~(b) Guarantee of the Notes: The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.~~

~~(c) Financial Covenant: The Guarantor covenants in the Trust Deed that its Regulated Asset Ratio shall not exceed 0.7:1 unless a Securitisation has occurred.~~

~~3. **Negative Pledge**~~

~~So long as any of the Notes remains outstanding (as defined in the Trust Deed) each of the Issuer and the Guarantor will ensure that no Relevant Indebtedness of the Issuer, the Guarantor, any Principal Subsidiary or any other person and no guarantee by the Issuer, the Guarantor, or any Principal Subsidiary will be secured by a mortgage, charge, lien, pledge or other security interest (other than a Permitted Encumbrance) (each a "**Security Interest**") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer, the Guarantor or any Principal Subsidiary unless:~~

~~(a) before or at the same time as the creation of the Security Interest, the Issuer and/or the Guarantor shall take any and all action necessary to ensure that,~~

~~(i) all amounts payable by the Issuer under the Notes, the Coupons and the Trust Deed or, as the case may be, the Guarantor's obligations under the Trust Deed are secured equally and rateably with the Relevant indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Trustee; or~~

~~(ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Notes, the Coupons and the Trust Deed or, as the case may be, the Guarantor's obligations under the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or~~

~~(b) the creation of the Security Interest is pursuant to a Securitisation;~~

~~EXCEPT that the Issuer, the Guarantor or any Principal Subsidiary may create or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by the Issuer, the Guarantor or any Principal Subsidiary in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Notes, the Coupons and the Trust Deed as aforesaid) where (1) such Relevant Indebtedness is of a maximum aggregate amount outstanding at any time not exceeding the greater of £75,000,000 and 15 per cent. of the Regulated Asset Value ("**RAV**"), (2) such Security Interest is provided by or in respect of a company~~

~~becoming a Subsidiary of the Guarantor after 28th June, 2004 and where such Security Interest exists at the time that company becomes a Subsidiary of the Guarantor (**provided that** such Security Interest was not created in contemplation of that company becoming a Subsidiary of the Guarantor and the principal amount secured at the time of that company becoming a Subsidiary of the Guarantor is not subsequently increased) or (3) such Security Interest is provided in respect of Relevant Indebtedness and/or any guarantee of Relevant Indebtedness owed to the European Investment Bank, any successor institution thereof or any similar governmental, quasi-governmental or supranational agency or body.~~

~~4. **Interest**~~

~~(b) Covenants~~

~~So long as any of the Notes remain Outstanding, the Issuer (together with other Obligors) will agree to comply with the covenants as set out in Schedule 4 (*Covenants*) of the CTA.~~

~~The Trustee shall be entitled to rely absolutely on a certificate signed by two directors of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.~~

~~(c) Further Issues~~

~~The Issuer may from time to time, without the consent of the Noteholders or Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.~~

~~3. **Security**~~

~~(a) Guarantee and Security~~

~~Each of Affinity Water Holdings Limited ("AWHL"), AWL and the Programme Issuer guarantees the obligations of the Issuer in respect of the Notes pursuant to a security agreement (the "**Security Agreement**") that will be entered into by each Obligor in favour of the Security Trustee over the entire property, assets, rights and undertakings (subject to certain specified exceptions) of each such Obligor (the "**Security**"), in the case of AWL, to the extent permitted by the Act and the Instrument of Appointment (as defined below). All Notes issued by the Issuer and any additional creditor of the Issuer acceding to the STID will share in the Security constituted by the Security Documents.~~

~~In these Conditions:~~

~~the "**Act**" means the United Kingdom Water Industry Act 1991 (as amended);~~

~~"**Instrument of Appointment**" means the Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) (as amended/varied from time to time and as appended to the variation instrument dated 20 July 2012 coming into effect on 27 July 2012 at 23:59, as amended from time to time) under which the Secretary of State for the Environment appointed AWL as a water undertaker under the WIA for the areas described in the Instrument of Appointment; and~~

~~"**Obligors**" means the Issuer, the Programme Issuer, AWL and AWHL, together with any other entity which accedes to the Finance Documents as an Obligor in accordance with the terms thereof (including any Permitted Subsidiary), and "**Obligor**" means any of them.~~

~~(b) Relationship among Noteholders and with other Secured Creditors~~

~~The Trust Deed contains provisions detailing the Trustee's obligations to consider the interests of the Noteholders as regards all powers, trusts and authorities, duties and discretions of the Trustee (except where expressly provided or otherwise referred to in Condition 11 (*Trustee and Paving Agents*)).~~

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 Majority Creditors (subject to the Security Trustee being indemnified and/or prefunded and/or secured to its satisfaction) (provided that the relevant Quorum Requirement has been met) (including the Trustee as trustee for and representative of the Noteholders and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Trustee as trustee for and representative of the Noteholders or any individual Noteholder) in relation to the exercise of such rights and, consequently, has no liability to the Noteholders as a consequence of so acting.

(b) *Enforceable Security*

In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Majority Creditors (provided that the relevant Quorum Requirement has been met), enforce its rights with respect to the Security in accordance with the instructions of the Majority Creditors, 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 Noteholder, 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 funds standing to the credit of the Accounts (other than the Excluded Accounts) to make payments in accordance with the Payment Priorities (as set out in the CTA).

(d) *Trustee and Security Trustee not liable for security*

The 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 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 Trustee and the Security Trustee have no responsibility for the value of any such Security.

4. *Interest*

The Notes bear interest from (and including) 13th July, 2004 (the "**Issue Date**") at the rate of 5.7/8 per cent. per annum, (the "**Rate of Interest**") payable annually in arrear on 13th July in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 66 (*Payments*). The first such payment ~~will~~ be made on 13th July, 2005.

Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, or unless default is otherwise made in respect of such payment, in which case it will 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 Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be £58.75 in respect of each Note of £1,000 denomination, £587.50 in respect of each Note of £10,000 denomination and £5,875.00 in respect of each Note of £100,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest penny (half a penny being rounded upwards), where:

"Day Count Fraction" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"Regular Period" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed by the Issuer at their principal amount on 13th July, 2026, subject as provided in Condition 66 (*Payments*).

~~(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer (or, if the Guarantee of the Notes were called, the Guarantor) in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer, or as the case may be, the Guarantor satisfies the Trustee that:~~

~~(i) the Issuer, or as the case may be, the Guarantor has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 28th June, 2004; and~~

~~(ii) such obligation cannot be avoided by the Issuer, or as the case may be, the Guarantor taking reasonable measures available to it;~~

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

~~Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer, or as the case may be, the Guarantor shall deliver to the Trustee a certificate signed by two directors of the Issuer, or as the case may be, the Guarantor stating that the Issuer, or as the case may be, the Guarantor 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.~~

(b) *Redemption for Taxation Reasons*: If at any time the Issuer satisfies the Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Notes (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or, if the Issuer is substituted for a company incorporated under or tax resident in another jurisdiction as permitted in accordance with these Conditions, such other jurisdiction or, in each case, any political subdivision thereof, or any other authority thereof, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitution of a company incorporated under another jurisdiction approved by the Trustee as principal debtor under the Notes and as lender under the Existing Issuer/AWL Loan Agreement and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 12 (*Meetings of Noteholders; Modification and Waiver; Substitution*)). If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and, as a result, the relevant deduction or withholding is continuing then the Issuer may (but will not be obliged to), upon giving not more than 60 nor less than 30 days' notice to the Trustee, the Security Trustee, the Secured Creditors and the Noteholders in accordance with Condition 15 (*Notices*), redeem all (but not some only) of the Notes on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon. Before giving any such notice of

redemption, the Issuer shall provide to the Trustee, the Security Trustee and the Secured Creditors a certificate signed by an Authorised Signatory (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 discharge all its liabilities in respect of the Notes and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Notes under the Payment Priorities.

The Trustee, the Security Trustee and the Secured Creditors shall be entitled to accept ~~such~~ and rely on any certificate referred to in this Condition 5(b) as sufficient evidence of the satisfaction of the ~~circumstances~~ conditions precedent set out ~~in (i) and (ii)~~ above, in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

~~Upon the expiry of any such notice, as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).~~

(c) *Redemption on Prepayment of an Existing Issuer/AWL Loan Agreement*

If AWL gives notice to the Issuer under the Existing Issuer/AWL Loan Agreement that it intends to prepay all or part of the advance made thereunder, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Trustee, the Security Trustee, the Secured Creditors and the Noteholders in accordance with Condition 15 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Notes or (where part only of such advance is being prepaid) the proportion of the relevant Notes which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Notes will be redeemed at their Redemption Amount determined in accordance with Condition 5(d) (*Redemption at the option of the Issuer*) except that, for the purposes of this Condition 5(c), "Reference Date" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 5(c), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Notes will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

~~(e) *Redemption at the option of Noteholders: If, at any time while any of the Notes remains outstanding:*~~

- ~~(i) the Appointment is terminated except in respect of such part of its area as is the subject of an appointment or variation by virtue of section 7(4)(b) or (bb) of the Water Industry Act; or~~
- ~~(ii) a Restructuring Event occurs and either:~~

~~(A) a Rating Downgrade in respect of such Restructuring Event also occurs; or~~

~~(B) if at such time there are no Rated Securities, a Negative Rating Event in respect of such Restructuring Event also occurs; and~~

~~an Independent Financial Adviser shall have certified in writing to the Issuer, the Guarantor and the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a "Negative Certification");~~

~~then, a Put Event will have occurred and each Noteholder will have the option (the "Put Option") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.~~

~~If, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the~~

~~Noteholders, then the foregoing provisions shall cease to have any further effect in relation to such Restructuring Event.~~

~~A Restructuring Event shall not be materially prejudicial to the interests of the Noteholders if the rating assigned to the Rated Securities by any Rating Agency immediately after the occurrence of such Restructuring Event is BBB-/Baa3 or better.~~

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

~~Promptly upon, and in any event within 14 days after, the Issuer or the Guarantor becoming aware that a Put Event has occurred, the Issuer or, as the case may be, the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one quarter in principal amount of the Notes then outstanding shall, give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 16 specifying the nature of the Put Event and the procedure for exercising the Put Option.~~

(d) ~~To exercise the Put Option, the Noteholder must deliver such Note to the Specified Office of any Paying Agent, on a day which is a Business Day in London and in the place of such Specified Office falling within the period (the "**Put Period**") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any Specified Office of any Paying Agent (a "**Put Notice**") and in which the Noteholder may specify a bank account to which payment is to be made under this Condition 5(c). Each Note should be delivered together with all Coupons appertaining thereto maturing after the day (the "**Put Date**") being the fifteenth day after the date of expiry of the Put Period. Upon the Put Date, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons and all unmatured Talons (if any and whether or not attached) appertaining to the Note shall become void and no further Coupons will be issued in respect thereof. The Paying Agent to which such Note and Put Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the Noteholder duly specifies an account with a bank in London in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender (as the case may be) endorsement of such receipt at any Specified Office of any Paying Agent. A Put Notice once given shall be irrevocable. For the purposes of these Terms and Conditions and the Trust Deed, receipts issued pursuant to this Condition 5 shall, until the Noteholder has received the payment due on the Put Date, be treated as if they were Notes. The Issuer shall redeem or, at the option of *the Issuer*, purchase (or procure the purchase of) the relevant Note on the applicable Put Date unless previously redeemed or purchased.~~

~~(d) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole or in part at the price which shall be the higher of:~~

- ~~(i) par; and~~
- ~~(ii) that price (the "**Redemption Price**"), expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield on the Notes, if they were to be purchased at such price on the second dealing day prior to the publication of the notice of redemption, (the "**Reference Date**"), would be equal to the Gross Redemption Yield on such dealing day of the 5 per cent. Treasury Stock 2025 or, if such stock is no longer in issue, of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "**Reference Gilt**") on the basis of the middle market price of the Reference Gilt prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by Dresdner Bank AG London Branch (or such other person(s) as the Trustee may approve). Any reference in these Terms and Conditions to principal shall, where applicable, be~~

deemed to be a reference to the Redemption Price. The "**Gross Redemption Yield**" on the Notes 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 Yield*" page 4, Section One: Price/Yield Formulae "Conventional Gilts: ~~Double-~~dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8/6/1998) (as supplemented, amended or replaced from time to time) or on such other basis as the Trustee may approve,

together with interest (if any) accrued to but excluding the date of redemption: ~~(the "**Redemption Amount**")~~.

In order to exercise the option contained in this Condition ~~5(d)~~, 5(d) the Issuer must give not more than 60 nor less than 30 ~~nor more than 90~~ days' notice to the Trustee, the Security Trustee, the Secured Creditors and the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes specified in such notice).

Notices of redemption will specify the date fixed for redemption, the applicable redemption price and, in the case of partial redemption, the serial numbers of the Notes called ~~for~~ redemption, the serial numbers of any Notes previously called for redemption and not presented for payment and the aggregate principal amount of the Notes to remain outstanding after redemption.

Prior to the giving of any such notice, the Issuer must certify (as further specified in the Finance Documents) to the Trustee that it will have the funds, not subject to any interest (other than under the Security) of any other person, required to redeem the Notes as aforesaid.

- (e) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition ~~5(d)~~5(d) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation.
- (f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in ~~paragraphs (a)~~Conditions 5(a) (*Scheduled Redemption*) to ~~(d)~~(d) (*Redemption at the option of the Issuer*) above.
- (g) *Purchase:* The Issuer ~~or the Guarantor~~, provided that no Event of Default has occurred and is continuing, may at any time purchase Notes in the open market or otherwise and at any price subject to the rules of the London Stock Exchange, **provided that** all unmatured Coupons and unexchanged Talons are purchased with them. Any purchase by tender shall be made available to all Noteholders alike.
- (h) *Cancellation:* All Notes so redeemed or purchased by the Issuer ~~or the Guarantor~~ and any unmatured Coupons or unexchanged Talons attached to or surrendered with them shall be cancelled. ~~Notes purchased by the Issuer, the Guarantor or any other Subsidiary of the Guarantor and may not be held or reissued or resold or surrendered for cancellation, unless purchased pursuant to Condition 5(e), and the obligations of the Issuer in which case respect of any such Notes (together with all relative unmatured and Coupons attached to the Notes or surrendered with the Notes) will forthwith~~shall be cancelled as aforesaid. discharged.

6. **Payments**

- (a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.
- (b) *Interest:* Payments of interest shall, subject to paragraph ~~(f)~~(f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made

in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph ~~(a)~~(a) (*Principal*) above.

- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 77 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (d) *Deduction for unmatured Coupons:* If a Note is presented without all unmatured Coupons relating thereto, then:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
- (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
- (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.
- Each sum of principal so deducted shall be paid in the manner provided in paragraph ~~(a)~~(a) (*Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.
- (e) *Payments on Business Days:* If the due date for payment of any amount in respect of any Note or Coupon is not a Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (f) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (h) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a "Coupon Sheet"), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 99 (*Prescription*)).

Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

7. **Taxation**

All payments ~~of principal and interest~~ in respect of the Notes and the Coupons will be made (whether by or on behalf of the Issuer or, the Guarantors, any Paying Agent, the Trustee or the Security Trustee) free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or ~~governmental~~ charges of whatsoever nature ~~imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority in, or of, the United Kingdom having power to tax,~~ unless the Issuer, the Guarantors, any Paying Agent or, where applicable, the Trustee or the Security Trustee is required by applicable law to make any payment in respect of the Notes or Coupons subject to any withholding or deduction of such for, or on account of, any present or future taxes, duties, assessments or governmental or charges is required by law, of whatsoever nature. In that event, ~~the Issuer or (, the Guarantors, such Paying Agent, the Trustee or the Security Trustee, as the case may be) the Guarantor,~~ shall paymake such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Guarantors, any Paying Agent, the Trustee or the Security Trustee will be obliged to make any additional amounts as will result in receipt by payments to the Noteholders and, or the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such in respect of such withholding or deduction been required. The Issuer, the Guarantors, any Paying Agent, the Trustee or the Security Trustee may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

8. Events of Default

The Events of Default (as defined in the Master Definitions Agreement) relating to the Notes are set out in Schedule 6 (Events of Default) of the CTA.

(a) Events of Default

If any Event of Default occurs and is continuing, subject always to the terms of the STID, the Trustee may at any time (in accordance with the provisions of the Trust Deed and the STID), and shall upon the Trustee being so directed or requested (i) by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the Notes and subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer and the Security Trustee that the Notes are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 5(d) (Redemption at the option of the Issuer) (except that ~~no such additional amounts shall be payable in respect of any Note or Coupon presented for payment;~~ for the purposes of this Condition 8(a), the "Reference Date" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(a)).

- ~~(a) — by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or~~
- ~~(b) — where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive or law implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive or law; or~~
- ~~(c) — by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or~~

- ~~(d) — to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of beneficial ownership of the Note or Coupon or of non-residence or other similar claim for exemption to the relevant tax authority or paying agent or any other relevant person; or~~
- ~~(e) — more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.~~

~~In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.~~

~~Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (Taxation) or any undertaking given in addition to or in substitution of this Condition 7 (Taxation) pursuant to the Trust Deed.~~

~~8. — **Events of Default**~~

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

- ~~(a) — if default is made for a period of 15 days or more in the payment of any principal of or interest on the Notes or in the payment of the purchase price due in respect of any Note pursuant to Condition 5(c); or~~
- ~~(b) — if the Issuer or the Guarantor fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except where the Trustee shall have certified to the Issuer or the Guarantor, as the case may be, in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days or, in the case of Condition 2(e), 90 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer or the Guarantor, as the case may be, specifying such failure and requiring the same to be remedied; or~~
- ~~(c) — if (i) any other Relevant Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default howsoever described or (ii) any such Relevant Indebtedness is not paid when due (or, as the case may be, within any originally applicable grace period) or (iii) the Issuer, the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Relevant Indebtedness of any person or (iv) any security given by the Issuer, the Guarantor or any Principal Subsidiary for any Relevant Indebtedness of any person or for any guarantee or indemnity of Relevant Indebtedness of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a *bona fide* dispute as to whether the relevant Relevant Indebtedness or any such guarantee or indemnity as aforesaid shall be due and payable, **provided that** the aggregate amount of the relevant Relevant Indebtedness in respect of which any one or more of the events mentioned above in this sub paragraph (c) has or have occurred equals or exceeds £15,000,000 (or its equivalent in other currencies (as determined by the Trustee)) or, if greater, 1.5 per cent. of the Capital and Reserves; or~~

- ~~(d) — if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer or the Guarantor, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or~~
- ~~(e) — if (i) any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary (other than the Issuer), save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or the Guarantor or any other of their respective Subsidiaries (other than an Excluded Subsidiary) or (B) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or (ii) a petition is presented under section 24 of the Water Industry Act (and is not dismissed within 60 days) or a special administration order is made under section 24 or section 25 of the Water Industry Act in respect of the Guarantor; or~~
- ~~(f) — if the Issuer, the Guarantor or any Principal Subsidiary shall cease to carry on the whole or, in the opinion of the Trustee, substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) in respect of a Principal Subsidiary, not involving or arising out of the Insolvency of such Principal Subsidiary and under which all or, in the opinion of the Trustee, substantially all of its assets are transferred to another member or members of the Group (other than an Excluded subsidiary) or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (ii) in respect of a Principal Subsidiary, under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by such Principal Subsidiary on an arm's length basis or (iii) in respect of the Issuer, the Guarantor or any Principal Subsidiary, the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or~~
- ~~(g) — if the Issuer, the Guarantor or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under section 1 of the Insolvency Act 1986; or~~
- ~~(h) — if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer, the Guarantor or any Principal Subsidiary or in relation to the whole or, in the opinion of the Trustee, a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or, in the opinion of the Trustee, a substantial part of the assets or any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 60 days (or such longer period as the Trustee may in its absolute discretion permit); or~~
- ~~(i) — the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect.~~

~~For the purposes of sub-paragraph (g) above, section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£350,000". Neither the Issuer, the Guarantor nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (g) above if any such demand as mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as any be stated in any notice given by the Trustee under this Condition 8.~~

(b) Confirmation of no Event of Default

The Issuer, pursuant to the terms of the CTA, shall provide written confirmation to the Trustee, on a semi-annual basis, that no Event of Default has occurred.

(c) Enforcement of Security

If the Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Notes, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and, subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) pursuant to the STID.

Following the notification of an Event of Default, the STID provides for a Standstill Period (as defined in the Master Definitions Agreement) to commence and for certain restrictions to apply to all Secured Creditors of the Obligors. The CTA also contains various Trigger Events that will, if they occur, (among other things) permit the Majority Creditors (provided that the relevant Quorum Requirement has been met) to commission an Independent Review, require AWL to discuss its plans for appropriate remedial action and prevent the Financing Group from making further Restricted Payments until the relevant Trigger Events have been remedied.

(d) Automatic Acceleration

In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedging Termination or a Permitted Lease Termination as set out in the STID), the Notes shall automatically become due and repayable at their respective Redemption Amount determined in accordance with Condition 5(d) (Redemption at the option of the Issuer) (except that, 5(b) for the purposes of this Condition 8(d), "Reference Date" means the date two Business Days prior to the date of such acceleration) plus, in each case, accrued and unpaid interest thereon.

9. **Prescription**

Claims against the Issuer and the Guarantors for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest against the Issuer and the Guarantors shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. **Replacement of Notes, Coupons and Talons**

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantors may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

11. **Trustee and Paying Agents**

(a) Trustee: ~~Under~~ considerations

Subject to the terms of the STID and Condition 11(b) (Exercise of rights by Trustee), in connection with the exercise, under these Conditions, the Trust Deed, ~~the Trustee is~~ or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Trustee shall have regard to the interests of the holders of the Notes as a class and will not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with or subject to the jurisdiction of, any particular territory. The Trustee shall not be entitled to ~~be~~ require from the Issuer, nor shall any Noteholders be entitled to claim from the Issuer or the Trustee, any indemnification or other

payment in respect of any consequence (including any tax consequence) for individual Noteholder of any such exercise.

(b) *Exercise of rights by Trustee*

Subject as provided in Condition 11(a) (*Trustee Considerations*) above or elsewhere in these Conditions and the Trust Deed, the Trustee will exercise its rights under, or in relation to, the Trust Deed or the Conditions in accordance with the directions of the relevant Noteholders, but the Trustee shall not be bound as against the Noteholders to take any such action unless it has (a) (in respect of the matters set out in Condition 8 (*Events of Default*) and Condition 12(a) (*Decisions of the Majority Creditors, STID Matters and STID Direct Voting Matters*)) only been so requested in writing by the holders of at least 25 per cent. in nominal amount of the Notes Outstanding; or (b) been so directed by an Extraordinary Resolution; and been indemnified and ~~relieved~~/or furnished with security and/or prefunded to its satisfaction.

(c) *Decisions under STID binding on all Noteholders*

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Trustee and the Noteholders, decisions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) will bind the Trustee and the Noteholders in all circumstances.

(d) *Indemnification of the Trustee*

(a) The Trust Deed contains provisions for indemnification of the Trustee, and for its relief from responsibility ~~in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is, including provisions relieving it from taking any action including taking proceedings against the Issuer and/or any other person unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee or any of its affiliates are~~ entitled to enter into business transactions with the Issuer, the ~~Guarantor and any entity relating to the Issuer or the Guarantor~~ other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit ~~resulting therefrom.~~

~~In the exercise of its powers and discretions under these Terms and Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Noteholders or Couponholders as a result of such holder being connected in any way with a particular territory or taxing jurisdiction.~~

(e) *Indemnification of the Security Trustee*

Subject to the Entrenched Rights and Reserved Matters of the Security Trustee, the Security Trustee will only be required to take any action under or in relation to, or to enforce or protect the Security, or any other security interest created by a Finance Document, or a document referred to therein, if instructed to act by the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) pursuant to the terms of the STID and if indemnified and/or secured and/or prefunded to its satisfaction.

(f) *Directions, Duties and Liabilities*

Neither the Security Trustee nor the Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) pursuant to the terms of the STID, shall 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 Security Trustee or the Trustee pursuant to the STID, any Finance Document or any Ancillary Document.

~~(b)~~(g) *Paying Agent*: In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantor~~s~~ and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any Noteholder or Couponholder.

The Issuer and the Guarantors reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; **provided, however, that** the Issuer and the Guarantors shall at all times maintain:

- (i) a Principal Paying Agent;
- (ii) a Paying Agent in London; and
- (iii) if European Council Directive 2003/48/EC or any other Directive or law implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to such Directive or any law implementing or complying with, or introduced to conform to, such Directive or law.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. **Meetings of Noteholders; Modification and Waiver; Substitution**

(a) Decisions of Majority Creditors, STID Matters and STID Direct Voting Matters

The STID contains provisions dealing with the manner in which STID Matters affecting the interests of the Secured Creditors (including the Trustee and the Noteholders) will be dealt with. Noteholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (provided that the relevant Quorum Requirement has been met).

The STID provides that the Class A Creditors (which includes the Noteholders) (the "Qualifying Existing Bondholders") shall each be entitled to instruct the Trustee through the clearing systems in accordance with the terms of the Trust Deed to vote on its behalf in relation to such STID Direct Voting Matters as the DIG Representative of such Noteholder.

As more fully set out in the STID and the Trust Deed, voting in connection with such STID Direct Voting Matters shall be determined on a pound-for-pound basis by reference to the Outstanding Principal Amount owed to each Qualifying Secured Creditor voting in respect of such STID Direct Voting Matters, so that all votes in favour of the proposal and all votes against the proposal from such Qualifying Secured Creditor are considered on an aggregate basis, irrespective of whether a majority of such Noteholders.

For the purpose of voting in connection with a STID Direct Voting Matter, upon receipt thereof in accordance with the provisions of the STID, the Trustee shall promptly forward a copy of such notice to the Qualifying Existing Bondholders in accordance with Condition 15 (Notices) requesting them to instruct the Trustee how to vote. After obtaining the instruction of the Qualifying Existing Bondholders, the Trustee will vote in relation to the relevant STID Direct Voting Matter in accordance with such instructions.

If a STID Matter relates to an Entrenched Right of the Noteholders, such STID Matter shall not be a STID Direct Voting Matter and the Trustee shall be entitled to convene a meeting of the Noteholders to consider such STID Matter and the Trustee shall vote in accordance with a direction by those holders of such outstanding Notes by means of an Extraordinary Resolution of the Notes. In any case, the Trustee shall not be obliged to vote unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

(b) Meetings of Noteholders:

(a) The Trust Deed contains provisions for convening meetings of the Noteholders to consider ~~matters relating to the Notes~~any matter affecting their interests, including the modification of ~~any provision of these Terms and Conditions or the Trust Deed~~the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed and any other Finance Document to which the Trustee is a party (subject to the terms of the STID). Any ~~such~~

modification may (except in relation to any Entrenched Right or Reserved Matter of the Trustee (as set out in the STID)) subject to the terms of the STID and subject to the provisions concerning ratification set out in the Trust Deed), be made if sanctioned by ~~an Extraordinary Resolution~~ a resolution passed at a meeting of such Noteholders duly convened and held in accordance with the Trust Deed by a majority of not less than three-quarters of the votes cast (an "Extraordinary Resolution") at such meeting. Such a meeting may be convened by the Trustee or the Issuer ~~and the Guarantor (acting together) or by the Trustee,~~ and shall, ~~subject to its being indemnified and/or secured to its satisfaction,~~ be convened by the Trustee/Issuer upon the request in writing of the relevant Noteholders holding not less than one-tenth ~~of the aggregate principal in nominal~~ amount of the ~~outstanding~~ relevant Notes for the time being Outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing ~~one more~~ not less than half ~~50 per cent. in Principal Outstanding Amount~~ of the ~~aggregate principal amount of relevant Notes for the outstanding Notes time being Outstanding~~ or, at any adjourned meeting, one or more persons being or representing Noteholders, whatever the ~~principal amount~~ Principal Outstanding Amount of the relevant Notes held or represented; provided, however, that certain ~~proposals (including any proposal, (a) matters as set out in paragraph 17 of Schedule 4 to change any date fixed for payment of principal or interest in respect of the Notes, to reduce Trust Deed (the amount of principal or interest payable on any date "Basic Terms Modifications") in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (b) to effect the exchange, conversion or substitution of the Notes, or the conversion of Notes into, shares, bonds or other obligations, (c) to change the currency of payments under the Notes (except pursuant to Condition 17), (d) to amend the terms of the Guarantee of the Notes (e) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or (f) to amend the definition of Reserved Matter (each, a "Reserved Matter"))~~ Noteholders may ~~only~~ be sanctioned only by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in the Principal Outstanding Amount of the ~~aggregate principal amount of the outstanding relevant~~ Notes form a quorum.- Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution.- 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 Noteholders.

~~(c) Modification, consent and waiver: The Trustee may, without the consent~~

As more fully set out in the Trust Deed (and subject to the conditions and qualifications therein and to the terms of the Noteholders-STID), the Trustee may and, in respect of (iii) below, shall, without the consent of the Noteholders, concur with the Issuer or Couponholders agree to any other relevant parties in making:

(i) any modification of these Terms and Conditions, the Trust Deed or the Trust Deed (other than in respect of a Reserved Matter) any Finance Document if in the opinion of the Trustee such modification is of a formal, minor or technical nature or is made to correct a manifest error;

(ii) any modification and granting any consent under or waiver or authorisation of any breach or proposed breach (or determination that any Event of Default or Potential Event of Default shall not be treated as such) of these Conditions, the Trust Deed or any Finance Document which is, in the opinion of the Trustee, ~~proper to make if, in the opinion of the Trustee, such modification will not be not~~ materially prejudicial to the interests of the Noteholders; and ~~to~~

(iii) any modifications required for the purpose of the accession of a Permitted Additional Issuer Subsidiary to the relevant Transaction Documents.

~~Any such modification of the Notes, consent, waiver or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error, or an error, which in the opinion of~~ authorisation shall be binding on the Noteholders and the Couponholders and, if the Trustee, so requires, notice thereof shall be given by the Issuer to the Noteholders as soon as practicable thereafter.

~~(b) The Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is proven~~ not materially prejudicial to the Noteholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Notes.

(d) In addition, Substitution

~~As more fully set forth in the STID (and subject to the terms thereof), the Trustee may, without the consent of the Noteholders or Couponholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.~~

~~Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified~~ also agree with the Issuer to the Noteholders as soon as practicable thereafter.

~~(e) Substitution: The Trust Deed contains provisions under which the Guarantor or any Subsidiary of the Guarantor may, without the consent of the Noteholders or Couponholders, assume the obligations~~ substitution of another corporation in place of the Issuer as principal debtor under the Trust Deed and the Notes ~~provided that~~ certain conditions specified in the Trust Deed are fulfilled, including, in the case of a substitution of the Issuer by a company other than the Guarantor, a requirement that the Guarantee of the Notes is fully effective in relation to the obligations of the new principal debtor under respect of the Trust Deed and the Notes.

~~The Trust Deed contains further provisions under which a newly formed company incorporated in England (a "Substitute Guarantor") may, without the consent of the Noteholders or Couponholders, assume the obligations of the Guarantor as guarantor under the Trust Deed and the Notes provided that~~ certain conditions specified in the Trust Deed are fulfilled, including a requirement that the Guarantor effectively and validly transfers to the Substitute Guarantor, simultaneously with the substitution and for a consideration not exceeding the Regulated Asset Value, the Appointment and all assets and liabilities of the Guarantor, such that, upon such transfer, the total assets less non-cash liabilities of the Substitute Guarantor are at least the Regulated Asset Value.

13. (Intentionally left blank)

14. Enforcement

~~No Noteholder or Couponholder shall, in connection with any substitution, be is~~ entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder or (as the case may be) Couponholder except to the extent provided for in Condition 7 (Taxation) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

~~13. Securitisation Event~~

~~The Trust Deed contains a provision under which the Trustee will, without the consent of the Noteholders or Couponholders, do all such acts or execute all such documents as may be required to implement any Securitisation and to confer on the Noteholders and the Couponholders the security intended to be conferred on them by or pursuant to any such Securitisation, provided that:~~

~~(a) the Rating Agencies have confirmed to the Trustee that the ratings of the Notes immediately following the implementation of the Securitisation will not be less than BBB+ from Standard & Poor's and Baal from Moody's or such other comparable rating as may be standard;~~

- (b) ~~the Notes rank at least *pari passu* with the highest rated notes issued pursuant to the Securitisation; and~~
- (c) ~~the obligations of take any action against the Issuer and the Guarantor are secured by first ranking charges over the shares of each or against any assets of the Issuer and the Guarantor and by first ranking fixed and floating charges over the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer and Guarantor to the extent permitted by law and regulation.~~

~~14. Enforcement~~

~~The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to recover any amounts due to enforce its rights in respect of the Notes which are unpaid or to enforce its rights under the Trust Deed in respect any of the Notes, but it shall not be bound to do so Security unless:~~

- (a) ~~it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and~~
- (b) ~~it has been indemnified or provided with security to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith and **provided that** the Trustee shall not be held liable for the consequence of taking any such action and may take such action without the Trustee or the Security Trustee (as applicable), having regard to the effect of such action on individual Noteholders or Couponholders.~~

~~No Noteholder may become bound so to proceed ~~directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails or neglects to do so within a reasonable timeperiod and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 8(c) (Enforcement of Security)) on the instructions of the Majority Creditors (provided that the relevant Quorum Requirement has been met) pursuant to the STID and neither the Trustee nor the Security Trustee shall be bound to take any such action 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.~~~~

~~15(a) Further Issues~~

~~The Issuer may from time to time, without the consent of the Noteholders or Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed, which consent shall be given by the Trustee in respect of the creation and issue of other series of notes that are to be issued pursuant to any Securitisation that satisfies the conditions set out in Clause 8 of the Trust DeedNeither the Trustee nor the Noteholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Notes are Outstanding or for two years and a day after the latest Maturity Date on which any Note is due to mature.~~

~~16.15. Notices~~

~~Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.~~

~~So long as any Notes are represented by Global Notes, notices in respect of those Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg for communication by them to~~

entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Noteholders on the day of delivery to such clearing systems.

17.16. Redenomination, Renominalisation and Reconventioning

- (a) *Notice of redenomination:* If the United Kingdom becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents and having notified the Trustee prior to the provision of such notice, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which the United Kingdom becomes a Participating Member State.
- (b) *Redenomination:* Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
- (i) the Notes shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided, however, that**, if the Issuer determines, with the agreement of the Trustee, that market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
 - (ii) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in sterling (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (**provided that** such Notes and Coupons are available) and no payments will be made in respect thereof;
 - (B) the payment obligations contained in all Notes denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition ~~17~~16) shall remain in full force and effect; and
 - (iii) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
 - (iv) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a subdivision of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a country in a city in which banks have access to the TARGET System.
- (c) *Interest:* Following redenomination of the Notes pursuant to this Condition ~~17~~16, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by each relevant holder.

(d) *Interpretation:* In this Condition:

"**Participating Member State**" means a member state of the European Union which adopts the Euro as its lawful currency in accordance with the Treaty; and

"**Treaty**" means the Treaty establishing the European Community, as amended.

18.17. Governing Law and Jurisdiction

(a) *Governing law:* The Notes, the Coupons and the Trust Deed and all matters arising from or connected with the Notes, the Coupons and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* Each of the Issuer and the Guarantor~~s~~ has in the Trust Deed agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute arising from or connected with the Notes.

19.18. Definitions

For the purposes of these Terms and Conditions:

~~The "**Appointment**" means the Instrument of Appointment dated 24th August, 1989 under section 11 of the Water Act 1989 (now section 6 of the Water Industry Act) as in effect on 28th June, 2004 appointing the Guarantor as a water undertaker for the areas described therein;~~

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

~~"**Authorised Investments**" means any of the following investments denominated in sterling which has a scheduled maturity of less than 365 days:~~

~~(a) — gilt edged securities and other freely transferable and marketable debt securities issued by HM Government which constitute direct, primary and unsubordinated obligations;~~

~~(b) — certificates of deposit of any bank or building society, or notes or notes of, or guaranteed by, any company or corporation, supranational entity or sovereign, the unsecured, unguaranteed and unsubordinated medium term obligations of which have a medium term senior debt rating of AA- or better issued by S&P or Aa3 or better issued by Moody's and the unsecured, unguaranteed and unsubordinated short term obligations of which have short term debt rating of A-1 or better issued by S&P or P-1 or better issued by Moody's, in each case constituting direct, primary and unsubordinated obligations;~~

the "**Act**" means the United Kingdom Water Industry Act 1991 (as amended).

"**Business Day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

~~"**Capital and Reserves**" means the aggregate of:~~

~~(i) — the amount paid up or credited as paid up on the share capital of the Guarantor; and~~

~~(ii) — the total of the capital, revaluation and revenue reserves of the Group, including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to minority interests and deducting any debit balance on the profit and loss account;~~

~~all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with generally accepted accounting principles in the United Kingdom, but~~

~~adjusted as may be necessary in respect of any variation in the paid-up share capital or share premium account of the Group since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors may consider appropriate. A certificate signed by two directors of the Guarantor or a report by the Auditors as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on all parties whether or not addressed to each such party.~~

~~"Excluded Subsidiary" means any Subsidiary of the Guarantor:~~

- ~~(a) — which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;~~
- ~~(b) — none of whose indebtedness in respect of the financing of such ownership, acquisition, development and/or operation of such asset is subject to any recourse whatsoever to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in sub-paragraph (ii) of the definition of Project Finance Indebtedness; and~~
- ~~(c) — which has been designated as such by the Guarantor by written notice to the Trustee, **provided that** the Guarantor may give written notice to the Trustee at any time that any Excluded subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary.~~

~~"Group" means the Guarantor and its Subsidiary Undertakings and "member of the Group" shall be construed accordingly;~~

~~"guarantee" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):~~

- ~~(a) — any obligation to purchase such Indebtedness;~~
- ~~(b) — any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;~~
- ~~(c) — any indemnity against the consequences of a default in the payment of such Indebtedness; and~~
- ~~(d) — any other agreement to be responsible for such Indebtedness;~~

~~"Indebtedness" means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit, or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.~~

~~"Independent Financial Adviser" means an independent financial adviser either appointed by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed).~~

~~"K" has the meaning defined in the Appointment;~~

~~A "Negative Rating Event" shall be deemed to have occurred if (i) the Issuer does not, either prior to or not later than 21 days after the date of a Negative Certification (as defined in Condition 5(c)) in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the notes or procure a rating of any other unsecured and unsubordinated debt of the Guarantor (or of the Issuer or of any Subsidiary of the Guarantor which, in any case, is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more from a Rating Agency or (ii) if the Issuer does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being), **provided that** a Negative Rating Event shall not be deemed to have occurred in respect of a particular Restructuring Event if the Rating Agency declining to assign a rating of at least investment grade (as described above) does not announce or publicly confirm or inform the~~

~~Trustee in writing at its request that its declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Restructuring Event (whether or not the Restructuring Event shall have occurred at the time such investment grade is declined);~~

~~"Net Indebtedness" means, at any time, Indebtedness of the Guarantor (consolidated, if in respect of the relevant financial year the Guarantor has Subsidiaries which it is required to consolidate) less (i) any cash in hand or on deposit with a bank and (ii) any Authorised Investments;~~

~~"OFWAT" means the Office of Water Services, or any successor organisation;~~

~~"Permitted Encumbrances" means:~~

- ~~(a) — encumbrances arising solely by operation of law;~~
- ~~(b) — encumbrances arising in the ordinary course of business of the Issuer and securing amounts not more than 90 days overdue or which are being contested in good faith;~~
- ~~(c) — 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;~~
- ~~(d) — 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, or when required in order to pursue such proceedings an adequate note has been provided); and~~
- ~~(e) — encumbrances arising out of judgments with respect to which (a) an appeal or proceedings for review is actively being pursued in good faith and for the payment of which adequate reserves have been made, or, when required in order to pursue such proceedings, an adequate note has been provided; and b) a stay of execution shall have been secured (and is still in force) pending such appeal or proceeding for review;~~

~~"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;~~

~~"Principal Subsidiary" means any Subsidiary of the Guarantor (other than the Issuer) (a) whose profits on ordinary activities before tax or whose net assets (in each case consolidated in respect of a Subsidiary which itself has Subsidiaries, and in each case attributable to the Guarantor) all as shown in the latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary represent 15 per cent. or more of the consolidated profits on ordinary activities before tax or as the case may be, consolidated net assets (in each case attributable to the shareholders of the Guarantor) of the Guarantor and its Subsidiaries (other than Excluded Subsidiaries) all as shown in the latest audited consolidated accounts of the Guarantor (as adjusted); or (b) to which is transferred all or substantially all of the business, undertaking or assets of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall be deemed to be a Principal Subsidiary under this sub paragraph (b) upon publication of its next audited account. A report by the auditors for the time being of the Guarantor that in their opinion a Subsidiary is not or was or was not at any particular time a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;~~

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

- ~~(a) — which is incurred by an Excluded Subsidiary; or~~
- ~~(b) — in respect of which the person or persons to whom any such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:~~

- (i) ~~recourse for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset; and/or~~
- (ii) ~~recourse for the purpose only of enabling amounts to be claimed in respect of such indebtedness in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness, **provided that** (aa) the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness, to commence proceedings for the winding up or dissolution of any member of the Group (other than an Excluded Subsidiary) or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of any member of the Group (other than an Excluded Subsidiary) or any of its assets (save for the assets the subject of such encumbrance); and/or~~
- (iii) ~~recourse under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by any member of the Group (other than an Excluded Subsidiary).~~

A "**Put Event**" occurs:

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

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

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

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

"**Regulated Asset Ratio**" or "**RAR**" means the ratio of:

- (a) ~~Net Indebtedness (consolidated, if the Guarantor has Subsidiaries which it is required to consolidate); to~~
- (b) ~~Regulated Asset Value.~~

~~"Regulated Asset Value" or "RAV" means, at any date, the aggregate value attributed to the assets of the Guarantor (or, as the case may be, the Substitute Guarantor) for the purpose of the calculation of the maximum allowable revenues chargeable by the Guarantor (or, as the case may be, the Substitute Guarantor) as most recently published by OFWAT, and adjusted by the Issuer as described in accordance with the method set out for the calculation of this value in the model data book, or equivalent, most recently published by OFWAT, for any changes to that calculation;~~

~~"Relevant Indebtedness" means Indebtedness, other than Project Finance Indebtedness.~~

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

~~(a) — any material rights, benefits or obligations of the Guarantor as a water undertaker under the Appointment or the Water Industry Act as in force on 28th June, 2004, or any material terms of the Appointment are modified (whether or not with the consent of the Issuer and whether pursuant to the Water Industry Act or otherwise) (**provided that** an adjustment to K (or any of the constituent factors that make up K) shall not fall within this paragraph (a)); or~~

~~(b) — save for the Water Act 2003, any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying the duties or powers of the Secretary of State for Environment, Food and Rural Affairs (or any successor) and/or the Director General of Water Services (or any successor) (including, without limitation, any such legislation removing, reducing or qualifying such duties or powers under or pursuant to section 2, 9 or 24 of the Water Industry Act) in each case as compared to those in force on 28th June, 2004,~~

~~unless two directors of the Guarantor certify in good faith to the Trustee that such modified terms pursuant to paragraph (a) are, or such removal, reduction or qualification pursuant to paragraph (b) is, not materially less favourable to the business of the Group and to the business of the Guarantor;~~

~~"Securitisation" means the raising and/or assumption on a secured basis of indebtedness for borrowed money by the Issuer, Guarantor or any Principal Subsidiary comprising one or more tranches of debt securities (which may be rated, listed and/or guaranteed by a financial guarantor) and other borrowings of the Issuer, Guarantor or any Principal Subsidiary under an arrangement pursuant to which the substantial majority by value of debt financing creditors to the Issuer, Guarantor or any Principal Subsidiary (including the Notes), share in a common warranty, covenant and security package and are subject to an automatic standstill of claims against the Issuer, Guarantor or any Principal Subsidiary upon the occurrence of an event of default.~~

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

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

~~"Substitute Guarantor" means the newly formed company incorporated in the United Kingdom that is substituted in place of the Guarantor pursuant to Clause 7.4 of the Trust Deed; and~~

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

"Instrument of Appointment" means the instrument of appointment dated 1989 as amended under which the Secretary of State for the Environment appointed AWL as a water undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"Obligors" means the Programme Issuer, the Issuer, AWL and AWHL, together with any other entity which accedes to the Finance Documents as an Obligor in accordance with the terms thereof (including any Permitted Subsidiary), and "Obligor" means any of them.

"Rating Agencies" means Moody's, S&P and Fitch (to the extent the Fitch Appointment Right has been exercised by the Transaction Agent) and any further or replacement rating agency appointed by the Programme Issuer or the Issuer with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors in accordance with the terms of the STID) to provide a credit rating or ratings for the Class A Debt and the Class B Debt for so long as they are willing and able to provide credit ratings generally (and "Rating Agency" means any one of them).

"Relevant Date" means the earlier of (a) the date on which all amounts in respect of the Notes have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding has been received by the Principal Paying Agent and notice to that effect has been given to the Bondholders in accordance with Condition 15 (Notices).