

Anglian Water Services Financing Plc

(incorporated with limited liability in England and Wales with registered number 4330322)

€10,000,000,000 Global Secured Medium Term Note Programme unconditionally and irrevocably guaranteed by Inter Alios

Anglian Water Services Limited

(incorporated with limited liability in England and Wales with registered number 2366656)



Anglian
Water
Group

19 October 2020

ANGLIAN WATER SERVICES FINANCING PLC

(incorporated with limited liability in England and Wales with registered number 4330322)

(Legal Entity Identifier: 213800DL377MH46PDY63)

€10,000,000,000

Global Secured Medium Term Note Programme
unconditionally and irrevocably guaranteed by, *inter alios*,

ANGLIAN WATER SERVICES LIMITED

(incorporated with limited liability in England and Wales with
registered number 2366656)

for the issuance of
Guaranteed Bonds

On 23 July 2002, the Issuer (as defined below) entered into a €10,000,000,000 Global Secured Medium Term Note Programme (the “**Programme**”). This Prospectus supersedes the Prospectus dated 30 September 2019 in connection with the Programme. Under the Programme, Anglian Water Services Financing Plc (the “**Issuer**” and, as described below, an “**Obligor**”) may from time to time, on or after the date of this Prospectus, issue bonds (the “**Bonds**”), subject to the provisions described herein, in bearer or registered form (respectively, “**Bearer Bonds**” and “**Registered Bonds**”). Each Series of Bonds in bearer form will be represented on issue by a temporary global bond in bearer form (each a “**Temporary Bearer Global Bond**”) or a permanent global bond in bearer form (each a “**Permanent Bearer Global Bond**”) and, together with each Temporary Bearer Global Bond, the “**Global Bonds**”). If the Global Bonds are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form they are intended to be eligible collateral for Eurosystem monetary policy and the Global Bonds will be delivered on or prior to the original date of the Series to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”). Global Bonds in bearer form which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) will be deposited on the Issue Date to a common depository on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depository**”). This Prospectus does not affect any Bonds issued before the date of this Prospectus.

The payment of all amounts owing in respect of the Bonds will be unconditionally and irrevocably guaranteed by Anglian Water Services Limited (“**Anglian Water**” or “**AWS**”), Anglian Water Services Holdings Limited (“**Anglian Water Services Holdings Limited**” or “**AWS Holdings**”) and Anglian Water Services UK Parent Co Limited (“**Anglian Water Services UK Parent Co Limited**” or “**AWS UK Parent Co**”) as described herein. Anglian Water, the Issuer, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited are together referred to herein as the “**Obligors**”. Anglian Water Services Holdings Limited was incorporated in England and Wales under the Companies Act 1985 (as amended) as a limited company on 28 November 2001, whilst Anglian Water Services UK Parent Co Limited was incorporated in England and Wales under the Companies Act 2006 (as amended) as a limited company on 5 April 2018. Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited do not have any significant assets other than the shares in their respective subsidiaries.

The maximum aggregate nominal amount of all Bonds from time to time outstanding under the Programme will not exceed €10,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Bonds issued under the Programme will be issued in series (each a “**Series**”), with each Series belonging to one of two classes (each a “**Class**”). The Bonds will be designated as either “**Class A Bonds**” or “**Class B Bonds**”. Each Series will comprise one or more Tranches (each a “**Tranche**”) of Bonds which are identical in all respects save for the issue dates, interest commencement dates and/or issue prices, and which are expressed to be consolidated and form a single Series.

The Bonds may be issued on a continuing basis to one or more of the Dealers specified under Chapter 1, “*Parties*”, and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an on-going basis. References in this Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Bonds.

Arranger

Barclays

Dealers

Barclays

Commonwealth Bank of Australia

ING Bank N.V.

Lloyds Bank Corporate Markets

NatWest Markets

Scotiabank

BNP PARIBAS

HSBC

J.P. Morgan

Morgan Stanley

Santander Corporate & Investment Banking

SMBC Nikko

The date of this Prospectus is 19 October 2020.

Application has been made to the Financial Conduct Authority (the “FCA”) under Part VI of the Financial Services and Markets Act 2000 (the “FSMA”) for Bonds issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the FCA (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for such Bonds to be admitted to trading on the London Stock Exchange’s regulated market (the “Market”). Except where the context provides otherwise, references in this Prospectus to Bonds being “listed” (and all related references) shall mean that such Bonds have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, “MIFID II”).

This Prospectus has been approved as a base prospectus by the FCA, as competent authority under Regulation (EU) 2017/1129 (the “Prospectus Regulation”). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer, the Obligors or the quality of the Bonds that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Bonds.

In respect of Bonds to be issued under the Programme, notice of the aggregate nominal amount of Bonds, interest (if any) payable in respect of Bonds, the issue price of Bonds and certain other information applicable to each Tranche of Bonds will be set out in a set of final terms (the “Final Terms”) which will be delivered to the FCA and the London Stock Exchange on or before the date of issue of the Bonds of such Tranche.

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

The Bonds and the guarantees in respect thereof have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any State or other jurisdiction of the United States, and the Bonds may include Bearer Bonds that are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered or sold or, in the case of Bearer Bonds, delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”) in the case of Registered Bonds, or as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder in the case of Bearer Bonds). See Chapter 7, “Form of the Bonds” for a description of the manner in which Bonds will be issued. Registered Bonds are subject to certain restrictions on transfer. See Chapter 14, “Subscription and Sale and Transfer and Selling Restrictions”.

Each Tranche of Class A Bonds and Class B Bonds is expected on issue to have the following credit ratings from the respective credit rating agencies below. The credit ratings will be specified in the applicable Final Terms.

Class	Standard & Poor’s	Moody’s	Fitch
Class A Bonds	A- (negative)	A3 (negative)	A- (stable)
Class B Bonds	BBB (negative)	Baa3 (negative)	BBB (stable)

Any ratings ascribed to the Bonds reflect only the views of Moody’s Investors Service Limited (“Moody’s”), S & P Global Ratings Europe Limited (“Standard & Poor’s” or “S&P”) and Fitch Ratings Ltd (“Fitch” and, together with Moody’s and Standard & Poor’s, the “Rating Agencies”). A

rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency. For an explanation of the meaning of the ratings, see *Chapter 2, “Overview of the Programme – Ratings”*.

On 25 February 2020, Standard & Poor’s published a report setting out their industry actions based on Ofwat’s PR19 Final Determination. As AWS is appealing to the CMA, S&P are maintaining ratings at current levels (A-/BBB) but AWS’ credit rating has been placed on credit watch negative until the CMA publishes its final conclusions.

On 27 February 2020, Moody’s announced that it was keeping the ratings on negative outlook, which indicates that over the following two years, or following a specific event, there may be a rating downgrade, awaiting the final outcome from the CMA appeal. The negative outlook reflects the risk that unless the CMA decision significantly improves operating financial performance, AWS will likely be downgraded.

On 17 March 2020, Fitch downgraded the Class A Debt and Class B Debt issued by the Issuer and placed the outlook as 'stable'. The downgrade reflects the pressure on Anglian Water Services Limited's financial profile from Ofwat’s challenging final price determinations. Fitch issued an 'A-' issue rating on the Class A Debt and a 'BBB' issue rating on the Class B Debt.

Credit ratings included or referred to in this Prospectus have been issued by the Rating Agencies, each of which is established in the European Union or in the United Kingdom (the “**UK**”) and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council dated 16 September 2009 on credit rating agencies, as amended (the “**CRA Regulation**”).

The European Securities and Market Association (“**ESMA**”) is obliged to maintain on its website a list of credit rating agencies registered in accordance with the Regulation. This list must be updated within 5 working days of ESMA’s adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.

The Obligors may agree with any Dealer and Deutsche Trustee Company Limited (the “**Bond Trustee**”) that Bonds may be issued in a form not contemplated by the Terms and Conditions of the Bonds herein, in which event (in the case of Bonds admitted to the Official List only) a new prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

Amounts payable under the Bonds may be calculated by reference to (i) LIBOR, which is provided by ICE Benchmark Administration Limited (“**IBA**”), (ii) EURIBOR, which is provided by the European Money Markets Institute (the “**EMMI**”), (iii) RPI, which is provided by the Office for National Statistics, (iv) CPI, which is provided by the Office for National Statistics, (v) CPIH, which is provided by the Office for National Statistics or (vi) HICP, which is provided by Eurostat. As at the date of this Prospectus, the IBA and the EMMI appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to Article 36 of Regulation (EU) 2016/1011 (the “**BMR**”).

As far as the Issuer is aware, RPI, CPI, CPIH and HICP do not fall within the scope of the BMR by virtue of Article 2 of that regulation.

IMPORTANT NOTICE

This Prospectus comprises a base prospectus (the “**Base Prospectus**”) for the purposes of Article 8 of the Prospectus Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”).

This Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Bonds which are to be admitted to trading on a regulated market in the European Economic Area (the “**EEA**”) and/or the UK and/or offered to the public in the EEA and/or the UK other than in circumstances where any exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

Each of the Issuer and the other Obligors accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Bonds issued under the Programme. To the best of the knowledge of the Issuer and each of the other Obligors, the information contained in this Prospectus is in accordance with the facts and the Prospectus does not omit anything likely to affect the import of such information.

Copies of each set of Final Terms (in the case of Bonds to be admitted to the Official List) will be available from the specified office set out below of each of the Paying Agents (as defined below) and from the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below).

The Series of Wrapped Bonds issued on 30 July 2002 have the benefit of financial guarantee insurance policies, issued by Assured Guaranty (London) plc. No representation, warranty or undertaking, express or implied, is made and to the fullest extent permitted by law, the Dealers, the Bond Trustee, the Security Trustee, the Hedge Counterparties, the Finance Lessors, the Authorised Credit Providers, the Debt Service Reserve Liquidity Facility Provider, the O&M Reserve Facility Provider, the Original Lenders and the Agents or any Facility Agent (each as defined herein and together, the “**Other Parties**”) accept no responsibility whatsoever for the contents of this Prospectus or any information contained or incorporated in this Prospectus or for any other statement made or purported to be made by any of them or on their behalf in connection with the Issuer and the other Obligors, the issue and offering of any Bonds or any other information provided by the Obligors in connection with the Programme. Accordingly, none of the Dealers, the Bond Trustee, the Security Trustee or any of the Other Parties accepts any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

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

In the case of any Bonds which are to be admitted to trading on a regulated market within the EEA or the UK or offered to the public in a Member State of the EEA or the UK in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum specified

denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds).

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

None of the Issuer, the Obligors, any member of the AWS Financing Group, the Arranger, the Dealers, the Bond Trustee, the Security Trustee, the Financial Guarantors or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds (including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a “securitisation” for the purpose of Regulation (EU) 2017/2402 (the “**Securitisation Regulation**”)) by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Bonds is relevant to any investor’s decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to 1.8.6 “*Risk Factors – Risks relating to all Bond Issuances – Treatment of the Bonds for Capital Adequacy Purposes*” of the “Risk Factors” section of this Prospectus for further information.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Obligors is correct at any time subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or any other Obligor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Dealers, the Bond Trustee, the Security Trustee or the Other Parties expressly undertakes to review the financial condition or affairs of any of the Obligors during the life of the Programme or to advise any investor in the Bonds issued under the Programme of any information coming to their attention. Investors should review the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Bonds.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Bonds may be restricted by law in certain jurisdictions. None of the Obligors, the Dealers, the Bond Trustee, the Security Trustee or the Other Parties represents that this Prospectus may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken

by the Obligors, the Dealers, the Bond Trustee, the Security Trustee or the Other Parties which would permit a public offering of any Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States, the EEA, the UK, Belgium, Japan, Australia, Singapore, Switzerland, Canada and the Netherlands. See Chapter 14, *“Subscription and Sale and Transfer and Selling Restrictions”*.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS - The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the **“Insurance Distribution Directive”**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the **“Prospectus Regulation”**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **“PRIIPs Regulation”**) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market – The Final Terms in respect of any Bonds may include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Bonds and which channels for distribution of the Bonds are appropriate. Any person subsequently offering, selling or recommending the Bonds (a **“distributor”**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **“MiFID Product Governance Rules”**), any Dealer subscribing for any Bonds is a manufacturer in respect of such Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Singapore SFA Product Classification

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the **“SFA”**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **“CMP Regulations 2018”**), unless otherwise specified before an offer of Bonds, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

In making an investment decision, investors must rely on their own examination of the Obligors and the terms of the Bonds being offered, including the merits and risks involved.

None of the Dealers, the Obligors, the Bond Trustee, the Security Trustee or the Other Parties makes any representation to any investor in the Bonds regarding the legality of its investment under any applicable laws. Any investor in the Bonds should be able to bear the economic risk of an investment in the Bonds for an indefinite period of time.

IMPORTANT LEGAL INFORMATION

Notice to investors

Bonds issued under the Programme may not be a suitable investment for all investors. You must determine the suitability of any investment in light of your own circumstances. In particular, you may wish to consider, either on your own or with the help of your financial and other professional advisers, whether you:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Bonds, the merits and risks of investing in the relevant Bonds and the information contained or incorporated by reference in this Prospectus (and any applicable supplement to this Prospectus);
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Bonds and the impact the relevant Bonds will have on your overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including Bonds with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the currency which you usually use;
- (d) understand thoroughly the terms of the Bonds and are familiar with the behaviour of any relevant indices and financial markets; and
- (e) are able to evaluate (either alone or with the help of your financial adviser) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

No person is or has been authorised by the Issuer, the Dealers, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Dealers, the Bond Trustee or the Security Trustee.

Neither the publication of this Prospectus nor the offering, sale or delivery of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date of this Prospectus or that there has been no adverse change in the financial position of the Issuer since the date of this Prospectus or that any other information supplied in connection with the offering of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. None of the Dealers, the Bond Trustee or the Security Trustee undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds should be considered as a recommendation by the Issuer, the Dealers, the Bond Trustee or the Security Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. You should determine for yourself the relevance of the information contained in this Prospectus and any purchase of Bonds should be based upon such investigation as you deem necessary.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any parent company or affiliate of the Dealers is a licensed broker or dealer in that

jurisdiction and so agrees, the offering shall be deemed to be made by the Dealers or such parent company or affiliate on behalf of the Issuer in such jurisdiction.

The Dealers and the Bond Trustee

To the fullest extent permitted by law, none of the Bond Trustee, Security Trustee or the Dealers accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Bond Trustee, the Security Trustee or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Bonds. The Bond Trustee, the Security Trustee and each Dealer accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

No incorporation of websites

Other than in relation to the documents which are deemed to be incorporated by reference (see “*Documents Incorporated by Reference*” below), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.

U.S. INFORMATION

This Prospectus is being distributed on a confidential basis in the United States to a limited number of QIBs or Institutional Accredited Investors (each as defined under Chapter 7, *“Form of the Bonds”*) for informational use solely in connection with the consideration of the purchase of the Bonds being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Registered Bonds may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. prospective purchaser of Registered Bonds is hereby notified that the offer and sale of any Registered Bonds to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (*“Rule 144A”*). For a description of these and certain further restrictions on offers, sales and transfers of Bonds and distribution of this Prospectus see Chapter 14, *“Subscription and Sale and Transfer and Selling Restrictions”*.

Purchasers of Definitive IAI Registered Bonds will be required to execute and deliver an IAI Investment Letter (as defined under Chapter 8, *“Terms and Conditions of the Bonds”*). Each purchaser or holder of Definitive IAI Registered Bonds, Bonds represented by a Rule 144A Global Bond or any Bonds issued in registered form in exchange or substitution therefor (together *“Legended Bonds”*) will be deemed, by its acceptance or purchase of any such Legended Bonds, to have made certain representations and agreements intended to restrict the resale or other transfer of such Legended Bonds as set out in Chapter 14, *“Subscription and Sale and Transfer and Selling Restrictions”*. Unless otherwise stated, terms used in this paragraph have the meanings given to them in Chapter 7, *“Form of the Bonds”*.

The Bonds and the guarantees in respect thereof have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Bonds or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Bonds that are *“restricted securities”* within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and each of the other Obligor has undertaken to furnish, upon the request of a holder of such Bonds or any beneficial interest therein or a prospective purchaser of such *“restricted securities”* designated by such holder, to such holder or to such prospective purchaser, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Bonds are *“restricted securities”* within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the *“Exchange Act”*), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding Anglian Water's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to Anglian Water's services), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Anglian Water, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Anglian Water's present and future business strategies and the environment in which Anglian Water will operate in the future. The important factors that could cause Anglian Water's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, legislative, regulatory or other circumstances affecting anticipated revenues, costs or capital expenditure requirements, future climatic and environmental conditions, future economic conditions including changes in customer demand, development of competition within the water supply and water recycling industry and changes in capital market conditions. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". These forward-looking statements speak only as of the date of this Prospectus. Anglian Water expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Anglian Water's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Each of the Obligors is a corporation organised under the laws of England and Wales. All of the officers and directors of the Obligors named herein reside outside the United States and all or a substantial portion of the assets of the Obligors and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside England upon the Obligors, as the case may be, or such persons, or to enforce judgments against them obtained in courts outside England predicated upon civil liabilities of the Obligors, as the case may be, or such directors and officers under laws other than English law, including any judgment predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

Each of the Obligors has been advised by Herbert Smith Freehills LLP, its counsel, that there is doubt as to the enforceability in England in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Issuer and Anglian Water Services Holdings Limited each maintains its financial books and records and prepares its financial statements in Sterling in accordance with Financial Reporting Standard 101 ("FRS101") and International Financial Reporting Interpretations

Committee (“IFRIC”) interpretations, as adopted by the European Union which differ in certain significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”).

To comply with the Prospectus Regulation rules on financial information, this Prospectus includes (i) audited financial statements for the years ended 31 March 2019 and 31 March 2020 incorporated by reference in respect of the Issuer published under FRS101; (ii) audited accounts for the years ended 31 March 2019 and 31 March 2020 incorporated by reference in respect of Anglian Water published under IFRS; (iii) audited financial statements for the years ended 31 March 2019 and 31 March 2020 incorporated by reference in respect of Anglian Water Services Holdings Limited published under FRS101, and (iv) audited financial statements for the period from incorporation until 31 March 2019 and for the year ended 31 March 2020 incorporated by reference in respect of Anglian Water Services UK Parent Co Limited.

All references in this Prospectus to “Sterling” and “£” refer to pounds sterling, to “U.S. dollars”, “U.S.\$” and “\$” refer to United States dollars, to “euro”, “Euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, to “Australian dollars” and “A\$” are to the lawful currency of Australia, to “Canadian dollars” and “CAD” are to the lawful currency of Canada, and to “Swiss francs” are to the lawful currency of Switzerland.

STABILISATION

In connection with the issue of any Tranche of Bonds, one or more relevant Dealer(s) (if any) (the “Stabilising Manager(s)”) (or any person(s) acting on behalf of any Stabilising Manager(s)) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) or person(s) acting on behalf of any Stabilising Manager(s) in accordance with all applicable laws and rules. Any loss or profit sustained as a consequence of any such over-allotment or stabilising shall, as against the Issuer, be for the account of the Stabilising Manager(s).

Table of Contents

	Page
IMPORTANT NOTICE	4
IMPORTANT LEGAL INFORMATION.....	7
U.S. INFORMATION.....	9
AVAILABLE INFORMATION	9
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	10
SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES	10
PRESENTATION OF FINANCIAL AND OTHER INFORMATION.....	10
STABILISATION	11
RISK FACTORS	13
DOCUMENTS INCORPORATED BY REFERENCE.....	45
SUPPLEMENTARY PROSPECTUS.....	48
GENERAL DESCRIPTION OF THE PROGRAMME.....	49
INFORMATION ABOUT THE PROGRAMME.....	50
CHAPTER 1 PARTIES.....	58
CHAPTER 2 OVERVIEW OF THE PROGRAMME.....	63
CHAPTER 3 MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	71
CHAPTER 4 ANGLIAN WATER BUSINESS DESCRIPTION	93
CHAPTER 5 RING-FENCING AND THE ANGLIAN WATER SERVICES FINANCING GROUP	110
CHAPTER 6 FINANCING STRUCTURE	129
CHAPTER 7 FORM OF THE BONDS	222
CHAPTER 8 TERMS AND CONDITIONS OF THE BONDS.....	242
CHAPTER 9 USE OF PROCEEDS.....	309
CHAPTER 10 REGULATION OF THE WATER AND WATER RECYCLING INDUSTRY IN ENGLAND AND WALES.....	310
CHAPTER 11 LICENCE CONDITIONS – ANGLIAN WATER’S CONTROL OVER ITS OPERATIONS.....	353
CHAPTER 12 BOOK-ENTRY CLEARANCE SYSTEMS.....	356
CHAPTER 13 TAXATION	361
CHAPTER 14 SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS	377
CHAPTER 15 GENERAL INFORMATION	389
CHAPTER 16 INDEX OF DEFINED TERMS	396

RISK FACTORS

The following section outlines certain aspects of the issue of the Bonds and related transactions about which prospective Bondholders should be aware. The occurrence of one or more of the events discussed below could have a material adverse impact on the business, financial condition or results of operations of the Issuer or the other Obligors or their ability to meet their obligations (including the payment of principal and interest) under or in connection with the Bonds.

Prospective Bondholders should note that the risks described below are not the only risks that the Issuer or the other Obligors face. The Issuer or the other Obligors have described only those risks relating to their operations and the Bonds that they consider to be material. There may be additional risks that the Issuer or the other Obligors currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above. Prospective Bondholders should read the detailed information set out elsewhere in this document prior to making any investment decision. Further, any prospective Bondholder should take their own legal, financial, accounting, tax and other relevant advice as to the structure and viability of their investment. Bondholders may lose the value of their entire investment, or part of it, in certain circumstances.

In addition, while the various structural elements described in this document are intended to lessen some of these risks for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of any Class of Bonds receive payment of interest or repayment of principal from the Issuer or the other Obligors, on a timely basis, or at all.

AWS is subject to economic regulation as further described in this Prospectus. As such, AWS's operational performance can impact on its financial performance through the incentives and penalties systems which Ofwat has in place. In AWS's view, such operational performance figures are not financial measures and as such not alternative performance measures unless specifically disclosed as such.

1.1 Risks relating to the Issuer – Regulatory, Legislative and Political Risks

The water industry is subject to extensive legal and regulatory obligations and controls, and Anglian Water must comply with all applicable laws, regulations and regulatory standards, as described in Chapter 10 “*Regulation of the Water and Water Recycling Industry in England and Wales*”. The application of these laws, regulations and regulatory standards and the policies of Ofwat could have a material adverse impact on the operations and financial condition of Anglian Water. If Anglian Water's operations or financial condition were to be so affected, there is a risk that Anglian Water may not be able to meet its debt obligations (including the payment of principal and interest to investors).

1.1.1 Licence Compliance Modification

A failure by Anglian Water to comply with the conditions of its Licence or certain statutory duties, as modified from time to time, may result in an enforcement order by Ofwat or the Secretary of State, which could have an adverse impact on Anglian Water.

Ofwat also has the power to fine a Regulated Company up to 10 per cent. of its entire regulated turnover in the preceding 12 months if it fails to comply with certain of its statutory duties or the terms of its licence or fails to meet standards of performance. The penalty must also be reasonable in all the circumstances. The Secretary of State also has powers to impose a penalty under certain circumstances; see Chapter 10.4,

“Regulation of the Water and Water Recycling Industry in England and Wales — Enforcement Powers”.

Failure to comply with certain of its statutory duties or failure to comply with an enforcement order (as well as certain other defaults) may lead to the making of a Special Administration Order (as described below). See Chapter 10.5, *“Regulation of the Water and Water Recycling Industry in England and Wales — Special Administration Orders”*.

In certain circumstances, described below, Anglian Water’s Licence may be modified without its consent. Failure to comply with modifications to its Licence may result in Anglian Water being fined or being subject to an enforcement order.

Under the Water Industry Act 1991 (“**WIA**”), the conditions of Anglian Water’s Licence may be modified by Ofwat with Anglian Water’s consent or, following a reference to the Competition and Markets Authority (“**CMA**”) where the CMA determines that (i) the existing Instrument of Appointment operates against the public interest; and (ii) that those adverse effects could be remedied or prevented by modifications of the Instrument of Appointment, without the consent of Anglian Water. The Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and Anglian Water. Other proposed modifications which have been agreed by Ofwat and Anglian Water may be vetoed if it appears to the Secretary of State that the modifications should be made, if at all, after a reference to the CMA.

In March 2019, DEFRA consulted on proposals to amend the licence modification regime so that Ofwat would have the power to modify a licence without the consent of the Regulated Company, subject to consultation and a right of veto on the part of the Secretary of State. Regulated Companies would have a right to appeal the modification to the CMA on specified grounds. In January 2020, the Government introduced the Environment Bill, clause 78 of which would, if passed, insert a new provision to this effect into the WIA.

Modifications could also result from a decision on a merger or market investigation reference by the CMA. Finally, primary legislation can create powers for the making of modifications by Ofwat without the consent of Regulated Companies. Section 55 of the Water Act 2014 provides for modification of a licence where necessary and expedient as a consequence of a provision made by or under Part 1 of the Water Act 2014. The power of Ofwat to modify a licence pursuant to Section 55 of the Water Act 2014 is limited to a period of two years beginning with the day on which the provision in question came into force. See Chapter 10.3.3, *“Regulation of the Water and Water Recycling Industry in England and Wales — Licences — Modification of a Licence”* for more detail.

1.1.2 Economic Regulation

Condition B of Anglian Water’s Instrument of Appointment (“**Condition B**”) provides the legal mechanism for the Periodic Review of price controls, Interim Determinations and references to the CMA. At the Periodic Review conducted by Ofwat for the purpose of setting price controls for the period 2020-2025 (“**PR19**”), Ofwat set five separate price controls, one for each of Retail, Water Resources (covering the abstraction of water), Water Network Plus (covering raw water transport and storage, water treatment

and the distribution of treated water), Wastewater Network Plus (covering waste water collection and treatment) and Bioresources (covering the transport and treatment of sludge and the recycling of treated biosolids). Network Plus revenues are currently set according to the CPIH plus or minus “K” formula, and are reviewed at 5 yearly intervals. Water Resources and Bioresources revenues are also set by reference to CPIH and reviewed every 5 years, although Ofwat is able to determine the appropriate nature, form and level of each price control. The Retail price control is more flexible still, with Ofwat able to set one or more Retail price controls, as well as determining the appropriate nature, form and level of each Retail price control. There is no requirement to set the Retail price controls by reference to CPIH and Retail price controls can be set for differing periods, but for no longer than 5 years. The PR19 Final Determination published in December 2019 set 5 year price controls for all price controls. There is no assurance that current and/or future price controls will permit the generation of sufficient revenues to enable Anglian Water to meet its obligations under the Bonds (including the payment of principal and interest to investors). See Chapter 10.3.4 “*Regulation of the Water and Water Recycling Industry in England and Wales — Licences — Principal Licence Conditions recently modified*” and Chapter 10.7 “*Regulation of the Water and Water Recycling Industry in England and Wales — Economic Regulation*” for more detail.

1.1.3 Licence Termination

Anglian Water’s Licence could be terminated without consent on 25 years’ notice by the Secretary of State, or transferred from Anglian Water, including following the making of a Special Administration Order.

Under the terms of the Licence, the Secretary of State may terminate Anglian Water’s appointment without its consent where the Secretary of State has given Anglian Water at least 25 years’ notice and that period of notice has expired. Upon expiry of the Licence, there can be no assurance that Anglian Water would be re-appointed. The Licence may also be transferred from Anglian Water at any time following the making of a Special Administration Order, but such an order can only be made on very specific statutory grounds. The termination, non-renewal or transfer of the Licence could have a material adverse impact on Anglian Water, and, consequently, on the Issuer’s ability to meet its obligations (including the payment of principal and interest) under the Bonds.

Under section 9(4) of the WIA, if the Secretary of State or Ofwat were to make an appointment or variation replacing Anglian Water as the regulated water and sewerage undertaker for its currently appointed area, they would have a duty to ensure (so far as consistent with their other duties under the WIA) that the interests of Anglian Water’s creditors were not unfairly prejudiced by the terms on which the successor Regulated Company (or Companies) replacing Anglian Water could accept transfers of property, rights and liabilities from Anglian Water.

Thus far there is no precedent to indicate how compulsory licence terminations or Special Administration Orders would work in practice for Regulated Companies, nor is there any precedent for such Regulated Companies to indicate the extent to which creditors’ interests would be protected. See Chapter 10.3.2 “*Regulation of the Water*

and Water Recycling Industry in England and Wales – Licences – Termination of a Licence” for more detail.

1.1.4 Regulatory Changes to Increase Competition in the Water Industry

The Water Act 2003 and the Water Act 2014 have increased competition in the water industry and may have a negative impact on Anglian Water’s business, results of operations, profitability or financial condition.

Ofwat has taken steps to introduce competition into the water supply and sewerage services markets via inset appointments and the non-household retail market (as described below).

Inset appointments: Inset appointments (otherwise known as New Appointments and Variations, or NAV) allow one company to replace another as the statutory undertaker for water or water recycling in a specified geographical area previously within the other Regulated Company’s appointed territory. These appointments give rise to a potential material adverse impact with Anglian Water facing increased competition for business customers and developers and the provision of services as a result of inset appointments affecting its water supply area and sewerage services area. As of 27 August 2020 twenty eight inset appointments have been granted in Anglian Water’s area of appointment, including twenty to Independent Water Networks Ltd (“**IWNL**”) and four to Icosa Water Limited. Icosa Water Limited and IWNL generally serve their customers by buying treated water from Anglian Water and/or discharging sewage to Anglian Water’s network for treatment and disposal. Icosa Water Limited also serves its customers by providing sewerage services itself by on-site treatment. There is increasing activity from new entrants in the Anglian Water region, with new applications being regularly considered by Ofwat.

Non-household retail market: Under the WIA, new entrants in Anglian Water’s area are also able to apply for licences to provide a variety of new upstream and retail services on both the water supply and sewerage sides of the business.

The Water Act 2014 amended the WIA and introduced the Water Supply and/or Sewerage Licence (“**WSSL**”) regime to create a new market for retail water and sewerage services to all non-household customers in England as described in Chapter 10 “*Regulation of the Water and Water Recycling Industry in England and Wales*”. The non-household retail market launched on 1 April 2017, replacing the previous Water Supply Licence (WSL) regime. Anglian Water exited the non-household retail market on 1 April 2017.

Ofwat and the CMA have concurrent powers under the Competition Act to investigate and prohibit anti- competitive agreements and conduct relating to the water and water recycling sector, including with respect to the operation of the WSSL regime. These powers include the power to impose penalties of up to 10 per cent. of worldwide group-wide turnover for the business year preceding the finding of the infringement. Any agreement which infringes the Competition Act may be void and unenforceable. Breaches of the Competition Act may also give rise to claims for damages from third parties. The Enterprise Act 2002 (the “**Enterprise Act**”) adds further remedies for breach of competition law. The Enterprise Act contains criminal sanctions, including the possibility of imprisonment of individuals who have been involved in certain cartels

and directors involved in breach of competition law may be disqualified. Consumer groups are able to bring actions on behalf of customers (including for damages).

In November 2015, the Government asked Ofwat to provide an assessment of the costs and benefits of extending retail competition to residential customers. Ofwat submitted its final assessment in September 2016 which concluded that evidence suggests that a net positive outcome of introduction of competition to the residential retail water market is more likely than not, with Ofwat noting that there are potential benefits worth around £2.9 billion over 30 years if competition is extended to household customers. In its strategic priorities and objectives for Ofwat, published in September 2017, DEFRA noted that Ofwat should work with the government to develop the evidence base further, in order to enable the government to understand fully the case for extending competition to households. Ministers will then take a decision on whether or not to introduce competition in the household retail market. As of September 2020 there have been limited further developments with respect to the introduction of competition for residential customers.

Further market reforms and the introduction of competition into upstream activities are expected beyond 2020. This is primarily in respect of new markets for Water Resources and Bioresources.

A water resource bidding market was introduced in April 2020, which represents an opportunity for new sources of water to be brought forward to market and utilised by Anglian Water to secure water supplies. Any third-party options will be assessed as part of the development of the company's Water Resources Management Plan for 2024.

It is not possible to assess if, or how, recent and future changes to the competitive environment will affect the interests of Bondholders. Either the extension of competition within the water industry or the bringing of proceedings against Anglian Water in respect of its competitive position in the area in which it operates could have a material adverse impact on Anglian Water. See Chapters 10.3.2 “*Regulation of the Water and Water Recycling Industry in England and Wales – Licence – Termination of a Licence*” and 10.9 “*Regulation of the Water and Water Recycling Industry in England and Wales – Competition in the Water Industry*” for more detail.

1.1.5 The United Kingdom’s exit from the European Union (EU)

As further disclosed in the section “Anglian Water Business Description – Political Developments”, the UK withdrew from the EU on 31 January 2020. There remain a number of uncertainties in connection with the future of the UK and its relationship with the European Union.

The transition period, during which the UK’s relationship with the EU remains largely unchanged, is scheduled to end on 31 December 2020. Negotiations relating to the terms of the UK’s relationship with the EU thereafter are on-going, and may extend for an unknown period. The end of the transition period without an agreement as to the UK’s future relationship with the EU, and/or extended negotiations regarding the future relationship, could create additional volatility in the markets and have an adverse impact on Anglian Water’s profitability. The timing of, and process for, such negotiations and the subsequent terms of the UK’s future economic, trading and legal relationships with the EU are uncertain, and will be impacted by the stance the current

UK government and the other EU Member States adopt. In addition, an unfavourable outcome of negotiations relating to the UK's future relationship with the EU is likely to create further volatility in the markets which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

The longer-term effects of the UK's exit from the EU are difficult to predict but could include further financial instability and slower economic growth, in the UK in particular, but also in Europe and the global economy. As such, no assurance can be given that such matters would not adversely affect the business of Anglian Water and/or the market value and/or the liquidity of the Bonds in the secondary market.

1.1.6 Impact of Covid-19

Anglian Water has been carefully considering the impact of Covid-19 on its business, operations and resilience.

In the short term, the primary impact of Covid-19 have related to people and logistics, in terms of ensuring safe working practices for colleagues and customers, and adequate supplies of vital chemicals and PPE; challenges which Anglian Water has been able to meet as a consequence of a longstanding focus on risk management and forward planning. There has been shifting demand for water, with a commensurate shift in revenue, as domestic customers use more water at home, while commercial customers have used far less during the period of the pandemic to date. To date, Anglian Water has not experienced significant levels of delayed payments or bad debt from domestic customers, although this may change or increase in coming months as the government's furlough scheme comes to an end, and the situation has been more difficult in relation to the non-household retail market (see below). Furthermore, it is expected that cash receipts from both household customers and non-household retailers may be volatile due to the actions of the UK Government and regulators (such as Ofwat and Market Operator Services Limited ("**MOSL**") in support of the nascent non-household retail market).

Anglian Water is exposed to retailers in the non-household retail market ("**NHH Retailers**") who provide a competitive water and sewerage supply market to businesses. NHH Retailers pass on payments to Anglian Water in respect of the wholesale water and sewerage services provided by Anglian Water to the customers of NHH Retailers in accordance with the MOSL Market Codes. As a consequence of the impact of Covid-19 many businesses have ceased or reduced their operations, resulting in a reduction in the volume of services consumed, or are facing financial difficulties and are delaying or unable to pay NHH Retailers. This is expected to have a subsequent impact through a reduction in revenue and Net Cash Flow.

On 30 March 2020, MOSL implemented certain changes to the Wholesale Retail Code ("**WRC**"), introducing the ability for retailers to defer up to 50 per cent of payments due to wholesalers in March, April and May 2020 (the "**NHHR Payment Holiday**"). The impact of the NHRR Payment Holiday will result in a deferral in Net Cash Flow for AWS. Furthermore, on 1 May 2020, Ofwat implemented the WRC change CPW096 as a more medium-term solution to the liquidity problem. Its key aspects are summarised below:

Retailers who opt into the deferral scheme will be required to make a minimum monthly payment to wholesalers of:

- i) 94 per cent of money received from customers (X factor = money collected by retailers from customers, less retailer operational costs); or
- ii) 60 per cent of charges due to wholesalers (Y factor = minimum percentage of wholesale charges payable each month. The Y factor will remain fixed until the end of October 2020, but will increase thereafter over time up to the pre Covid-19 percentage of 100),

whichever is higher:

Ofwat has set out a schedule of reducing outstanding deferral balances to zero by 31 March 2021.

Anglian Water has sought to maximise its liquidity position to weather any period of uncertainty, including the drawdown of £600m of committed bank facilities in March 2020 to provide additional liquidity in light of the broader market uncertainty.

Investors should be aware that a change in demand, delayed payment, including as a result of payment holidays, or non-payment of bills and charges, or disruption to the receipt of bills by customers may have an impact on Net Cash Flow from operating activities, liquidity and working capital position and consequently Anglian Water's ability to comply with certain financial ratios.

1.2 Risks relating to the Issuer - Failure to meet costs allowed under price controls

As well as the regulatory, legislative and political risks described above, there are a number of other factors that may affect the revenues received by Anglian Water including, without limitation, price controls set by Ofwat, non-recovery of customer debt and adverse weather conditions. Should any of these, or other, factors adversely affect Anglian Water's revenues, Anglian Water may have insufficient revenues to meet its financing obligations, which may include those obligations arising under the Bonds (including the payment of principal and interest to investors).

Although: (i) Ofwat has a duty to exercise its powers in the manner that it considers is best calculated, *inter alia*, to ensure that Anglian Water is able to finance the proper carrying out of its functions; and (ii) certain changes in circumstances can trigger adjustments to price controls between Periodic Reviews under the interim determination of price controls ("Interim Determination") provisions of the Licence and other mechanisms within price controls, as with any Regulated Company, no assurance can be given that the revenues generated by Anglian Water from its water and water recycling business will be sufficient to enable it to make full and timely payment of amounts due in respect of the Bonds. See Chapter 4, "*Anglian Water Business Description*". In addition to the regulatory, legislative and political risks described above which could adversely affect the revenues of Anglian Water, other potential events which could have a material adverse impact on Anglian Water or result in it having insufficient revenues to meet its financing obligations include:

1.2.1 Price Controls

Periodic reviews of price controls ("Periodic Reviews") have been carried out at five-yearly intervals by Ofwat. Ofwat concluded its review for the AMP7 Period (covering

the 5 years to March 2025), in December 2019 and issued its Final Determination. Anglian Water accepted Ofwat's Final Determination of the retail price control, but did not accept the Final Determination of its wholesale price controls and asked Ofwat to make a reference to the CMA for a re-determination of these controls. The CMA's re-determination of Anglian Water's wholesale price controls for AMP7 commenced in March 2020 and is expected to be completed in December 2020. Ofwat's Final Determination will continue to apply pending the outcome of the CMA's re-determination.

Ofwat is under no duty to ensure the continued solvency of a Regulated Company in all circumstances and there is no assurance that future price controls imposed by Ofwat, the PR19 price control (as re-determined by the CMA) and Anglian Water's performance of the conditions and targets set out in the PR19 price control (as re-determined by the CMA) will permit the generation of sufficient revenues to enable Anglian Water to carry out its functions or for the Issuer to meet its obligations under the Bonds. Further details of the price review process are contained in Chapter 10, "Regulation of the Water and Water Recycling Industry in England and Wales — Economic Regulation. Furthermore, there is no assurance that future price controls will permit the generation of sufficient revenues to enable Anglian Water to carry out its functions. Although the methodology introduced in the 1994 review — in particular the derivation of the "regulatory capital value" as the measure of capital to be remunerated — was also applied with modifications in 1999, 2004, 2009, 2014 and 2019, Ofwat is not required to apply the same or a similar methodology in future reviews. To arrive at its conclusions, Ofwat makes estimates and judgements in a number of areas, such as the scope for cost efficiencies and the setting of performance standards, which it has done historically using a wide range of comparative techniques. Judgements are also applied in estimating the sector cost of capital in determining whether or not to make allowance for the "embedded" costs of fixed rate debt and in assessing whether additional allowances are required to enable companies to finance their functions.

In carrying out a review, Ofwat makes allowances on the basis of its assessment of what constitutes an efficiently managed Regulated Company. On that basis, prices are set so that Regulated Companies' revenues cover the cost of the "efficient" provision of operations and capital investment (as determined by Ofwat) including a company specific tax charge, and to allow a reasonable return on capital. However, Ofwat is under no duty to ensure the continued solvency of a Regulated Company in all circumstances and there is no assurance that price controls imposed by Ofwat at such reviews will permit Anglian Water to generate sufficient revenues to enable it to finance its functions or discharge its obligations under the Issuer/Anglian Water Loan Agreement. If a Regulated Company disputes Ofwat's price determination, it may require Ofwat to refer the matter to the CMA for determination by it (after making necessary investigations). As described in Chapter 10.7.6, "*Regulation of the Water and Water Recycling Industry in England and Wales — Economic Regulation — Interim Determinations*", an Interim Determination may be made between Periodic Reviews in specified circumstances, including the circumstances contemplated by the "Shipwreck Clause". If a Regulated Company disputes Ofwat's Interim Determination, it can require Ofwat to refer the determination to the CMA.

There is, however, no assurance that any Interim Determination sought by Anglian Water will be made or, if an Interim Determination or determination pursuant to the provisions of the Shipwreck Clause is made, that such adjustment or determination will provide adequate revenue compensation to Anglian Water, therefore, Anglian Water would have to bear any additional cost from its own resources.

1.2.2 Inflation

Changes in the rate of inflation could lead to adverse consequences on Anglian Water's financial performance.

For the AMP7 Period, the link to the underlying rate of inflation applies only to wholesale price control revenue and RCV (but not the retail price control). The exposure to fluctuations in inflation creates an element of unpredictability which means that Anglian Water is exposed to such risks which it cannot accurately predict and provide for in its operations, and thus could lead to adverse consequences on Anglian Water's financial performance, and thus impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds. Anglian Water attempts to mitigate these by linking a significant amount of its financing to the rate of inflation through inflation-linked debt and swaps.

In addition to changes in the rate of inflation, there is a risk that the inflation index used may also change and affect the performance of the Bonds. For PR19, Ofwat announced a move from RPI to CPIH inflation indexation of prices which is expected to significantly reduce the volatility of bills because RPI is a more volatile measure of inflation than CPIH. CPIH applies to 50 per cent. of the existing RCV from the beginning of AMP7 (as well as to all new RCV additions from then onwards). The remaining part of the RCV from 2020 continues to be indexed to RPI. Ofwat's precise approach to RCV price indexation beyond 2025 has not been fully detailed. See Chapter 10.7 *"Regulation of the Water and Water Recycling Industry in England and Wales – Economic Regulation"* for more detail.

1.2.3 Increased Energy Costs

Anglian Water is a large consumer of energy and energy represents a significant proportion of its total operating costs. Therefore, Anglian Water is subject to the risk of increased energy costs. Wholesale energy prices continue to be uncertain, reflecting fluctuations in global economic and political conditions.

Anglian Water uses a hedging programme and self-generation to manage exposure to wholesale energy prices. Wholesale energy costs are hedged using forward purchases of electricity from suppliers or London Energy Brokers Association ("LEBA") power derivatives with financial counterparties as well as self-generation. Non-wholesale costs are generally variable and directly associated with the regulated costs of transmission, distribution and environmental levies, all of which are passed through by suppliers. See Chapter 3 *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Energy"* and Chapter 4 *"Anglian Water Business Description – Suppliers"* for more detail.

1.2.4 Revenue Control

Under Ofwat's AMP7 methodology, price controls for Water Resources, Water Network Plus and Wastewater Network Plus maintain the level of company revenue despite fluctuations in demand, with in period adjustments according to how well the company performs in respect of its performance commitments. The controls allow for in-period adjustments to revenue, to take account of any under/over recovery of revenues in prior years. In addition the revenue forecasting incentive imposes a financial penalty where the variance between forecast and actual revenue in any year exceeds 2 per cent. The Retail revenue allowed under the current controls is based on an efficient cost to serve each residential customer and therefore will be adjusted as respective customer numbers vary from the number assumed in setting the allowed revenue. The Bioresources revenue allowed under Ofwat's PR19 Final Determination is based on an average revenue per tonne of sludge produced and therefore will be adjusted as the total amount of sludge produced varies from the number assumed in setting the allowed revenue. Anglian Water's actual expenditure may be higher than their allowed expenditure, resulting in an adverse impact on its profitability. See Chapter 3 "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Metering*" for more detail.

The price controls determined by Ofwat for the AMP7 Period are based, *inter alia*, on assumptions of the total expenditure ("**Totex**") a company requires to deliver its obligations. For a range of reasons a company's expenditure in the period may exceed these assumed sums and while the terms of the price control enable a company to recover a share of any incremental expenditure required above the assumed sum from customers in 2025, the company's profitability would still be adversely affected (see Chapter 10.7 "*Regulation of the Water and Water Recycling Industry in England and Wales – Economic Regulation*"). In making its re-determination of Anglian Water's price controls for AMP7, the CMA may follow Ofwat's methodology, in whole or with modifications, or may adopt a different approach.

1.3 Risks Relating to the Issuer - Penalties and Rewards

1.3.1 Capital Investment

Failure by Anglian Water to maintain its capital assets or deliver required outputs might affect Anglian Water's profitability or result in a penalty being imposed on Anglian Water by Ofwat and/or the Environment Agency.

The Regulated Business requires significant capital expenditure for additions to, or replacement of, plant and equipment for its water supply and sewerage facilities and networks. The price controls set by Ofwat take into account the level of capital expenditure expected to be incurred during the relevant Periodic Review Period and the associated funding costs and operating costs.

If Anglian Water is unable to maintain its capital assets or deliver required improvements at expected expenditure levels, or is unable to secure the expected level of efficiency savings on its capital investment programme, or the programme falls behind schedule or contains incorrect assumptions by Anglian Water as to the capital investment required, Anglian Water's profitability might suffer because of a need for increased capital expenditure. Alternatively, failure to make the required investment

could result in Anglian Water having to pay substantial penalties under the outcomes framework introduced by Ofwat at PR14 and carried across into AMP7. Anglian Water's ability to meet regulatory output targets and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10 per cent. of turnover or other sanctions and the need for further increases in capital expenditure and operating expenditure by Anglian Water.

Failure by Anglian Water to maintain its capital assets or deliver required outputs might affect Anglian Water's ability to meet its obligations under the Bonds (including the payment of principal and interest to investors). See Chapter 3 "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Capital Expenditure*" for more detail.

1.3.2 Non-Recovery of Debts

Non-recovery of customer debt may cause Anglian Water to suffer losses, which could adversely affect Anglian Water's business, results of operations, profitability or financial condition.

Non-recovery of debt is a risk to Anglian Water and may cause Anglian Water's profitability to suffer. This risk was exacerbated by the WIA, which prohibited the disconnection for non-payment of a water supply for domestic use in any premises and the limiting of a supply with the intention of enforcing payment for domestic use in any premises, although allowance is made by Ofwat in the price controls at each Periodic Review for a proportion of debt deemed to be irrecoverable. Anglian Water is also unable to disconnect commercial customers in areas where another company is the appointed water undertaker under the WIA. Although, to date, Anglian Water has not experienced a significant impact on the levels of delayed payments or bad debt from domestic customers due to Covid-19, this may change or increase in coming months as the government's furlough scheme comes to an end. See 1.1.6 *Impact of Covid-19* above.

Failure by Anglian Water to convert debts into cash might affect Anglian Water's ability to meet its obligations under the Bonds (including the payment of principal and interest to investors). See Chapter 4 "*Anglian Water Business Description – Bad Debts*" for more detail.

1.3.3 Performance Commitments and Incentives

For the five-year AMP7 Period, Anglian Water has agreed to a number of commitments in relation to its operational performance ('performance commitments') in wholesale water, wholesale water recycling and household retail. Actual performance against these commitments will increase or decrease revenues where commitments have financial penalties associated with underperformance or rewards for outperformance (outcome delivery incentives, "**ODIs**"). These incentives will be monitored during the AMP7 Period and, in most cases, rewards and penalties will be applied to revenues during the 2020-25 period although a small number will apply to revenues from 1 April 2025.

The ODIs in the AMP7 Period mean that Anglian Water faces risks of penalties from operational underperformance as well as opportunities for rewards for outperformance.

Whilst the maximum scope of penalties outweighs the maximum scope of rewards, AWS believes that the maximum penalty represents an extreme scenario, with actual penalties likely to be significantly lower for any reasonable range of operational underperformance. If incurred, penalties and rewards for Anglian Water would be all levied through an adjustment to revenue. There is a risk that any penalties incurred may affect the Issuer's ability to meet its payment obligations under the Bonds. See Chapter 10.7 "*Regulation of the Water and Recycling Industry in England and Wales – Economic Regulation – Adjustments to Revenue to Reflect Performance*" for more detail.

1.4 Risks relating to the Issuer - Legal Considerations

There are certain legal considerations set out below that investors should be aware of which may affect Anglian Water's ability to meet its obligations under the Bonds (including the payment of principal and interest to investors). As a result of the restrictions and potential occurrences set out below, in certain circumstances including Anglian Water's insolvency, it might not be possible to realise sufficient amounts from enforcement of the Security to satisfy Anglian Water's obligations under the Bonds (including the payment of principal and interest to investors).

1.4.1 Ability to Grant Security

Anglian Water's ability to grant security over its assets and the enforcement of such Security are restricted by its Licence and the WIA. The substantial majority of Anglian Water's assets by value is tangible property which is either Protected Land (as defined in the WIA) and/or are assets which are required for the carrying out of Anglian Water's Regulated Business and cannot therefore be effectively secured (at least, in the case of Protected Land, without the prior consent of Ofwat). The extent of Anglian Water's ability to grant security over its intangible property (including receivables) is also uncertain. In addition, Anglian Water's ability to generate receivables is dependent, in any event, on its continuing to hold the Licence.

Ofwat has confirmed that the guarantees given under the Security Documents will not be prohibited under the modifications to Condition P22 of Anglian Water's Licence but it has not been asked to consent, and has not consented to, the granting of the Security. Ofwat has requested that Anglian Water and the Issuer make clear to all investors that all security granted by Anglian Water over the assets of the Regulated Business is subject to the WIA and to ensure that all investors understand that this, in effect, means that such security could not be enforced. This is not necessarily a definitive statement of the legal position in all respects and circumstances but investors should neither over-estimate the value of the security created by Anglian Water nor under-estimate the difficulties that may be incurred if ever they wish to enforce that security.

The Secretary of State and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of Anglian Water and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security. Under the WIA, there is no right to block the appointment of a Special Administrator equivalent to the right that a holder of a floating charge over the whole or of substantially the whole of the business of a

non-regulated company may have, in certain circumstances, to block the appointment of a conventional Insolvency Act administrator.

There are also certain legal restrictions which arise under the WIA and the Licence affecting the enforcement of the security created under the Security Agreement executed by Anglian Water. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to Ofwat or the Secretary of State hence giving time for him to exercise his rights under the WIA if he is so able and so chooses. See 1.4.2 "*Special Administration*" below.

Accordingly, the security provided over the assets of Anglian Water to the Secured Creditors affords significantly less protection to the Secured Creditors than would be the case if Anglian Water were not a Regulated Company subject to the WIA and its Licence.

The considerations described above do not apply to the fixed and floating charges comprised in the Security Agreement originally executed by Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and the Issuer and acceded to by Anglian Water Services UK Parent Co Limited. The enforcement of security over the shares in any company in the Anglian Water Services Financing Group, (other than the Issuer) including those granted by any Holding Company of Anglian Water, would not be subject to the moratorium on the enforcement of security rights imposed upon Secured Creditors under the WIA if a Special Administrator is appointed, nor would the enforcement of those share charges be an event which would itself result in the making of a Special Administration Order. However, it is anticipated that any intended enforcement directly or indirectly of the Security Agreement originally executed by Anglian Water Services Overseas Holdings Limited (which has subsequently retired from the Security Agreement) and Anglian Water Services Holdings Limited and acceded to by Anglian Water Services UK Parent Co Limited or the security over, and subsequently any planned disposal of, the shares in Anglian Water (over which a fixed equitable charge is being granted) would require consultation with Ofwat.

In addition, no notice of the security created pursuant to the Security Documents is to be given to customers of Anglian Water prior to the occurrence of an Event of Default. No charge over Anglian Water's land purported to be granted is intended to be (or, indeed in most cases, capable of being) registered with HM Land Registry. Until the Security Trustee enforces its Security Interests in respect of this charge, the charge will take effect (if at all) in equity only and, thus, will be subject to prior equities and/or certain other legal rights arising in relation thereto. The Security Interests granted in favour of the Security Trustee over the shares of the Obligors are not to be legally perfected prior to the occurrence of an Event of Default and the Security Trustee may not become the relevant legal owner until such later date. Until they are perfected, these Security Interests will take effect in equity only and, thus, will be subject to prior equities and/or certain other legal rights arising in relation thereto.

If any Obligor were to go into administration or liquidation within two years of the granting of the security, then any floating charge created could be invalid except to the extent of monies paid, or services supplied to it at the same time or after the creation of the Security.

As a result, the amount and nature of the Security Interest provided in respect of the Bonds may not be sufficient to provide payment of amounts due and owing in respect of the Bonds. See Chapter 10.6 “*Regulation of the Water and Recycling Industry in England and Wales – Economic Regulation – Security*” for more detail.

1.4.2 Special Administration

In certain circumstances the Court may make a special administration order in relation to Anglian Water. There can be no assurance that any transfer scheme in the context of a Special Administration regime could be achieved on terms that would enable creditors (including Bondholders) to recover amounts due to them in full.

As further disclosed in Chapter 10.5, “*Regulation of the Water and Water Recycling Industry in England and Wales — Special Administration Orders*”, the Court may make a Special Administration Order in certain circumstances (for example, where Anglian Water is in breach of its principal duties under the WIA or of the provisions of a final or confirmed provisional enforcement order (and in either case the breach is serious enough to make it inappropriate for Anglian Water to continue to hold its Licence) or is unable, or is unlikely to be able, to pay its debts).

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

Because of the statutory purposes of a Special Administration Order, it is not open to a Special Administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a Regulated Company. The transfer is effected by a transfer scheme which the Special Administrator puts in place, subject to the approval of the Secretary of State or Ofwat on behalf of the existing Regulated Company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company’s licence (with modifications as set out in the transfer scheme) to the new Regulated Company(ies).

There can be no assurance that any transfer scheme in the context of a Special Administration regime could be achieved on terms that would enable creditors to recover amounts due to them in full. See Chapter 10.5, “*Regulation of the Water and Water Recycling Industry in England and Wales — Special Administration Orders*” for more detail.

1.4.3 Additional Security

The creation of new security by Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited following the implementation of the Permitted Reorganisation resulted in the “hardening periods” under the Insolvency Act 1986 to start afresh in relation to such new security. There is a risk that such security may be challenged by an insolvency official in the event of either Anglian Water Services Holdings Limited or Anglian Water Services UK Parent Co Limited entering insolvency proceedings.

Pursuant to the Permitted Reorganisation, Anglian Water Services UK Parent Co Limited granted security over the shares of Anglian Water and Anglian Water Services Holdings Limited granted security over the shares of Anglian Water Services UK Parent Co Limited. The creation of this new security resulted in the “hardening periods” (under the Insolvency Act 1986) to start afresh. If a company enters a formal insolvency process, certain transactions (relating to transactions at an undervalue, the avoidance of preferences, the creation of certain floating charges, extortionate credit transactions and transactions defrauding creditors) entered into prior to the commencement of the insolvency process may be challenged under provisions of the Insolvency Act 1986. Generally, if the challenge is successful, the court will make an order as is appropriate to undo the effect of the transaction in question (for example, by ordering the return of assets to the insolvent company). It should be noted that, as part of the Permitted Reorganisation, Anglian Water Services UK Parent Co Limited delivered a solvency certificate to the Security Trustee, confirming its solvency and furthermore, as Anglian Water Services UK Parent Co Limited is a newly incorporated company, its only material liabilities are those under the Finance Documents.

1.4.4 Enforceability of Payment Priorities

If the Payment Priorities were to be the subject of litigation in any jurisdiction outside England and Wales and such litigation resulted in a conflicting judgment in respect of the binding nature of the Payment Priorities, it is possible that certain payments would not be subordinated as envisaged by the Payment Priorities and as a result, the Obligors’ ability to repay the Bondholders in full might be adversely affected.

The validity and enforceability of certain provisions in contractual priorities of payments which purport to alter the priority in which a particular secured creditor is paid as a result of the occurrence of one or more specified trigger events, including the insolvency of such creditor (“**flip clauses**”), have been challenged in the English and U.S. courts on the basis that the operation of a flip clause as a result of such creditor’s insolvency breaches principles of English and U.S. insolvency law, which have been referred to as “anti-deprivation” principles.

In the English courts, the Supreme Court in *Belmont Park Investments PTY Ltd v BNY Corporate Trustee Services Ltd* [2011] UKSC 38 (the “**Belmont Case**”) dismissed this

argument and upheld the validity of a flip clause contained in an English-law governed security document. However, in the U.S. courts, the U.S. Bankruptcy Court for the Southern District of New York in *Lehman Brothers Special Financing Inc. v. BNY Corporate Trustee Services Limited*. (In re Lehman Brothers Holdings Inc.), Adv. Pro. No. 09-1242-JMP (Bankr. S.D.N.Y. May 20, 2009) (the “**US Proceedings**”) examined the same flip clause and held that such a provision, which seeks to modify one creditor’s position in a priority of payments when that creditor files for bankruptcy, is unenforceable under the US Bankruptcy Code. The same decision has also been reached in subsequent similar cases with respect to the US Bankruptcy Code, giving rise to concerns that the English and U.S. courts will continue to diverge in their approach. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus, particularly in respect of multi-jurisdictional insolvencies.

If the Payment Priorities were the subject of litigation in any jurisdiction outside England and Wales (for example, where a Hedge Counterparty is the subject of bankruptcy or insolvency proceedings outside of England and Wales) and such litigation resulted in a conflicting judgment in respect of the binding nature of the Payment Priorities, it is possible that termination payments due to that Hedge Counterparty would not be subordinated as envisaged by the Payment Priorities and as a result, the Obligors’ ability to repay the Bondholders in full might be adversely affected. However, the Issuer has been advised that it is unlikely that the English courts would make any order pursuant to the Cross Border Insolvency Regulations 2006 (“**CBIR**”) or otherwise which has the effect of restraining parties from making or receiving payments in accordance with the order of priority agreed between them where English assets are to be distributed pursuant to an English law security trust by an English incorporated security trustee - as is the case in respect of the Programme - though the possibility cannot be discounted entirely. See Chapter 6.6.5 “*Financing Structure – Cash Management – Debt Service Payment Account*” for more detail.

1.5 Risks relating to the Issuer - Environmental and Insurance Considerations

Compliance with current environmental laws and regulations, future changes to such laws, the occurrence of events which are not covered by Anglian Water’s insurance cover and the volatility of the wholesale energy market and non-wholesale costs could each affect Anglian Water’s operations and financial position. If Anglian Water’s operations or financial position were materially adversely affected by these or other factors, Anglian Water may not be able to meet its obligations under the Bonds (including the payment of principal and interest to investors).

1.5.1 Costs of Compliance with Environmental Laws and Regulations

There is a risk that Anglian Water will have to incur costs to comply with future environmental laws and regulations or to clean up contamination. Such costs may be significant and may materially and adversely affect the financial position of Anglian Water.

Anglian Water’s water supply and water recycling operations are subject to a number of laws and regulations relating to the protection of the environment and human health governed primarily by the Drinking Water Inspectorate (“**DWI**”) and the Environmental Agency (“**EA**”) as described in Chapter 10, “*Regulation of the Water*

and Water Recycling Industry in England and Wales” and also the Health & Safety Executive with regard to risks to people in the workplace.

Although Anglian Water considers that it is in material compliance with all such laws and regulations, it is likely that it will in future incur significant costs in complying with upgrading requirements imposed under existing or future laws and regulations. Although the costs of complying with changes in legal requirements are eligible for the purposes of the Interim Determination provisions, there can be no certainty as to how and whether future laws and regulation will impact the business of Anglian Water and/or the interests of the Bondholders. It is possible that a proportion of the costs incurred by Anglian Water in complying with such laws and regulations will not be covered by funding allowed by the regulator and will, therefore, have to be borne directly by Anglian Water.

Given the nature of Anglian Water’s operations there is a risk that drinking water quality and environmental pollution incidents may occur, the possible consequences of which may be criminal prosecution leading to the imposition of fines on Anglian Water and/or civil liability in damages to third parties and/or a requirement to clean up any contamination and/or an operational requirement to upgrade plant and equipment. Such incidents could also give rise to prosecutions against the directors of Anglian Water. The imposition of fines, civil liability, clean-up costs or upgrade costs may materially and adversely affect the financial position of Anglian Water. Any such incidents may also give rise to breaches of any operational environmental consents held by Anglian Water. The Regulatory Enforcement and Sanctions Act 2008 came fully into force in April 2009 and allows the EA, DWI and other regulators (if empowered by an order granted by the relevant minister) to impose fines (including fixed penalty fines) directly without a prosecution, subject to a right of appeal.

There is also a risk that Anglian Water may incur liability to clean up contamination caused by historical activities at its sites, whether or not Anglian Water caused the contamination in question. The costs of cleaning up contamination of land and/or water may be significant. Such contamination may also result in claims by third parties such as neighbouring landowners.

In addition to environmental costs imposed upon Anglian Water by law or regulation, Anglian Water may be subject to additional costs resulting from public concern regarding environmental matters. For example, farms that use sludge from Anglian Water’s water recycling operations are increasingly requiring higher levels of treatment of this sludge in response to demands from the buyers of their crops. This in turn results in higher capital and operating costs for Anglian Water. See Chapter 10.8 “*Regulation of the Water and Water Recycling Industry in England and Wales — Environmental Regulation*” for more detail.

1.5.2 Insurance

Anglian Water’s insurance covers “specified perils” only and there can be no assurance that the business will be reimbursed for its entire loss in certain circumstances, or that insurance coverage will be available in the future at commercially reasonable rates or at all. This may affect the Issuer’s ability to meet its payment obligations under the Bonds.

Although Anglian Water maintains insurance (including business interruption insurance) to levels commensurate with the assessed risk exposure. The cover insures “specified perils” only and therefore in certain circumstances the policy may not reimburse the business for its entire loss. In addition there can be no assurance that such insurance coverage will be available in the future at commercially reasonable rates or at all. See Chapter 4 “*Anglian Water Business Description – Insurance and Risk Management*” for more detail.

1.5.3 Erratic Weather and Climate Change

Erratic weather and climate change could result in Anglian Water having to incur costs in relation to (i) emergency supply following periods of drought; or (ii) protection of sites and infrastructure vulnerable to flooding in particularly wet periods.

Regulated Companies have a duty to undertake works to minimise the risk of damage from water recycling flooding during periods of heavy rainfall. Since 1989 Anglian Water has undertaken programmes of works to substantially reduce the number of properties at risk of internal and external water recycling flooding. However, should flooding increase, Anglian would have to pay more money in compensation to customers under the Guaranteed Standards Scheme, suffer penalties under Ofwat’s outcomes framework and have to make additional investment. See Chapter 10.8, “*Regulation of the Water and Water Recycling Industry in England and Wales — Environmental Regulation*”.

If there are supply shortfalls due to prolonged periods of drought, additional costs may be incurred, for example, to provide emergency reinforcement to supplies in areas of shortage. If the company was forced to impose temporary restrictions on customers’ use of water due to drought it would in the short term adversely affect revenues from metered customers and may in extreme circumstances lead to compensation having to be paid to customers who suffer interruptions in supply under Condition Q of the Licence. See Chapter 10.11.2, “*Regulation of the Water and Water Recycling Industry in England and Wales — Customers’ Interests — Guaranteed Standards*”.

Anglian Water publishes a Climate Change Adaptation Report that provides a detailed summary of the risks that climatic change poses to Anglian Water’s business, as well as potential adaptation strategies. The report is periodically revised to capture progress in the understanding of climate change and its specific impact on Anglian Water. The latest revision was published for consultation in March 2020. Climate change will have a range of impacts across Anglian Water’s operations with particular vulnerabilities related to water resource impacts, rising sea levels, more intense storms and flooding. An example is the period of sustained and serious drought suffered in many parts of the UK in 2012 which caused Anglian Water to impose water use restrictions for the first time in 20 years. The restrictions were lifted on 14 June 2012 following a prolonged period of exceptional rainfall in what is now known to be the wettest summer since records began. It is expected that the region will experience more erratic weather conditions of this type as a consequence of the effects of climate change.

Many of Anglian Water’s treatment works and other assets near the coast or on flood plains will become increasingly vulnerable to flooding and erosion. This could

potentially affect Anglian Water's ability to provide water and water recycling services if suitable adaptation action is not taken. Adaptation investment is integral to key business cases to reduce flooding of critical assets, reduce flooding of customers by its assets, improve the security of its water resources, address leakage and demand and improve its network resilience. For example, in preparing the current Water Resources Management Plan, £300 million of investments have been identified by Anglian Water to mitigate the impact of climate change in 2024-2025.

Adaptation is integrated into Anglian Water's asset creation processes and measurement of carbon intensity. Investment solutions must demonstrate adaptation consideration and carbon reduction for all schemes to allow for the impact of climate change.

Costs will be incurred in delivering adaptation within these schemes where it is supported by risk assessment and cost benefit analysis.

Whilst attempting to understand the risks which climate change presents to Anglian Water's business, the Climate Change Adaptation Report expressly acknowledges that there are various barriers and uncertainties which limit Anglian Water's ability to forecast specific climate change impacts on its business. The report also highlights the interdependencies between Anglian Water and other organisations, including power companies, other water companies, suppliers and regulators, which will affect Anglian Water's ability to deliver services that are resilient to climate change. See Chapter 3 "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Metering*" and Chapter 10.8 "*Regulation of the Water and Water Recycling Industry in England and Wales – Environmental Regulation – Energy and Climate Change*" for more detail.

1.5.4 Catastrophe Risk

Catastrophic events could have a material adverse impact on the ability of Anglian Water to meet its financing and regulatory obligations.

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage or destruction of Anglian Water's water or water recycling treatment works, pumping stations, water mains, sewers or service pipes. Any resulting damage or suspension of operations of Anglian Water, to the extent not covered by insurance, could have a material adverse impact on the ability of Anglian Water to meet its financing and regulatory obligations. See Chapter 4 "*Anglian Water Business Description – Insurance and Risk Management*" for more detail.

1.6 Risks relating to the Issuer – Financing Considerations

Anglian Water may not be able to raise the finance, that it needs, from time to time in the future on suitable terms. If Anglian Water is not able to raise suitable additional finance, it may not be able to meet its obligations under the Bonds (including the payment of principal and interest to investors) or other maturing debt as it falls due.

1.6.1 Future Financing

There can be no assurance that the Issuer will, in the future, be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that all amounts then due and payable on the Bonds or any other maturing debt will be capable of being so paid when due.

The Issuer will need to raise further debt from time to time in order to finance future capital enhancements to Anglian Water's asset base, to refinance any other debt (including for liquidity or working capital purposes) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Bonds and, on each Interest Payment Date on which principal is required to be repaid, and on the expected Maturity Date of the relevant Class of Bonds, to refinance Bonds. Whilst the Programme contemplates the terms and conditions on, and circumstances under, which such additional debt can be raised, there can be no assurance that the Issuer will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that all amounts then due and payable on the Bonds or any other maturing debt will be capable of being so paid when due.

1.6.2 Cost of Debt

The cost of debt will be assessed at future price reviews and there is no guarantee that allowances will be made for the costs of then existing fixed-rate debt.

In addition, the WSRA will assess the cost of debt at future price reviews on the basis of a hypothetical efficiently-financed company. According to the WSRA, such a company would retain the flexibility to respond to changing market conditions, and hold a balanced portfolio of debt. There is no guarantee, therefore, that allowance would be made for the costs of then existing fixed-rate debt, if current forward-looking rates at the time were lower and if the WSRA took the view that such debt had not been prudently incurred.

1.6.3 High Leverage

Anglian Water has a high degree of leverage and there can be no assurance as to Anglian Water's ability to meet its financing requirements and no assurance that Anglian Water's high degree of leverage will not have a material adverse impact on its ability to pay amounts that will be due and owing in respect of the Bonds.

Anglian Water has indebtedness that is substantial in relation to its shareholders equity. As part of this Programme, Anglian Water has, to date, issued Class A Debt and Class B Debt to increase Anglian Water's gross indebtedness to approximately £6.7 billion. The Anglian Water Services Financing Group at 31 March 2020 is leveraged to 85.1 per cent. as a percentage of total debt to RCV. Taking into account retained cash reserves, the net leverage is 78.4 per cent. of RCV. The ability of Anglian Water to improve its operating performance and financial results will depend upon economic, financial, competitive, regulatory and other factors beyond its control, including fluctuations in interest rates and general economic conditions in the United Kingdom. The level of debt of Anglian Water has several important effects on its future operations, including the following: (a) Anglian Water has significant cash requirements to service debt; (b) Anglian Water may be restricted in the future from

obtaining additional financing, whether for capital expenditure, working capital or other purposes; and (c) Anglian Water is required to comply with certain financial covenants and other restrictions contained in the Bonds and its other indebtedness, further restricting its financial and operational flexibility.

Accordingly, there can be no assurance as to Anglian Water's ability to meet its financing requirements and no assurance that Anglian Water's high degree of leverage will not have a material adverse impact on its ability to pay amounts that will be due and owing in respect of the Bonds. Incurrence of additional indebtedness by Anglian Water, the Issuer or the other Obligors which is permitted under the terms and conditions of the Bonds, may materially affect the ability of Anglian Water, the Issuer or the other Obligors to pay amounts due and owing in respect of the Bonds.

1.6.4 Financial Ratios

Anglian Water may, with agreement from the Security Trustee and the Financial Guarantors, amend the financial ratios, although there is a requirement to ensure that the Rating Requirements are met, it is possible that the reductions of the financial ratio levels could lead to Anglian Water being unable to pay amounts that will be due and owing in respect of the Bonds.

The Common Terms Agreement allows Anglian Water (following a Periodic Review or any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default provided that each Financial Guarantor and the Security Trustee (acting on the instructions of the Majority Creditors) agree and the Rating Requirements have been met.

1.6.5 Termination of a Hedging Agreement

The Issuer may be left exposed to interest rate risk or currency risk in the event that there is an early termination of a Hedging Agreement. A Hedging Agreement may be terminated in the circumstances described in Chapter 6.10, "*Financing Structure — Hedging Agreements*". If a Hedging Agreement is terminated and the Issuer is unable to find a replacement Hedge Counterparty, then the funds available to the Issuer may be insufficient to meet fully its obligations under the Bonds. See Chapter 6.10 "*Financing Structure – Hedging Agreements*" for more detail.

1.6.6 Corporate Structure

The Issuer is a special purpose vehicle whose principal source of funds will be the funds available to it pursuant to payments made to it by Anglian Water. The Issuer is therefore subject to all the restrictions relating to revenues to which Anglian Water is subject.

The Issuer is a special purpose financing entity with no business operations other than the incurrence of Financial Indebtedness, including the issuance of Bonds, entering into certain Authorised Credit Facilities and lending the proceeds of such Financial Indebtedness to Anglian Water under the Intercompany Loan Arrangements. The Issuer's principal source of funds will be the funds available to it pursuant to the Authorised Credit Facilities and payments made to it by Anglian Water pursuant to the Intercompany Loan Arrangements. Therefore, the Issuer is, insofar as concerns the Intercompany Loan Arrangements, subject to all the restrictions relating to revenues to

which Anglian Water is subject. Such restrictions could limit funds available to Anglian Water to enable it to satisfy in full and on a timely basis its obligations under the Intercompany Loan Arrangements and/or guarantee under the Security Agreement. See Chapter 6.4 “*Financing Structure – Intercompany Loan Arrangements*” for more detail.

1.7 Risks relating to the Issuer - Cyber Security

1.7.1 Loss of Data or Interruptions to Key Business Systems

Cyber risk is a high priority for the business; over the last year the volume and complexity of cyber security threats targeting companies in Anglian Water’s sector have continued to increase and are constantly evolving with key utilities increasingly a target. The publicly acknowledged nation state involvement in the targeting of the utility sector is a key driver in this risk.

Loss of, or misuse of, data could result in breaches of legislation, including, but not limited to, data protection legislation which could have an adverse impact on Anglian Water’s operational assets, performance and customer service metrics. In addition to impacts to operational assets, this could also potentially lead to significant penalties and/or reputational damage.

1.8 Risks relating to all Bond Issuances

There are a large number of factors which may affect the rights of the Bondholders, the market value of the Bonds and the amounts that investors may receive as payments of interest and principal under the Bonds which investors need to consider, the most material of which are set out below.

If, amongst other things, the rights of Bondholders are curtailed, the credit rating of the Bonds is reduced or no secondary market in the Bonds develops, the resale value of the Bonds may decrease. If certain events occur including, without limitation, a change in UK or EU tax legislation, the Bonds may be subject to a withholding and investors may receive lower than expected interest payments. Additionally if the Issuer does not receive funds expected by it because of, amongst other things, the termination of a hedging agreement or revenue restrictions on Anglian Water impacting the Issuer, it may not be able to meet its obligations under the Bonds (including the payment of principal and interest to investors).

1.8.1 Bondholders’ rights are subject to the STID

The Bonds are subject to the provisions of the STID. The STID contains provisions enabling the Security Trustee to implement various modifications, consents and waivers in relation to the Finance Documents and the Bonds, subject to Entrenched Rights and Reserved Matters. See Chapter 6.3.18, “*Financing Structure — Security Trust and Intercreditor Deed — Entrenched Rights and Reserved Matters*”. The Security Trustee is authorised to act on the instructions of the Class A DIG or, following repayment of the Class A Debt, the Class B DIG. A Bondholder (other than (i) a USPP Bondholder holding a certain amount of Class A USPP Bonds prior to the occurrence of certain events; or (ii) after the occurrence of such events, any holder of USPP Bonds, as the case may be) will not be entitled to vote.

Prior to a Default Situation, the Bond Trustee may vote on behalf of the Bondholders (other than the certain USPP Bondholders) as part of the Instructing Group. However,

the Bond Trustee will not be obliged to vote and will not be entitled to convene a meeting of Bondholders to seek directions in respect of such vote. Accordingly, subject to Entrenched Rights and Reserved Matters of the Bondholders, prior to a Default Situation, the Outstanding Principal Amount of the Bonds (other than the USPP Bonds) will not be voted as part of the Class A DIG or Class B DIG, as the case may be, in circumstances where the Bond Trustee is unable or unwilling to exercise its discretion.

During a Default Situation the Bond Trustee shall be entitled to vote and will be entitled to seek directions from the relevant Bondholders in respect of such vote. However, the Bond Trustee may be prevented from voting if a valid Emergency Instruction Notice is delivered to the Security Trustee. See Chapter 6.3.9, “*Financing Structure — Security Trust and Intercreditor Deed — Emergency Instruction Procedure*”. In respect of a vote relating to Entrenched Rights and Reserved Matters, the Bond Trustee will be required to seek directions from the Bondholders of each affected Series of Bonds in respect of such vote.

Accordingly, subject to the Entrenched Rights and Reserved Matters of the Bondholders, decisions relating to and binding upon the Bonds may be made by persons with no interest in the Bonds and the Bondholders may be adversely affected as a result. See Chapter 6.3, “*Financing Structure — Security Trust and Intercreditor Deed*”.

Under the terms of the STID and the CTA any further issues of debt securities by members of the Anglian Water Services Financing Group must be made subject to the Intercreditor Arrangements contained in the CTA and the STID (to which the Bonds are also subject). No alteration of the rights of priority of the holders of Class A Bonds, or, as the case may be, the Class B Bonds may be made without the consent of the relevant Bondholders.

1.8.2 Application for the Bonds to be admitted to the Official List

Notwithstanding the fact that an application has been made for the Bonds to be admitted to the Official List and for such Bonds to be admitted to trading on the Market, there is currently no market for the Bonds. There can be no assurance that a secondary market will develop, or, if a secondary market does develop for any of the Bonds, that it will provide the holder of the Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds is affected by, among other things, the market view of the credit risk of such Bonds and will generally fluctuate with general interest rate fluctuations, general economic conditions, the condition of certain financial markets, international political events, the performance and financial condition of Anglian Water, developments and trends in the water industry generally and events in Anglian Water’s water supply and water recycling licence areas.

1.8.3 Denomination

A Bondholder may have to purchase additional Bonds so that it holds a Specified Denomination (or multiples thereof) of Bonds in order to exchange the Bonds for definitive Bonds in the event that definitive Bonds are printed.

In relation to any issue of Bonds which have a denomination consisting of a minimum Specified Denomination of €100,000 (or its equivalent) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than any minimum Specified Denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more Specified Denominations. See Chapter 7 “*Form of the Bonds – Bearer Bonds*” for more detail.

1.8.4 Ratings

Future events, including events affecting Anglian Water and/or circumstances relating to the water industry generally, could have an adverse impact on the ratings of the Bonds. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced.

The ratings assigned to the Class A Wrapped Bonds issued on the Effective Date were based solely on the debt rating of MBIA and reflect only the views of the Rating Agencies. The ratings assigned to the Class A Bonds and the Class B Bonds by the Rating Agencies reflect only the views of the Rating Agencies.

A rating is not a recommendation to buy, sell or hold securities and will depend, amongst other things, on certain underlying characteristics of the business and financial condition of Anglian Water.

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

If the status of the rating agency rating the Bonds changes, European regulated investors may no longer be able to use the rating for regulatory purposes and the Bonds may have a different regulatory treatment. This may result in European regulated investors selling the Bonds which may impact the value of the Bonds and any secondary market.

Where any Rating Agency is requested to confirm the then current ratings of the Bonds or to confirm that such ratings will not be downgraded following any particular event, or that a particular act or omission meets certain criteria of the Rating Agency, such confirmation may or may not be given at the sole discretion of the Rating Agency. Furthermore, it may not be possible or practicable for the Rating Agency to give such confirmation or to do so within any particular time period.

Confirmation, if and when given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transactions contemplated under the Programme since the Effective Date.

No assurance can be given that a requirement to seek any such confirmation from a Rating Agency will not have a subsequent impact upon the business of any member of the Anglian Water Services Financing Group.

A confirmation of ratings represents only a restatement of the opinions given at the Effective Date, and cannot be construed as advice for the benefit of any parties to the transactions contemplated under the Programme.

1.8.5 Withholding Tax under the Bonds

In respect of Bonds other than those specified in the applicable Final Terms as USPP Bonds, in the event withholding taxes are imposed by or in any jurisdiction in respect of payments due under the Bonds, the Issuer is not obliged to gross-up or otherwise compensate Bondholders for the fact that the Bondholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been the case.

In respect of Bonds which are specified in the applicable Final Terms as USPP Bonds, in the event that withholding taxes are imposed by the United Kingdom or any political subdivision or any authority thereof or therein having power to tax (a “**Tax Jurisdiction**”) in respect of payments due under the Bonds, the Issuer is (subject to certain specified exclusions) obliged to pay such additional amounts as will result in receipt by Bondholders of such amounts as would have been received had no withholding been required.

The Issuer will, in the event of any such withholding taxes imposed by a Tax Jurisdiction or any political subdivision thereof (in respect of USPP Bonds, in circumstances where the Issuer is required to pay additional amounts as described above as a result of a change in United Kingdom law or regulation or the official interpretation or application of such law or regulation), have the option (but not the obligation) of: (i) arranging for the substitution of another company in an alternative jurisdiction (subject to certain conditions) or, in the event that the Issuer is unable to do so, (ii) redeeming all outstanding Bonds in full. See Chapter 8, “*Terms and Conditions of the Bonds*”.

1.8.6 Treatment of the Bonds for Capital Adequacy Purposes

Changes to the risk weighted asset framework (or other regulations) may affect the treatment of the Bonds for capital adequacy purposes and therefore affect the liquidity and/or value of the Bonds.

The Basel Committee on Banking Standards (the “**Basel Committee**”) has approved significant changes to the Basel II regulatory capital and liquidity framework (such changes being commonly referred to as “**Basel III**”). In particular, Basel III provides for substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards and to establish a leverage ratio “backstop” and certain minimum liquidity standards (referred to as the “**Liquidity Coverage Ratio**” and the “**Net Stable Funding Ratio**”). It is intended that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provision for phased implementation such that the measure did not fully apply until January 2019) and the Net Stable Funding Ratio applied from January 2018. Implementation of Basel III requires national legislation and therefore the final rules

and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The changes approved by the Basel Committee may have an impact on incentives to hold the Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Bonds.

In addition, recent amendments to the Capital Requirements Directive and other amendments to EU legislation could lead to certain investors being subject to additional regulatory obligations. These regulatory obligations would vary depending on the type of investor and the jurisdiction in which they are regulated. Investors should be aware that such regulatory obligations may adversely affect their own holding of the Bonds (if they fall within one of the relevant categories of regulated investors) and may adversely affect the price for which they can sell the Bonds or their ability to sell the Bonds at all.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Bonds and as to the consequences to and effect on them of the application of the Capital Requirements Directive as well as any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise. Each investor should make its own determination as to such treatment, conduct, appropriate due diligence and/or seek professional advice and, where relevant, consult its regulator.

1.8.7 Risks Relating to the Guarantors and the Guarantees

The Bonds in issue are, and further Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each Obligor pursuant to a guarantee and security agreement (the “**Security Agreement**”) entered into by each Obligor in favour of the Security Trustee over the entire property, assets, right and undertaking of each Obligor (the “**Security**”), in the case of Anglian Water to the extent permitted by the WIA and Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each Obligor secured in the manner described in Chapter 8, “Terms and Conditions of the Bonds – Security, Priority and Relationship with Secured Creditors”. The Security is held by the Security Trustee on trust for the Secured Creditors (as defined below) under the terms of the Security Agreement, subject to the terms of the STID (as defined below).

Although the Bondholders will have the benefit of the relevant guarantees, it should be noted that, in respect of the Obligors, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited do not have any significant assets other than the shares in their respective subsidiaries. There can thus be no assurance that creditors will be able to recover all amounts due to them in full.

1.9 Risks relating to the structure of a particular issue of Bonds

1.9.1 Classes of Bonds

The Class A Bonds and other Class A Debt rank and any further Class A Bonds and other Class A Debt will rank in priority to payments of principal and interest due on all Series of the Class B Bonds, so holders of Class B Bonds may not necessarily be paid all interest and/or principal accrued on their Bonds in a timely fashion.

If, on any Interest Payment Date, prior to delivery of an Enforcement Notice, there are insufficient funds available to pay accrued interest on the Class B Bonds the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earlier of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of the CTA, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); and (ii) the date upon which all Class A Debt has been paid in full. Interest will, however, accrue on such deferred interest.

All of the Payment Dates for the various different types of Class A Debt and Class B Debt do not and will not necessarily coincide and that, until a Standstill Period has commenced, there is no obligation to ensure that a payment made to a Class B Bondholder pursuant to the Bond Trust Deed (or any other Class B Debt Provider pursuant to any other Class B Debt) will not lead to a deficiency of funds to make payments in respect of Class A Debt that fall due on a later date.

1.9.2 Sustainable Bonds

Sustainable Bonds (as defined in Chapter 9, "*Use of Proceeds*") may not be a suitable investment for all investors seeking exposure to green assets. Prospective investors who intend to invest in the Sustainable Bonds issued under the Programme must determine for themselves the relevance of the information in the relevant Final Terms (for example, regarding the use of proceeds) for the purpose of any investment in the Sustainable Bonds together with any other investigation such investors deem necessary.

In connection with the issue of Sustainable Bonds under the Programme, the Issuer and/or AWS may request consultants and/or institutions with recognised expertise in environmental sustainability to issue an opinion (i) confirming that the Sustainable Category (as defined in Chapter 9 "*Use of Proceeds*" below) has been defined in accordance with the broad categorisation of eligibility for green projects set out by the ICMA Green Bond Principles 2018, the Social Bond Principles 2020 and the Sustainability Bond Guidelines 2018, as published by the International Capital Market Association ("**ICMA**"), and the Loan Market Association's ("**LMA**") Green Loan Principles 2020; and/or (ii) regarding the suitability of the Sustainable Bonds as an investment in connection with certain environmental and sustainability projects (any such opinion, an "**External Review**"). Any External Review is not, nor shall be deemed to be, incorporated in and/or form part of this Prospectus. An External Review may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Sustainable Bonds or the Sustainable Category. An External Review would not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is released. The Bondholders have no recourse against the provider of any External Review. In addition, although the Issuer may agree at the time of issue of any Sustainable Bonds to certain reporting and use of proceeds obligations it would not be an event of default under the Bonds if the Issuer fails to comply with such obligations. A withdrawal of an External Review may affect the value of such Sustainable Bonds and/or may have consequences for certain investors with portfolio mandates to invest in green assets. It should be noted that there is currently no clearly-defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a

“green” or “sustainable” or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green” or “sustainable” or such other equivalent label and if developed in the future, such Bonds may not comply with any such definition or label.

On 18 December 2019, the Council and the European Parliament reached a political agreement on a regulation to establish a framework to facilitate sustainable development (the “**Taxonomy Regulation**”). Within the framework of the Taxonomy Regulation, the Technical Expert Group on Sustainable Finance has been asked to develop recommendations for technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation. On 15 April 2020, the Council adopted by written procedure its position at first reading with respect to the Taxonomy Regulation. The European Parliament will have to vote on the text pursuant to the “early second reading agreement” procedure. However, as yet no formal legislation has been adopted and no definition as to what constitutes, a “green” or “sustainable” or an equivalently-labelled project has been established. No assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Projects (as defined in Chapter 9, “*Use of Proceeds*”) will meet any or all investor expectations regarding such “green”, “sustainable” or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Projects.

- 1.9.3 Furthermore, it should be noted that no member of the AWS Financing Group, no Dealer nor any other person makes any representation as to the suitability of the Sustainable Bonds to fulfil environmental and sustainability criteria required by prospective investors. No member of the AWS Financing Group is responsible for any third party assessment of the Eligibility Criteria (as defined in Chapter 9, “*Use of Proceeds*”). Nor is any Dealer responsible for (i) any assessment of the Eligibility Criteria, (ii) any verification of whether the Eligible Projects meet the Eligibility Criteria, or (iii) the monitoring of the use of proceeds. Investors should refer to the Issuer’s website, the Anglian Water/Anglian Water Services Financing Sustainability Finance Framework and the External Review for further information. The External Review provider has been appointed by the AWS and the Issuer. Regulation and reform of LIBOR, EURIBOR or other “benchmarks” could adversely affect any Bonds linked to such “benchmarks”**

LIBOR, EURIBOR and other rates and indices which are deemed to be “benchmarks” are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds linked to such a “benchmark”.

The BMR was published in the official journal on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that applied from 30 June 2016). The BMR could have a material impact on any Bonds linked to LIBOR, EURIBOR or another “benchmark” rate or

index, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the terms of the BMR, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of, the published rate or level, of the benchmark. In addition, the BMR stipulates that each administrator of a “benchmark” regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain “benchmarks” will fail to obtain a necessary licence, preventing them from continuing to provide such “benchmarks”. Other administrators may cease to administer certain “benchmarks” because of the additional costs of compliance with the BMR and other applicable regulations, and the risks associated therewith.

An example of such benchmark reform was the announcement by the UK Financial Conduct Authority on 12 July 2018 that the LIBOR benchmark may cease to be a regulated benchmark under the BMR (the “**FCA Announcement**”). The FCA Announcement indicates that steps are being taken to transition from the LIBOR benchmark to alternative interest rate benchmarks following the FCA’s announcement on 27 July 2017 that it will no longer compel banks to submit rates for the calculation of the LIBOR benchmark. This announcement and subsequent speeches by Andrew Bailey and other FCA officials have emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021.

Separately, the euro risk free-rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system.

Other interbank offered rates (“**IBORs**”) suffer from similar weaknesses to LIBOR and EURIBOR and it is not possible to predict with certainty whether, and to what extent, they will continue to be supported going forwards. This may cause such “benchmarks” to perform differently than in the past, or there could be other consequences which cannot be predicted (see “*Risk Factors – 1.9.4 Floating Rate Bonds*” below). The discontinuation of an IBOR or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Bonds referencing or linked to such IBOR. The development of alternatives to an IBOR may result in Bonds linked to or referencing such IBOR performing differently than would otherwise have been the case if the alternatives to such IBOR had not developed. Any such consequences could have a material adverse effect on the value of, and return on, any such Bonds linked to or referencing such IBOR.

Whilst alternatives to certain IBORs for use in the bond market are being developed, outstanding Bonds linked to or referencing an IBOR may transition away from such IBOR in accordance with the particular fallback arrangements set out in their terms and conditions. The operation of these fallback arrangements could result in a different return for Bondholders (which may include payment of a lower Rate of Interest) than they might receive under other similar securities which contain different or no fallback arrangements (including those which they may otherwise receive in the event that

legislative measures or other initiatives (if any) are introduced to transition from any given IBOR to an alternative rate).

1.9.4 Floating Rate Bonds

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Bonds is to be determined, the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to it.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Reference Rate), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before the Reference Rate was discontinued. Uncertainty as to the continuation of the Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Bonds.

Benchmark Events include (amongst other events) permanent discontinuation of an Original Reference Rate. If a Benchmark Event occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser. The Independent Adviser shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest is likely to result in Bonds linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions and/or the Bond Trust Deed, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Bondholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate.

The Adjustment Spread is (i) the spread, formula or methodology which is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities), (ii) if no such recommendation has been made, or in the case of an Alternative Rate, the spread, formula or methodology which the Independent Adviser determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case

may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate, or (iii) if the Independent Adviser determines that no such spread is customarily applied, the spread, formula or methodology which the Independent Adviser determines and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate, as the case may be.

Accordingly, the application of an Adjustment Spread may result in the Bonds performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate and, in either case, an Adjustment Spread, in accordance with the terms and conditions of the Bonds.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable, to determine a Successor Rate or Alternative Rate and, in either case, an Adjustment Spread, before the day which is five Business Days prior to the next Interest Determination Date, the Rate of Interest for the next succeeding Interest Period will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or, the Independent Adviser has failed, to determine a Successor Rate or Alternative Rate in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Bonds linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Bonds, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Bonds, in effect, becoming Fixed Rate Bonds.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Bonds is to be determined, the Conditions provide that the Rate of Interest in respect of the Bonds shall be determined by reference to the relevant

Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an “IBOR” Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Bonds.

1.9.5 Index Linked Bonds

The Issuer may issue Index Linked Bonds, being Bonds with principal or interest determined by reference to an index, formula or other factor. As the factors can be volatile, Investors should be aware that they may not receive any interest or repayment of principal under the Bonds

The Issuer may issue Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or to other factors (each, a “**Relevant Factor**”). Potential investors should be aware that:

- (i) the market price of such Bonds may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Bonds or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Potential investors in Bonds linked to RPI, HICP, CPI or CPIH should be aware that (a) the market price of such Bonds may be volatile; (b) they may receive no interest; (c) they may risk losing part of, or their entire investment, for example, if exchange rates or any other relevant index moves sufficiently in an unanticipated direction; (d) payment of principal or interest may occur at a different time or in a different currency than expected; and (e) the amount of principal payable at redemption may be less than the nominal amount of such Bonds or even zero (for example, if the value of the relevant index falls below the value of the relevant index applicable at the Issue Date, then the amount of principal payable at the time of redemption may be less than the nominal amount of the Bond).

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents (a)(i) the Terms and Conditions of the Bonds as contained at pages 147 to 179 (inclusive) of the offering circular dated 23 July 2002; (ii) the Terms and Conditions of the Bonds as contained at pages 146 to 178 (inclusive) of the offering circular dated 24 June 2003; (iii) the Terms and Conditions of the Bonds as contained at pages 145 to 177 (inclusive) of the offering circular dated 28 July 2004; (iv) the Terms and Conditions of the Bonds as contained at pages 143 to 175 (inclusive) of the base prospectus dated 23 September 2005; (v) the Terms and Conditions of the Bonds as contained at pages 141 to 174 (inclusive) of the base prospectus dated 2 October 2006; (vi) the Terms and Conditions of the Bonds as contained at pages 175 to 214 (inclusive) of the base prospectus dated 20 September 2007; (vii) the Terms and Conditions of the Bonds as contained at pages 179 to 219 (inclusive) of the base prospectus dated 23 September 2008; (viii) the Terms and Conditions of the Bonds as contained at pages 154 to 187 (inclusive) of the base prospectus dated 30 September 2009; (ix) the Terms and Conditions of the Bonds as contained at pages 159 to 192 (inclusive) of the base prospectus dated 1 October 2010; (x) the Terms and Conditions of the Bonds as contained at pages 184 to 217 (inclusive) of the base prospectus dated 6 October 2011; (xi) the Terms and Conditions of the Bonds as contained at pages 222 to 272 (inclusive) of the base prospectus dated 12 October 2012; (xii) the Terms and Conditions of the Bonds as contained at pages 247 to 299 (inclusive) of the base prospectus dated 4 October 2013; (xiii) the Terms and Conditions of the Bonds contained at pages 264 to 319 (inclusive) of the base prospectus dated 9 October 2014, (xiv) the Terms and Conditions of the Bonds contained at pages 259 to 314 (inclusive) of the base prospectus dated 7 October 2015; (xv) the Terms and Conditions of the Bonds contained at pages 263 to 322 (inclusive) of the base prospectus dated 12 September 2016; (xvi) the Terms and Conditions of the Bonds contained at pages 285 to 348 (inclusive) of the base prospectus dated 21 July 2017; (xvii) the Terms and Conditions of the Bonds contained at pages 290 to 352 (inclusive) of the base prospectus dated 23 July 2018, and (xviii) the Terms and Conditions of the Bonds contained at pages 268 to 326 (inclusive) of the base prospectus dated 30 September 2019, in each case, in connection with the Programme; and (b) for the financial years ended 31 March 2019 and 2020 (i) the audited consolidated annual financial statements of Anglian Water with the audit report thereon; (ii) the audited Annual Performance Report of AWS for the financial year ended 31 March 2020; (iii) the audited annual financial statements of the Issuer with the audit report thereon; (iv) the audited annual financial statements of Anglian Water Services Holdings Limited with the audit report thereon; and (v) the audited financial statements for AWS UK Parent Co with the audit report thereon, which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Conduct Authority or filed with it (respectively in relation to each Obligor, the **“2019 Annual Report”** and the **“2020 Annual Report”** and see Chapter 15, *“General Information”* for a description of the financial statements currently published by each of the Issuer and the other Obligors) save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Such documents have previously been published or are published simultaneously with this Prospectus and have been filed with the FCA. Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer and from the

Issuer's website at <https://www.awg.com/investors/anglian-water-services---terms-and-conditions/>. In addition, copies of such documents will be available on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

The table below sets out the relevant page references for the audited financial statements and the audit reports of each of the Obligors other than Anglian Water Services UK Parent Co Limited and Anglian Water Services Holdings Limited, as the case may be, for the financial years ended 31 March 2020 and 31 March 2019 which are incorporated by reference herein.

Audited Consolidated Annual Financial Statements of AWS

	2020	2019
Group income statement.....	140	145
Group statement of comprehensive income.....	141	146
Group balance sheet.....	142	147
Company balance sheet.....	143	148
Group statement of changes in equity.....	144	149
Company statement of changes in equity.....	145	150
Group and company cash flow statements.....	146	151
Notes to the group and company cash flow statements.....	147	152
Independent Auditors' Report.....	197	203

Audited Annual Performance Report of AWS

	2020	2019
Annual Performance Report and required regulatory information.....	4	4
Statement of Directors' responsibilities for regulatory information.....	27	22
Regulatory Income Statement.....	31	26
Regulatory Statement of Comprehensive Income.....	36	31
Regulatory Statement of Financial Position.....	37	32
Regulatory Statement of Cash Flows.....	41	36
Notes to the Annual Performance Report.....	196	190
Independent auditors' report.....	212	210
Glossary of regulatory terms.....	220	217

Audited Annual Financial Statements of Anglian Water Services Financing Plc

	2020	2019
Independent auditors' report.....	7	7
Profit and loss account	17	14
Balance sheet.....	18	15
Notes to the financial statements.....	21	18

Any information or documents themselves incorporated by reference in the documents incorporated by reference shall not form part of this Prospectus. Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Prospectus.

Each of the Issuer and the other Obligors has undertaken to the Dealers in the Programme Agreement (as defined in Chapter 14, "*Subscription and Sale and Transfer and Selling Restrictions*") to comply with Chapter 81 of the FSMA.

If the terms of the Programme are modified or amended in a manner which would make this Prospectus, as so modified or amended, inaccurate or misleading, a new prospectus will be prepared.

Other than in relation to the documents which are deemed to be incorporated by reference, the information on the websites included in this Prospectus, or included in any document incorporated by reference into this Prospectus, are not incorporated into, and do not form part of, this Prospectus.

SUPPLEMENTARY PROSPECTUS

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the Market that, if there shall occur any significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which may affect the assessment of any Bonds whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the relevant Issuer, and the rights attaching to the Bonds, the Issuer shall prepare a supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent issue by the Issuer of Bonds and will supply to each Dealer and the Bond Trustee such number of copies of such supplement hereto or replacement prospectus as such Dealer and Bond Trustee may reasonably request. The Issuer will also supply to the FCA such number of copies of such supplement hereto or replacement prospectus as may be required by the FCA.

If at any time any Issuer shall be required to prepare a supplemental prospectus pursuant to Article 23 of the Prospectus Regulation, the Issuer shall prepare and make available an appropriate supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Market, shall constitute a supplemental prospectus as required by the FCA and Article 23 of the Prospectus Regulation.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Bonds denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Bonds appears below. The applicable terms of any Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of the Bonds and will be set out in the Terms and Conditions of the Bonds endorsed on, attached to, or incorporated by reference into, the Bonds, as completed by the applicable Final Terms attached to, or endorsed on, such Bonds, as more fully described in Chapter 7, “*Form of the Bonds*”.

This Prospectus (as supplemented as at the relevant time, if applicable) will only be valid for listing Bonds on the Official List during the period of 12 months from the date of this Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Bonds previously or simultaneously issued under the Programme, does not exceed €10,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Bonds issued under the Programme from time to time:

- (i) the euro equivalent of Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Bonds, described in Chapter 7, “*Form of the Bonds*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (ii) the euro equivalent of Dual Currency Bonds and Index Linked Bonds (each as specified in the applicable Final Terms in relation to the Bonds, described in Chapter 7, “*Form of the Bonds*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Bonds; and
- (iii) the euro equivalent of Zero Coupon Bonds (as specified in the applicable Final Terms in relation to the Bonds, described in Chapter 7, “*Form of the Bonds*”) and other Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

INFORMATION ABOUT THE PROGRAMME

What is the Programme?	<p>The Programme is a debt issuance programme under which Anglian Water Services Financing Plc as the Issuer may, from time to time, issue debt instruments which are referred to in this Prospectus as the Bonds.</p> <p>The Programme is constituted by a set of documents containing the terms and conditions and other contractual provisions that can be used by the Issuer to undertake any number of issues of Bonds from time to time in the future, subject to a maximum limit of €10,000,000,000.</p> <p>The Programme was established on 23 July 2002.</p>
How are Bonds issued under the Programme?	<p>Whenever the Issuer decides to issue Bonds, it undertakes what is commonly referred to as a “drawdown”. On a drawdown, documents which are supplementary to the Programme documents are produced, indicating which provisions in the documents are relevant to that particular drawdown and setting out the terms of the Bonds to be issued under the drawdown. The key supplementary documents of which you will need to be aware when deciding whether to invest in Bonds issued as part of a drawdown over the 12 month period from the date of this Prospectus are: (a) any supplement to this Prospectus and (b) the applicable Final Terms. In the event of any significant new factor, material mistake or material inaccuracy relating to the information contained in this Prospectus which may affect the assessment of any Bonds and whose inclusion or removal from this Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Bonds, the Issuer will prepare and publish a supplement to this Prospectus or prepare and publish a new Prospectus, in each case, for use in connection with such Bonds and any subsequent issue of Bonds.</p> <p>Each Final Terms is a pricing supplement to this Prospectus (as supplemented or replaced from time to time) which sets out the specific terms of each issue of Bonds under the Programme. Each Final Terms is intended to be read alongside the Terms and Conditions of the Bonds set out in Chapter 8 (<i>Terms and Conditions of the Bonds</i>) of this Prospectus, and the two together provide the specific terms of the Bonds relevant to a specific drawdown. Each Final Terms will be submitted to the FCA and the London Stock Exchange plc and published by the Issuer in accordance with the Prospectus Regulation.</p>
What types of Bonds may be issued under the Programme?	<p>Several types of Bonds may be issued under the Programme including: Fixed Rate Bonds, Floating Rate Bonds, Zero Coupon Bonds and Index Linked Bonds.</p> <p>Fixed Rate Bonds are Bonds where the interest rate payable by the Issuer on the Bonds is fixed as a set percentage at the time of issue.</p> <p>Floating Rate Bonds are Bonds where the interest rate is calculated by reference to a fluctuating benchmark rate. Under the Programme, that benchmark rate will be either the Euro Interbank Offered Rate (“EURIBOR”) or the London Interbank Offered Rate (“LIBOR”). The floating interest rate is calculated on or about the start of each new interest period and applies for the length of that interest period. Therefore, Floating Rate Bonds in effect have a succession of fixed interest rates which are recalculated on or about the start of each new interest period. Although the floating interest rate will be based on the benchmark rate, it will typically also include a fixed percentage margin which is added to the benchmark rate.</p>

	<p>Zero Coupon Bonds are Bonds which do not carry any interest but are generally issued at a deep discount to their nominal amount. Zero Coupon Bonds are repaid at their full amount. Therefore, if you purchase Zero Coupon Bonds on their issue date and hold them to maturity, your return will be the difference between the issue price and the nominal amount of the Zero Coupon Bonds paid on maturity.</p> <p>Index Linked Bonds are Bonds where the payments of principal and/or interest are and will be calculated by reference to an Index Ratio, derived from: (i) the U.K. Retail Price Index (RPI) (all items) published by the Office for National Statistics or the relevant successor index (“RPI”); (ii) the Non-revised index of Consumer Prices excluding tobacco, or the relevant successor index, measuring the rate of inflation in the European Monetary Union published by Eurostat (“HICP”); (iii) the U.K. Consumer Price Index (CPI) (for all items) published by the Office for National Statistics (2015 = 100) or the relevant successor index (“CPI”); or (iv) the U.K. Consumer Price Index including owner occupiers’ housing costs (CPIH) (for all items) published by the Office for National Statistics (2015=100) or the relevant successor index (“CPIH”).</p> <p>As these indices can be volatile, the payments due under the Bonds can decrease as well as increase.</p> <p>The specific details of each Bond issued will be specified in the applicable Final Terms. Further details on how interest will be calculated on the Bonds can be found below.</p>
Have any Bonds been issued under the Programme to date?	As of the date of this Prospectus, the Issuer has made a significant number of drawdowns under the Programme since the establishment of the Programme in a variety of currencies and with varying coupons.
How will the Price of the Bonds be determined?	The price and amount of Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer or Dealers at the time of “pricing” of the Bonds in accordance with prevailing market conditions. The issue price for each Series will be specified in the applicable Final Terms.
What is the Yield on the Bonds?	The yield in respect of each issue of Fixed Rate Bonds and Zero Coupon Bonds will be calculated on the basis of the Issue Price and the Interest Rate and specified in the applicable Final Terms. Yield is not an indication of future price. The Final Terms in respect of any Floating Rate Bonds or Index Linked Bonds will not include any indication of yield.

<p>What is the relationship between the Issuer, the other Obligors and the Group?</p>	<p>The Issuer is a special purpose company established to raise money for use by the Anglian Water Services Financing Group. The Issuer is a wholly owned subsidiary of Anglian Water Services Limited (“Anglian Water”).</p> <p>Anglian Water is separated from the other businesses of the Anglian Water Group through the interposition of two intermediate special purpose holding companies, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited.</p> <p>Anglian Water Services UK Parent Co Limited is a wholly-owned subsidiary of Anglian Water Services Holdings Limited and an indirect subsidiary of Anglian Water Group Limited, the ultimate holding company of the Anglian Water Group.</p> <p>Anglian Water Services Holdings Limited is a wholly-owned direct subsidiary of AWG Group Ltd and an indirect subsidiary of Anglian Water Group Limited.</p> <p>Below is a diagram showing the ownership structure of Anglian Water Services Financing Group:</p> <p>Further details of the Financing Group can be found in Chapter 6 (<i>Financing Structure</i>) of this Prospectus.</p> <div data-bbox="427 846 1168 1720"> <p>Anglian Water Services Financing Group</p> <pre> graph TD AWGL[Anglian Water Group Limited] -.-> OAL[Osprey Acquisitions Limited] OAL --> AWHL[Anglian Water Services Holding Limited] AWHL --> AWPCL[Anglian Water Services UK Parent Co Limited] AWPCL --> AWL[Anglian Water Services Limited] AWL --> Issuer[Issuer] subgraph "Anglian Water Services Financing Group" AWHL AWPCL AWL Issuer end </pre> </div>
----------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

	<p>right and undertaking of each Obligor, in the case of Anglian Water to the extent permitted by the Water Industry Act 1991 and its Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each Obligor. The Security is held by the Security Trustee on trust for the Secured Creditors under the terms of the Security Agreement, subject to the terms of the Security Trust and Intercreditor Deed.</p> <p>The following diagram shows the security provided by the Anglian Water Services Financing Group in favour of the Security Trustee on behalf of the Secured Creditors:</p> <div><div><p>SECURITY ^{1,2}</p><ul style="list-style-type: none">Fixed and floating charge. Principal secured asset is its holding of shares in Anglian Water Services UK Parent Co LtdFixed and floating charge. Principal secured asset is its holding of shares in Anglian WaterFixed and floating charge over its property, assets and undertaking including assets listed under section 7.7.1(i), (ii) and (iii) of this base Prospectus all subject to the WIA and the Instrument of AppointmentFixed and floating charge</div><div><div>Anglian Water Services Holding Limited</div><div>Anglian Water Services UK Parent Co Limited</div><div>Anglian Water Services Limited</div><div>Issuer</div></div><div><p>GUARANTEE</p><ul style="list-style-type: none">Guantees all obligations of Anglian Water Services UK Parent Co Ltd, Anglian Water and the Issuer under the Finance DocumentsGuantees all obligations of Anglian Water Services Holdings Ltd, Anglian Water and the Issuer under the Finance DocumentsGuantees all obligations of Anglian Water Services Holdings Ltd, Anglian Water Services UK Parent Co Ltd and the Issuer under the Finance DocumentsGuantees all obligations of Anglian Water Services Holdings Ltd, Anglian Water Services UK Parent Co Ltd and Anglian Water under the Finance Documents</div></div> <div><p>Notes:</p><p>(1) All security is granted to the Security Trustee as security trustee for the Secured Creditors.</p><p>(2) Anglian Water Services Holdings Ltd, Anglian Water Services UK Parent Co Ltd, Anglian Water and the Issuer grant all security pursuant to the Security Agreement.</p></div>												
<p>Will the Bonds issued under the Programme have a credit rating?</p>	<p>Each Tranche of Class A Bonds and Class B Bonds is expected on issue to have the following credit ratings from the respective credit rating agencies below. The credit ratings will be specified in the applicable Final Terms.</p> <table><tr><td>Class</td><td>Standard & Poor’s</td><td>Moody’s</td><td>Fitch</td></tr><tr><td>Class A Bonds</td><td>A- (negative)</td><td>A3 (negative)</td><td>A- (stable)</td></tr><tr><td>Class B Bonds</td><td>BBB (negative)</td><td>Baa3 (negative)</td><td>BBB (stable)</td></tr></table> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency.</p>	Class	Standard & Poor’s	Moody’s	Fitch	Class A Bonds	A- (negative)	A3 (negative)	A- (stable)	Class B Bonds	BBB (negative)	Baa3 (negative)	BBB (stable)
Class	Standard & Poor’s	Moody’s	Fitch										
Class A Bonds	A- (negative)	A3 (negative)	A- (stable)										
Class B Bonds	BBB (negative)	Baa3 (negative)	BBB (stable)										

Will the Bonds issued under the Programme have voting rights?	Holders of Bonds issued under the Programme have certain rights to vote at meetings of Bondholders, described further in Chapter 8, “ <i>Terms and Conditions of the Bonds</i> ” of this Prospectus, but are not entitled to vote at any meeting of shareholders of the Issuer or of any other member of the Anglian Water Group.
Will I be able to trade Bonds issued under the Programme?	<p>Application has been made to admit Bonds issued during the period of 12 months from the date of this Prospectus to the Official List of the FCA and to admit them to trading on London Stock Exchange plc’s regulated market. References in this Prospectus to Bonds being listed (and all related references) shall mean that such Bonds have been admitted to the Official List and have been admitted to trading on the London Stock Exchange's regulated market.</p> <p>Once listed, the Bonds may be purchased or sold through a broker. The market price of the Bonds may be higher or lower than their issue price depending on, among other things, the level of supply and demand for the Bonds, movements in interest rates and the financial performance of the Issuer and the Anglian Water Group. See paragraph 1.9.3 of the <i>Risk Factors</i> Chapter of this Prospectus for further information relating to trading the Bonds.</p>
Why has the Programme been established? What will the issue proceeds be used for?	The net proceeds from each issue of Bonds will be on-lent to Anglian Water under the terms of the Issuer/Anglian Water Loan Agreement as part of the Intercompany Loan Arrangements to be applied by Anglian Water for its general corporate purposes and/or any other identified purpose as set out in the applicable Final Terms. See Chapter 6, “ <i>Financing Structure</i> ” of this Prospectus for further information.
How will interest payments on the Bonds be funded?	Interest payments in respect of the Bonds will effectively be paid from cash flow generated from the business of Anglian Water. To further reinforce the ability of the income of Anglian Water to be utilised in repayment of the Issuer’s debt, Anglian Water and the other Obligors have guaranteed the obligations of the Issuer to the Secured Creditors and have executed a Security Agreement in favour of the Security Trustee to secure their obligations under that guarantee.
What is the interest rate on the Bonds?	<p>The Bonds issued may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and may be linked to an index. The applicable interest rate or its method of calculation may differ from time to time or be constant for any Series of Bonds. Bonds may have a maximum interest rate, a minimum interest rate, or both. The length of the interest periods for the Bonds may also differ from time to time or be constant for any Series of Bonds.</p> <p>Further details on how the interest rate will be calculated for the different types of Bond can be found below.</p>
How is the amount of interest payable on the Bonds calculated?	<p>Fixed Rate Bonds:</p> <p>A fixed interest rate will be applied to the Bonds throughout the life of the Bonds.</p> <p>Floating Rate Bonds:</p> <p>Interest on Floating Rate Bonds will be calculated either:</p>

	1) on the same basis as the floating rate under a notional interest rate swap transaction in the
--	--------------------------------------------------------------------------------------------------

	<p>relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions published by the International Swaps and Derivatives Association, Inc.; or</p> <p>2) by adding a fixed margin (specified in the applicable Final Terms) to a variable rate which will be specified in the applicable Final Terms to be LIBOR or EURIBOR.</p> <p>Zero Coupon Bonds:</p> <p>Zero Coupon Bonds will not bear interest.</p> <p>Index Linked Bonds:</p> <p>Interest payable in respect of Index Linked Bonds will be calculated with reference to an index, RPI, HICP, CPI or CPIH. Please see below for further details.</p>
<p>How is the amount of interest and principal payable on Index Linked Bonds calculated?</p>	<p>RPI Linked Bonds</p> <p>RPI Linked Bonds are linked to the U.K. Retail Price Index, a general purpose domestic measure of inflation in the UK. The RPI has been used as a measure of inflation since 1947 and measures the average change from month to month in the prices of goods and services purchased by most households in the UK. The spending pattern on which the RPI is based is revised each year, mainly using information from official expenditure and food surveys. Further information on the RPI (including past and current performance and a description of any market and settlement disruption events that affect the RPI) can be found at www.statistics.gov.uk.</p> <p>The stated rate of interest offered on a Series of RPI Index Linked Bonds (i.e. the rate before taking inflation into account, where, in this context, “inflation” and “deflation” mean RPI increases and decreases respectively) is fixed when the first Tranche of such Series of RPI Index Linked Bonds is issued. This amount of interest and principal payable will be adjusted upwards or downwards to take into account the effect of inflation or deflation as set out in Condition 8 (Indexation).</p> <p>HICP Linked Bonds</p> <p>HICP Linked Bonds are linked to the Eurozone Harmonised Index of Consumer Prices excluding Tobacco, as calculated and published by EUROSTAT and the national statistical institutes in accordance with harmonised statistical methods. The HICP is an economic indicator constructed to measure the changes over time in the prices of consumer goods and services acquired by households in the Eurozone. Further information on the HICP (including past and current performance and a description of any market and settlement disruption events that affect the HICP) can be found at www.epp.eurostat.ec.europa.eu.</p> <p>The stated rate of interest offered on a HICP Index Linked Bond (i.e. the rate before taking inflation or deflation into account) is fixed when the first tranche of such series is issued and will be the same until maturity. The amount of interest or principal payable will be adjusted upwards or downwards to take into account the effect of inflation or deflation as set out in Condition 8 (Indexation).</p> <p>CPI Linked Bonds</p> <p>CPI Linked Bonds are linked to the Consumer Price Index (CPI), which is a measure of inflation in the United Kingdom and is produced to international standards and is in line with European regulations. The CPI is the inflation measure which has been used in the</p>

	<p>Government's target for inflation since December 2003. Approximately 180,000 separate price quotations are used each month in compiling CPI.</p> <p>Information about the past and further performance and volatility of CPI may be obtained from the Office for National Statistics website:</p> <p><i>http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Consumer+Price+Indices</i></p> <p>The stated rate of interest offered on a Series of CPI Index Linked Bonds (i.e. the rate before taking inflation into account, where, in this context, “inflation” and “deflation” mean CPI increases and decreases respectively) is fixed when the first Tranche of such Series of CPI Index Linked Bonds is issued. The amount of interest and principal payable will be adjusted upwards or downwards to take into account the effect of inflation or deflation as set out in Condition 8 (Indexation).</p> <p>CPIH Linked Bonds</p> <p>CPIH Linked Bonds are linked to the Consumer Price index including owner occupiers’ housing costs (the “CPIH”). The owner occupiers’ housing costs are the costs of housing services associated with owning, maintaining and living in one’s own home. CPIH does not include costs such as utility bills, minor repairs and maintenance, which are already included in the index. CPIH uses an approach called rental equivalence to measure owner occupiers’ housing costs. Rental equivalence uses the rent paid for an equivalent house as a proxy for the costs faced by an owner occupier.</p> <p>Information about the past and further performance and volatility of CPIH may be obtained from the Office for National Statistics website:</p> <p><i>http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Consumer+Price+Indices</i></p> <p>The stated rate of interest offered on a Series of CPIH Index Linked Bonds (i.e. the rate before taking inflation into account, where, in this context, “inflation” and “deflation” mean CPIH increases and decreases respectively) is fixed when the first Tranche of such Series of CPIH Index Linked Bonds is issued. This amount of interest and principal payable will be adjusted upwards or downwards to take into account the effect of inflation or deflation as set out in Condition 8 (Indexation).</p>
--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

When will the Bonds be repaid?	<p>Unless previously redeemed or purchased and cancelled in accordance with their Terms and Conditions, each Series of Bonds (other than Instalment Bonds) will be repaid on the applicable Maturity Date for that Series. The Maturity Date of the Bonds will be set out in the applicable Final Terms.</p> <p>Unless previously redeemed or purchased and cancelled in accordance with their Terms and Conditions, each Series of Instalment Bonds will be repaid in instalments on the applicable Instalment Dates for that Series, as set out in the applicable Final Terms.</p> <p>There are certain circumstances where certain types of Bond issued may be redeemed early. These circumstances are set out in Condition 9 of the Bonds which can be found on page 283 of this Prospectus.</p>
Who will represent the	The Bond Trustee is appointed to act on behalf of the Bondholders as an intermediary between Bondholders and the Issuer throughout the life of the Bonds. The main obligations of the Issuer

interests of the Bondholders?	<p>and the other Obligors (such as the obligation to pay and observe the various covenants in the Conditions of the Bonds) are owed to the Bond Trustee.</p> <p>Although the entity chosen to act as the Security Trustee is appointed by the Issuer, the Security Trustee holds the benefit of the security on trust for and on behalf of itself, and the other Secured Creditors including the Bondholders. The obligations and the security are enforceable by the applicable Trustee only, not the Bondholders themselves.</p>
What if I have further questions?	<p>If you are unclear in relation to any matter, or uncertain if the Bonds are a suitable investment, you should seek professional advice from your broker, solicitor, accountant or other independent financial adviser before deciding whether or not to invest.</p>

CHAPTER 1 PARTIES

Account Bank	Barclays Bank PLC, a public limited company, registered in England of 5 the North Colonnade, Canary Wharf, London E14 4BB, authorised and regulated by the FCA with registered number 1026167 (“ Barclays Bank PLC ”), or any person for the time being acting as Account Bank pursuant to the Account Bank Agreement.
Anglian Water	Anglian Water Services Limited, a water and water recycling undertaker under the Instrument of Appointment.
Anglian Water Group	AWGL and its subsidiaries (including Anglian Water); for the avoidance of doubt, references to the “ Anglian Water Group ” shall be to AWG Parent Co Ltd and its subsidiaries (including Anglian Water) for any period prior to the acquisition of AWG Parent Co Ltd (then AWG plc) by Osprey Acquisitions Limited.
Anglian Water Services Financing Group	Anglian Water Services Holdings Limited, Anglian Water Services UK Parent Co Limited, Anglian Water and Anglian Water Services Financing Plc (the “ Obligors ”).
Anglian Water Services Holdings Limited	Anglian Water Services Holdings Limited, a company incorporated under the laws of England and Wales and a wholly-owned subsidiary of AWG Group Ltd.
Anglian Water Services UK Parent Co Limited	Anglian Water Services UK Parent Co Limited, a company incorporated under the laws of England and Wales and a wholly-owned subsidiary of Anglian Water Services Holdings Limited.
Arranger	Barclays Bank PLC is the arranger of the Programme.
Authorised Credit Providers	Barclays Bank PLC as agent in respect of the revolving credit facility (the “ Barclays Authorised Loan Facility ”) provided to the Issuer by, among others, Barclays Bank PLC, Bank of China Limited, London Branch (“ Bank of China London ”) as lender in respect of the revolving credit facility (the “ Bank of China Authorised Loan Facility ”) provided to the Issuer by Bank of China London, Export Development Canada (“ EDC ”) as lender in respect of the term loan facility (the “ EDC Authorised Loan Facility ”) provided to the Issuer by EDC and the European Investment Bank (“ EIB ”) as lender in respect of the credit facility (the “ EIB Authorised Loan Facility ”) provided to the Issuer by the EIB, in each case (other than the EIB Authorised Loan Facility and the Bank of China Authorised Loan Facility), syndicated to certain other banks or financial institutions (each an “ Authorised Credit Provider ”) which agreed to provide credit facilities to the Issuer and/or Anglian Water. See Chapter 6, “ <i>Financing Structure</i> ”.

AWG Group Ltd	AWG Group Ltd (formerly Anglian Water plc), a company incorporated under the laws of England and Wales and formerly listed on the London Stock Exchange and a wholly-owned subsidiary of AWG Parent Co Ltd.
AWG Parent Co Ltd	A company incorporated under the laws of England and Wales, formerly known as AWG plc and formerly admitted to the Official List of the FCA and to trading on the London Stock Exchange, a wholly-owned subsidiary of Osprey Acquisitions Limited.
AWGL	Anglian Water Group Limited, a company incorporated under the laws of Jersey, the ultimate Holding Company of the Anglian Water Group.
Bond Trustee	Deutsche Trustee Company Limited for and on behalf of the holders of each Series of Bonds (each a “ Bondholder ”).
Cash Manager	Anglian Water (prior to a Standstill Period) and Barclays Bank PLC (during and following a Standstill Period) do and will, pursuant to the terms of the Common Terms Agreement, act as cash manager in respect of monies credited from time to time to the Accounts.
Common Depositary	The common depositary for Euroclear Bank SA/NV and Clearstream Banking, S.A. will be appointed by Euroclear Bank SA/NV and Clearstream Banking S.A. Such appointment is subject to change during the Programme at their sole discretion, and without the need to obtain any further consent.
Consortium	The Consortium formed for the purposes of acquiring the share capital of AWG Parent Co Ltd and comprising of CPPIB (Hong Kong) Limited, Colonial First State Managed Infrastructure Limited, First State Investments Fund Management S.a.r.l., Conyers Trust Company (Cayman) Limited (in its capacity as trustee of IFM Global Infrastructure Fund), Camulodunum Investments Ltd and Infinity Investments S.A.
Dealers	Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, NatWest Markets Plc, Scotiabank Europe plc and SMBC Nikko Capital Markets Limited will act as dealers (together with any other dealer appointed from time to time by the Issuer, the “ Dealers ”), in respect of the Programme.

Debt Service Reserve Liquidity Facility
Providers

Barclays Bank PLC, HSBC Bank plc a public limited company registered in England of Level 8, Canada Square, London E14 5HQ, authorised and regulated by the FCA with company number 00014259 (“**HSBC Bank plc**”), JPMorgan Chase Bank, N.A., London Branch, a public limited company registered in England of 25 Bank Street, Canary Wharf, London E14 5JP, authorised and regulated by the FCA with company number 004891 (“**JPMorgan**”), Lloyds Bank plc, a public limited company registered in England of 10 Gresham Street, London EC2V 7AE, authorised and regulated by the FCA with company number 00002065 (“**Lloyds Bank plc**”) and Sumitomo Mitsui Banking Corporation Europe Limited, a limited company registered in England of 99 Queen Victoria Street, London EC4V 4EH, authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority with company number 4684034 (“**Sumitomo Mitsui Banking Corporation Europe Limited**”) (the “**Debt Service Reserve Liquidity Facility Provider**”) agreed to provide a liquidity facility (the “**Class A Debt Service Reserve Liquidity Facility**”) for interest requirements on Class A Debt and (with the exception of HSBC Bank plc, Sumitomo Mitsui Banking Corporation Europe Limited and JPMorgan) a liquidity facility (the “**Class B Debt Service Reserve Liquidity Facility**”) for interest requirements on Class B Debt and (in certain circumstances) to fund shortfalls in the Class A Debt Service Reserve Account (each a “**Debt Service Reserve Liquidity Facility**”).

Finance Lessors

Mercantile Leasing Company (No. 132) Limited (the “**Existing Finance Lessor**”), which leases plant, machinery and equipment to Anglian Water under the terms of a finance lease (the “**Existing Finance Lease**”), and Lombard Business Leasing Ltd (the “**New Finance Lessor**”), which leases plant, machinery and equipment to Anglian Water under the terms of a finance lease (the “**New Finance Lease**” and, together with the Existing Finance Lease, and any future finance leases, the “**Finance Leases**”).

Hedge Counterparties	Abbey National Treasury Services plc, Barclays Bank PLC, BNP Paribas, a public limited company of 75450 Paris Cedex 09, France, with Commercial register RCS number 662 042 449 (“ BNP Paribas ”), Crédit Agricole Corporate and Investment Bank (“ CACIB ”), Commonwealth Bank of Australia (ABN 48 123 123 124), a public limited company of Level 25, Darling Park Tower 1, 201 Sussex Street, Sydney NSW 2000 (“ Commonwealth Bank of Australia ”), HSBC Bank plc, J.P. Morgan Securities plc, a limited company authorised by the FCA of 25 Bank Street, Canary Wharf, London, E14 5JP with registered number 2711006 (“ J.P. Morgan Securities plc ”), Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, authorised and regulated by the FCA of 25 Cabot Square, London E14 4QA, with registered number 02068222 (“ Morgan Stanley & Co. ”), SMBC Nikko Capital Markets Limited of One New Change, London, EC4M 9AF (“ SMBC Nikko Capital Markets Limited ”), The Bank of Nova Scotia of 40 King Street West, Scotia Plaza, 55 th Floor, Toronto, Canada M5H 1H1 (“ The Bank of Nova Scotia ”), Sumitomo Mitsui Banking Corporation Europe Limited (the “ Hedge Counterparties ”).
Issuer	Anglian Water Services Financing Plc (LEI: 213800DL377MH46PDY63), formed in order to provide debt financing to Anglian Water in relation to its water and water recycling undertakings.
O&M Reserve Facility Provider	Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia, Lloyds Bank plc and The Bank of Nova Scotia, London Branch (together, the “ O&M Reserve Facility Provider ”) agreed to provide a liquidity facility in respect of operating and maintenance expenditure (the “ O&M Reserve Facility ”).
Obligors	The following parties have guaranteed and will guarantee certain obligations of each other Obligor in favour of the Security Trustee (for itself and on behalf of the Secured Creditors): (i) Anglian Water Services Holdings Limited, (ii) Anglian Water Services UK Parent Co Limited, (iii) Anglian Water and (iv) the Issuer (each an “ Obligor ”).
Principal Paying Agent	Deutsche Bank AG, London Branch acts as issuing and principal paying agent and provides certain paying agency services to the Issuer in respect of Bearer Bonds.
Registrar and Exchange Agent	Deutsche Bank Trust Company Americas acts as registrar and exchange agent and provides certain registrar and exchange agent services to the Issuer in respect of Registered Bonds.
Secured Creditors	means any person who is a party to, or who has acceded to, the STID (as defined in Chapter 16, “ <i>Index of Defined Terms</i> ”) as a Secured Creditor.

Security Trustee

Deutsche Trustee Company Limited acts as security trustee and holds, and is entitled to enforce (for itself and on behalf of the Secured Creditors) the Security.

Transfer Agent

Deutsche Bank AG, London Branch acts as transfer agent and provides certain transfer agency services to the Issuer in respect of the Registered Bonds.

CHAPTER 2

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Bonds, the applicable Final Terms. Words and expressions not defined in this overview shall have the same meanings as defined in Chapter 7, “Form of the Bonds” and in Chapter 8, “Terms and Conditions of the Bonds”.

Description	Global Secured Medium Term Note Programme.
Programme Size	Up to €10,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ” above) aggregate nominal amount of Bonds outstanding at any time.
Issuance in Classes	<p>Bonds issued under the Programme have been and will be issued in series (each a “Series”), with each Series belonging to one of two classes (each a “Class”). The Bonds are and will be designated as one of “Class A Bonds” or “Class B Bonds”. Each Series comprises or will comprise one or more Tranches (each a “Tranche”) of Bonds, the specific terms of each Tranche being identical in all respects save for the issue dates, interest commencement dates and/or issue prices, to the terms of other Tranches of the same Series.</p> <p>The specific terms of each Tranche of Bonds are and will be set out in the applicable Final Terms.</p>
Issue Dates	23 July 2002 (the “ Initial Issue Date ”) and thereafter on such dates (each an “ Issue Date ”) as agreed between the Issuer and the Dealers.
Certain Restrictions	Each issue of Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the following restrictions applicable at the date of this Prospectus. See Chapter 14, “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”.
Bonds with a maturity of less than one year	Bonds issued on terms that they must be redeemed before their first anniversary will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA, unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See Chapter 14, “ <i>Subscription and Sale and Transfer and Selling Restrictions</i> ”.
Distribution	Bonds have been and may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Bonds in issue are, and any further Bonds issued under the Programme will be, denominated in euro, Sterling, U.S. dollars, yen, Canadian dollars, Australian dollars and, subject to any applicable legal or

regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.

Maturities

Such maturities as may be specified in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price

Bonds have been and will be issued on a fully paid basis and may be issued at an issue price which is at par or at a discount to, or premium over, par, as specified in the applicable Final Terms.

Form of Bonds

The Bonds in issue at the date of the Base Prospectus have been issued under the Programme in bearer form. Further Bonds issued under the Programme will be issued in bearer or registered form as described in Chapter 7, "*Form of the Bonds*". Registered Bonds will not be exchangeable for Bearer Bonds and vice versa.

Fixed Rate Bonds

Fixed interest is and will be payable on such date or dates as specified in the applicable Final Terms and on redemption and will be calculated on the basis of such Day Count Fraction as specified in the applicable Final Terms.

Floating Rate Bonds

Floating Rate Bonds do and will bear interest at a rate determined on the basis of a reference rate appearing on an agreed screen page of a commercial quotation service as indicated in the applicable Final Terms.

Index Linked Bonds

Payments of principal or interest in respect of Index Linked Redemption Bonds or of interest in respect of Index Linked Interest Bonds are and will be calculated by multiplying an Index Ratio, derived from: (i) the U.K. Retail Price Index (RPI) (all items) published by the Office for National Statistics or the relevant successor index; (ii) the Non-revised index of Consumer Prices excluding tobacco, or the relevant successor index, measuring the rate of inflation in the European Monetary Union excluding tobacco published by Eurostat (HICP); (iii) the U.K. Consumer Price Index (CPI) (for all items) published by the Office for National Statistics (2015 = 100) or the relevant successor index; or (iv) the U.K. Consumer Price Index including owner occupiers' housing costs (CPIH) (for all items) published by the Office for National Statistics (2015 = 100) or the relevant successor index, by an amount specified in the applicable Final Terms.

Other provisions in relation to Floating Rate Bonds and Index Linked Bonds

Floating Rate Bonds and Index Linked Bonds may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Bonds and Index Linked Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, is and will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as has been and

	may be agreed between the Issuer and the relevant Dealer.
Dual Currency Bonds	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Bonds will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Bonds	Zero Coupon Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
Instalment Bonds	The applicable Final Terms may provide that Bonds may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.
Redemption	<p>The applicable Final Terms indicate and will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than for taxation or indexation reasons if applicable or following an Event of Default) or that such Bonds are or will be redeemable at the option of the Issuer and/or the Bondholders upon giving notice to the Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices as set out in the applicable Final Terms.</p> <p>Bonds issued on terms that they must be redeemed before their first anniversary are subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions</i>” and “<i>Bonds with a maturity of less than one year</i>” above.</p> <p>The Financial Guarantors do not and will not guarantee any of the amounts payable by the Issuer upon an early redemption, and their obligation is and will be to continue to make payments in respect of the Bonds pursuant to the relevant Bond Policy on the dates on which such payments would have been required to be made had such early redemption not occurred.</p> <p>The Issuer is only permitted to pay Early Redemption Amounts to the extent that in so doing it will not cause an Event of Default to occur or subsist.</p>
Denomination of Bonds	Bonds have been and will be issued in such denominations as have been and may be agreed between the Issuer and the relevant Dealer save that (i) in the case of any Bonds which are to be admitted to trading on a regulated market within the EEA or the UK or offered to the public in an EEA Member State or the UK in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Bonds); and (ii) the minimum specified denomination of each Bond is and will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions</i> ” and “ <i>Bonds with a maturity of less than one year</i> ” above.

Bonds may be issued in a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount.

Unless otherwise stated in the applicable Final Terms, the minimum specified denomination of each Definitive IAI Registered Bond will be U.S.\$500,000 or its approximate equivalent in other Specified Currencies.

Taxation

Payments in respect of Bonds are and will be made free and clear of deductions or withholding on account of United Kingdom tax unless and save to the extent required by law in which case the Issuer (or the other Obligors, as the case may be) will make payments subject to the appropriate withholding or deduction.

In relation to Bonds (or Coupons relating to such Bonds) which are not USPP Bonds, if withholding or deduction is required as described above, no additional amounts are or will be paid by the Issuer (or other Obligors, as the case may be) in respect of such withholdings or deductions.

In relation to Bonds which are USPP Bonds, if withholding or deduction is required as described above on account of taxes imposed by a Tax Jurisdiction (as defined in Condition 10 of Chapter 8, “*Terms and Conditions of the Bonds*”), the Issuer or any other Obligor (as the case may be) shall (subject to certain specified exclusions) pay such additional amounts as will result in receipt by the holders of such amounts as would have been received by them had no such withholding or deduction been required.

Status of the Bonds

The Bonds in issue at the date of the Base Prospectus constitute and any further Bonds issued under the Programme will constitute, secured obligations of the Issuer. Each Class of Bonds in issue ranks, and any further Class of Bonds issued under the Programme will rank, *pari passu* without preference or priority in point of security amongst themselves.

The Bonds represent the right of the holders of such Bonds to receive interest and principal payments from the Issuer in accordance with the Terms and Conditions of the Bonds (the “**Conditions**”) and the trust deed as amended, supplemented or restated from time to time (the “**Bond Trust Deed**”) entered into by the Obligors and the Bond Trustee in connection with the Programme.

The Class A Bonds in issue rank, and any further Class A Bonds issued under the Programme will rank, *pari passu* with respect to payments of interest and principal. All claims in respect of the Class A Bonds in issue rank, and any further Class A Bonds issued under the Programme will rank, in priority to payments of interest and principal due on all Class B Bonds.

The Class B Bonds in issue rank, and any further Class B Bonds issued under the Programme will rank, *pari passu* with respect to payments of interest and principal.

Further Bonds

The Issuer may only issue further Bonds if certain contractual restrictions on additional debt, such as compliance with the following financial covenants which protect against asset dilution are satisfied:

- (i) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR (adjusted on a pro forma basis to take into account the proposed incurrence of such further Financial Indebtedness) must be less than or equal to 0.90:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date; and
- (ii) if such further Financial Indebtedness is Class A Debt then (taking into account the incurrence of such debt) the Class A RAR must be less than or equal to 0.75:1, the Class A PMICR must be greater than or equal to 1.30:1 and the Conformed Class A PMICR must be greater than or equal to 1.30:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date.

The RAR tests referred to above operate as a cap on the “loan to value” of the Anglian Water business thereby intending to protect bondholders from asset dilution.

Covenants

The representations, warranties, covenants (positive, negative and financial) and events of default which will apply to, *inter alia*, the Bonds are set out in a Common Terms Agreement dated 30 July 2002 as amended, supplemented or restated from time to time (the “**Common Terms Agreement**”).

Guarantee and Security

The Bonds in issue are, and further Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each Obligor pursuant to a guarantee and security agreement (the “**Security Agreement**”) entered into by each Obligor in favour of the Security Trustee over the entire property, assets, right and undertaking of each Obligor (the “**Security**”), in the case of Anglian Water to the extent permitted by the WIA and Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each Obligor. The Security is held by the Security Trustee on trust for the Secured Creditors (as defined below) under the terms of the Security Agreement, subject to the terms of the STID (as defined below).

The securitised assets backing any issue have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Bonds issued.

Intercreditor Arrangements

The Secured Creditors are, and will each be, party to a security trust and intercreditor deed as amended, supplemented or restated from time

to time (the “**STID**”), which regulates, *inter alia*, (i) the claims of the Secured Creditors; (ii) the exercise and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during the occurrence of an Event of Default; (v) the Entrenched Rights and Reserved Matters of each Secured Creditor; and (vi) the giving of consents and waivers and the making of amendments by the Secured Creditors. See Chapter 6.3, “*Financing Structure – Security Trust and Intercreditor Deed*”.

Authorised Credit Facilities

Subject to certain conditions being met, the Issuer is permitted to incur indebtedness, including lease finance, under authorised credit facilities (each an “**Authorised Credit Facility**”) with an Authorised Credit Provider, providing loan, hedging and other facilities. Each Authorised Credit Provider is, or will be, party to the CTA and the STID and may have voting rights thereunder. See Chapter 6, “*Financing Structure*”.

Debt Service Reserve Liquidity Facilities

The Debt Service Reserve Liquidity Facility Providers make available to the Issuer two 364-day credit facilities for the purpose of meeting certain shortfalls in revenues: (i) for the Issuer to meet (*inter alia*) its obligations to pay interest on the Bonds or (ii) to make payments under any Authorised Credit Facilities. The Issuer is obliged, pursuant to the CTA, to ensure that the aggregate of the Debt Service Reserve Liquidity Facilities available for drawing when aggregated with all amounts standing to the credit of the Debt Service Reserve Accounts are not less than the amount of interest payable on its Class A Debt and Class B Debt for the next succeeding 12-month period.

O&M Reserve Facilities

The O&M Reserve Facility Provider has made available to the Issuer a liquidity facility for the purpose of meeting operating and maintenance expenses.

Listing

The Bonds issued on the Initial Issue Date and all subsequent issues under the Programme up to the date of this Prospectus have been admitted to the Official List and admitted to trading on the Market and an application will be made to admit any additional Bonds issued under the Programme to the Official List and to admit them to trading on the Market.

The applicable Final Terms will state whether or not the relevant Bonds are to be listed and, if so, on which stock exchange.

Ratings

The ratings assigned to the Class A Bonds and the Class B Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The ratings will be specified in the applicable Final Terms.

Credit ratings included or referred to in this Prospectus have been issued by the Rating Agencies, each of which is established in the European Union and has applied to be registered under the CRA Regulation.

ESMA is obliged to maintain on its website a list of credit rating agencies registered in accordance with the CRA Regulation. This list must be updated within 5 working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.

As defined by S&P, an A-rating means that the obligations of the Obligors are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the Obligors' capacity to meet their financial commitment on the obligation is still strong. The addition of the minus (-) sign indicates a ranking in the lower end of the 'A' rating category.

As defined by Moody's, an A3 rating means that the obligations of the Obligors are considered upper-medium grade and are subject to low credit risk. The modifier 3 indicates a ranking in the lower end of the 'A' generic rating category.

As defined by Fitch, an A rating means that the obligations of the Obligors are expected to have a low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. The addition of the minus (-) sign indicates that the obligation ranks in the lower end of the 'A' rating category.

As defined by S&P, a BBB rating means that the obligations of the Obligors exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the Obligors to meet their financial commitment on the obligation.

As defined by Moody's, a Baa3 rating means that the obligations of the Obligors are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. The modifier 3 indicates a ranking in the lower end of the 'Baa' generic rating category.

As defined by Fitch, a BBB rating indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

A rating is not a recommendation to buy, sell or hold securities and will depend, amongst other things, on certain underlying characteristics of the business and financial condition of Anglian Water. A rating may be subject to suspension, change or withdrawal at any time by the assigning Rating Agency.

Governing Law

The Bonds in issue and any further Bonds issued under the Programme

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

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Bonds in the United States, the EEA, the UK, Belgium, Japan, Australia, Canada, Singapore, Switzerland and the Netherlands and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Bonds. See Chapter 14, “*Subscription and Sale and Transfer and Selling Restrictions*”.

United States Selling Restrictions

Regulation S (Category 2), Rule 144A, section 4(a)(2) of the Securities Act, Regulation D of the Securities Act, TEFRA C, TEFRA D or TEFRA not applicable, as specified (and defined) in the applicable Final Terms. See Chapter 14, “*Subscription and Sale and Transfer and Selling Restrictions*”.

CHAPTER 3

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In the management's discussion and analysis and related financial information set forth below, references to Anglian Water in respect of each of the years ended 31 March 2020, 2019 and 2018 are to Anglian Water and its subsidiary undertaking. The data presented is prepared on the basis of International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as adopted by the European Union. The financial statements of Anglian Water Services Holdings Limited, Anglian Water Services UK Parent Co Limited and Anglian Water Services Financing Plc are presented in accordance with FRS101. Ownership of Anglian Water Services Overseas Holdings Limited ("AWSOH"), the company registered in the Cayman Islands, was transferred to AWG Group Limited and consequently ceased being a guarantor to the programme. AWSOH was subsequently replaced as a guarantor by Anglian Water Services UK Parent Co Limited ("AWS UK Parent Co"), a UK registered company. AWS UK Parent Co was incorporated on 5 April 2018 and has a year end of 31 March.

The financial information set forth below has been extracted without material adjustment from, and, together with the management's discussion and analysis set forth below, should be read in conjunction with, the audited consolidated financial statements of Anglian Water for the years ended 31 March 2019 and 2020.

The financial statements of Anglian Water have been prepared in accordance with IFRS and IFRIC interpretations, as adopted by the European Union. Certain significant differences exist between IFRS and U.S. GAAP which might be material to the financial information herein. Anglian Water has made no attempt to identify or quantify the impact of those differences. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP, and how those differences might affect the financial information herein. In making an investment decision, investors must rely upon their own examination of Anglian Water, the terms of the offering and the financial information.

On 1 April 2018 Anglian Water adopted the new financial accounts standards IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. The impact of IFRS 9 on the financial results was not material. IFRS 15 had the effect of recognising grants and contribution income immediately as revenue, whereas previously such income was recognised over the life of the associated assets and classified as other operating income. A secondary impact of IFRS 15 was the reclassification of certain income previously included within operating costs as other operating income. The 2018 comparatives have been restated for the impact of IFRS 15. The directors elected not to restate the comparatives for the impact of IFRS 9.

In the financial information references are made to 'underlying' or 'adjusted' results, which exclude the impact of fair value gains/losses on derivative financial instruments. Such gains/losses are non-cash in nature and determined by movements in market expectations of long term interest, inflation and exchange rates over which the business has no control. Also excluded from the underlying results in 2018 is inter-company interest income of £191.8 million. This was received from Anglian Water Services Holdings Limited on an inter-company loan set up in 2002. In March 2018 the inter-company loan was settled in full and hence there was £nil of inter-company loan interest in

2019 or 2020. The effect of excluding the aforementioned items is shown in the income statement on page 74 of this Prospectus. The underlying performance measures are considered to be alternative performance measures as defined by The European Securities and Markets Authority.

Income statement table
Year ended 31 March

	Year ended 31 March 2020	Year Ended 31 March 2019	Year ended 31 March 2018
	£m	£m	(restated)⁴ £m
Revenue	1,419.9	1,354.7	1,312.0
Other operating income	13.0	13.6	11.1
Operating costs			
Operating costs before depreciation and amortisation	(624.6)	(604.0)	(563.2)
Impairment losses	(40.7)	(26.5)	(28.9)
Depreciation and amortisation	(368.5)	(348.8)	(335.6)
Total operating costs	(1,033.8)	(979.3)	(927.7)
Operating profit	399.1	389.0	395.4
Finance income - external	4.8	2.9	1.6
Finance income – internal ⁵	-	-	191.8
Finance costs	(329.9)	(331.4)	(344.1)
Fair value (losses)/gains on derivative financial instruments	(30.4)	(98.4)	117.6
Net finance costs	(355.5)	(426.9)	(33.1)
Profit before tax from continuing operations			
Underlying profit before tax ¹	74.0	60.5	52.9
Profit on disposal of business	-	-	4.6
Finance income - internal	-	-	191.8
Fair value (losses)/gains on derivative financial instruments	(30.4)	(98.4)	117.6
Profit/(loss) before tax	43.6	(37.9)	366.9
Tax (charge)/credit	(120.4)	5.1	(34.6)
Profit for the year	(76.8)	(32.8)	332.3
Dividends available for distribution to investors in the ultimate parent company ²	(67.8)	(68.0)	(86.1)
Dividends not available for distribution to investors in the ultimate parent company ³	-	-	(1,856.6)
Transfers from reserves	(144.6)	(100.8)	(1,610.4)

¹ Underlying profit before tax excludes fair value (losses)/gains on derivative financial instruments and energy hedges of £30.4 million (2019: losses of £98.4 million, 2018: gains of £117.6 million) and inter-company interest income of £nil (2019: £nil, 2018: £191.8 million).

² Dividends paid to shareholders for the year ended 31 March 2020 were £67.8 million (2019: £68.0 million, 2018: £86.1 million).

³ Dividends described as not available for distribution to investors in the ultimate parent company of £nil (2019: £nil, 2018: £1,856.6 million) refer to dividends used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon. These amounts were retained within the Anglian Water Services Financing Group (AWSFG).

⁴ The results for the year ended 31 March 2018 have been restated to reflect the adoption of IFRS 15 'Revenue from Contracts with Customers'. The directors have elected not to restate the comparatives for the impact of IFRS 9.

⁵ For the year ended March 2018, finance income – internal, relates to the intercompany interest income from Anglian Water Holdings Limited of £191.8 million, the requirement of which was removed following the group restructuring.

Balance Sheet Data

	31 March 2020	31 March 2019	31 March 2018 (restated) ¹
	£m	£m	£m
Non-current assets			
Intangible assets	217.3	197.3	168.3
Property, plant and equipment	9,940.3	9,770.2	9,663.7
Derivative financial instruments	317.8	195.6	89.6
Retirement benefit surpluses ²	171.6	49.3	56.3
	10,647.0	10,212.4	9,977.9
Current assets			
Inventories	12.4	11.6	10.0
Trade and other receivables	530.6	485.7	478.9
Investments - cash deposits	319.0	297.0	40.0
Cash and cash equivalents	729.1	257.3	247.1
Derivative financial instruments	16.8	20.3	48.5
	1,607.9	1,071.9	824.5
-Total assets	12,254.9	11,284.3	10,802.4
Current liabilities			
Trade and other payables	(520.9)	(492.0)	(512.2)
Current tax liabilities	(198.2)	(253.0)	(264.3)
Borrowings	(1,023.0)	(315.0)	(220.0)
Derivative financial instruments	(81.4)	(16.0)	(16.4)
Provisions	(6.2)	(4.2)	(5.3)
	(1,829.7)	(1,080.2)	(1,018.2)
Non-current liabilities			
Borrowings	(6,702.3)	(6,619.6)	(6,231.7)
Derivative financial instruments	(996.0)	(980.4)	(862.6)
Deferred tax liabilities	(1,093.6)	(936.8)	(957.4)
Retirement benefit obligations ²	(41.6)	(45.8)	(47.2)
Provisions	(10.5)	(8.0)	(10.7)
-	(8,844.0)	(8,590.6)	(8,109.6)
-Total liabilities	(10,673.7)	(9,670.8)	(9,127.8)
Net assets	1,581.2	1,613.5	1,674.6
Capital and reserves			
Share capital	32.0	32.0	10.0
Retained earnings	1,600.4	1,655.4	1,769.9
Hedging reserve	(52.3)	(75.9)	(105.3)
Cost of hedging reserve	1.1	2.0	-
Total equity	1,581.2	1,613.5	1,674.6

Cash Flow Data

	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2018 (restated) ¹
	£m	£m	£m
Cash flows from:			
Operating activities			
Cash generated from operations	686.0	700.7	690.8
Income tax paid ²	(40.3)	(30.2)	(23.5)
Net cash flows from operating activities	645.7	670.5	667.3
Investing activities			
Repayment of loans by intermediate parent company ³	-	-	1,602.6
Purchase of property, plant and equipment	(391.3)	(405.0)	(385.3)
Purchase of intangible assets	(61.2)	(65.7)	(64.3)
Disposal of business, net of cash disposed	-	-	79.0
Proceeds from disposal of property, plant and equipment	2.3	1.6	4.5
Interest received ³	4.8	2.9	193.8
Net cash flows (used in)/from investing activities	(445.4)	(466.2)	1,430.3
Financing activities			
Interest paid	(229.3)	(215.8)	(215.9)
Debt issue costs paid	(2.6)	(3.3)	(1.7)
Interest paid on leases	(0.7)	(0.6)	(0.8)
Increase in amounts borrowed	815.9	447.8	248.6
Repayment of amounts borrowed	(220.3)	(140.0)	(247.7)
Repayment of accreted interest on derivatives	-	-	(73.9)
Principal settlement on derivatives	9.6	27.0	-
Repayment of principal on leases	(11.3)	(6.2)	(5.7)
(Increase)/decrease in short-term bank deposits	(22.0)	(257.0)	35.0
Proceeds from issue of shares	-	22.0	-
Dividends paid to	(67.8)	(68.0)	(86.1)
Dividends not available for distribution to investors in the ultimate parent company ⁴	-	-	(1,857.1)
Net cash flows used in financing activities	271.5	(194.1)	(2,205.3)
Net increase/(decrease) in cash and cash equivalents	471.8	10.2	(107.7)
Cash and cash equivalents at the beginning of the year	257.3	247.1	354.8
Cash and cash equivalents at 31 March	729.1	257.3	247.1

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Anglian Water conducts the UK regulated water and water recycling activities of the Anglian Water Group. Anglian Water's principal activities in the water business include the abstraction, storage, treatment and distribution of water to residential customers and to retailers serving commercial and industrial customers. Anglian Water's principal activities in the water recycling business involve the collection, treatment and disposal of domestic water recycling, trade effluent and sludge through its network of sewers and treatment plants. As at the date of this Prospectus, Anglian Water served the largest geographic area of all the regional water and water recycling companies in England and Wales, providing water and water recycling services to approximately 7 million people in the East of England and Hartlepool.

Factors Affecting Financial Condition and Results of Operations

Regulation

Anglian Water operates within a highly regulated industry in England and Wales and its operations are strongly influenced by government regulations relating to the economy, drinking water quality and the environment. Anglian Water is licensed to operate as a Regulated Company in England and Wales. In particular, Anglian Water's business and results are affected by the regulated controls on the revenues which Anglian Water may collect from its customers as approved by the economic regulator as well as by drinking water quality and environmental regulations and the terms of its Licence. Every five years, the economic regulator has set revenue controls intended to enable water and water recycling companies in England and Wales to finance their operations and earn a reasonable return on capital. The economic regulator is the Water Services Regulation Authority (WSRA) (referred to below as "Ofwat" as per its public statement to this effect) whose duties are set out in law. See "*Risk Factors*", Chapter 10, "*Regulation of the Water and Water Recycling Industry in England and Wales*" and Chapter 11, "*Licence Conditions – Anglian Water's Control over its Operations*".

On 16 December 2019, Ofwat published its Final Determination of the annual price controls chargeable by Anglian Water for the AMP7 Period (2020-25). For wholesale services excluding bioresources, the controls limit the extent to which Anglian Water's total revenue can rise (in addition to the annual rate of inflation, as measured by the Consumer Price Index including owner occupiers' housing costs (CPIH) by comparison to the revenue allowance for the prior year. For water Network Plus revenues, the controls for Anglian Water's customer bills for each of 2020/2021, 2021/2022, 2022/2023, 2023/24 and 2024/2025 were 0.0 per cent., 4.22 per cent., -0.03 per cent., 0.03 per cent. and -0.64 per cent., respectively. For water resources revenues, the controls for Anglian Water's customer bills for each of 2020/2021, 2021/2022, 2022/2023, 2023/24 and 2024/2025 were 0.0 per cent., -1.56 per cent., 3.96 per cent., 2.10 per cent. and -0.96 per cent., respectively. For water recycling Network Plus revenues, the controls for Anglian Water's customer bills for each of 2020/2021, 2021/2022, 2022/2023, 2023-24 and 2024/2025 were 0.00 per cent., 0.88 per cent., 0.00 per cent., 3.03 per cent. and 3.81 per cent., respectively.

In respect of revenues allowed for bioresources, Ofwat allowed total revenues for each of 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25 at £93.078 million, £93.953 million, £94.796 million, £95.621 million and £98.848 million. These revenues are calculated on the basis of the amount of sludge the company forecasts to produce and can be modified to the extent that actual

sludge production during the relevant years varies from these forecasts. Like the other wholesale controls, these revenues are subject to CPIH-indexation.

In respect of revenues allowed for the provision of household retail services, Ofwat allowed total revenues for each of 2020/21, 2021/22, 2022/23, 2023/24 and 2024/25 at £103.247 million, £89.415 million, £91.127 million, £92.804 million and £94.194 million. These revenues are calculated on the basis of forecast customer numbers and can be modified to the extent that actual customer numbers during the relevant years vary from these forecasts. These revenues are not subject to indexation.

Anglian Water accepted its Final Determination of the retail price control. However, Anglian Water did not accept the Final Determination of its wholesale price controls and in February 2020 asked Ofwat to make a reference to the CMA for a re-determination of these controls. The CMA's re-determination of Anglian Water's wholesale price controls for AMP7 commenced in March 2020 and is expected to be completed no later than December 2020. The revenues allowed by the CMA's re-determination may be lower than, equal to or higher than those determined by Ofwat. Ofwat's Final Determination will continue to apply pending the outcome of the CMA's re-determination.

In April 2017, as part of the new retail market arrangements, Anglian Water transferred its non-household (business) customers to Anglian Water Business (National) Limited ("AWB(N)"), an associated company outside the AWS Financing Group, and formally exited the non-household retail business. On 31 August 2017, Anglian Venture Holdings Limited (the parent company of AWB(N)) agreed to transfer its shares in AWB(N) to a joint venture company – Wave Ltd. At the same time, the joint venture partner – Northumbrian Water Group Limited also transferred its non-household business (NWG Business Limited) to Wave Ltd. Anglian Water continues to make wholesale supplies of water and water recycling services to Wave Ltd for onwards sale to non-household customers of Wave Ltd.

For additional information on the price control mechanism, including provisions for adjustments, re-determinations and on regulation of the water and water recycling industry generally, see *“Risk Factors - Risks relating to the Issuer - Failure to meet costs allowed under price controls”*, see Chapter 4, *“Anglian Water Business Description”* and Chapter 10, *“Regulation of the Water and Water Recycling Industry in England and Wales”*.

Legislative changes in the areas in which Anglian Water operates may have an impact on its business and operations. For information on the impact of Directives on Anglian Water see Chapter 10, *“Regulation of the Water and Water Recycling Industry in England and Wales”*. In all cases Anglian Water is working closely with the key regulatory bodies to ensure that all investments in this area are cost beneficial to Anglian Water and its customers and are achieved in a sustainable way. Anglian Water also maintains close relationships with its regulators to ensure that changes to regulation are made in full knowledge of the impact they may have on Anglian Water and its stakeholders.

Metering

Another trend which has influenced and is likely to continue to influence Anglian Water's turnover and operating costs is the growth in the number of residential customers in Anglian Water's water supply and water recycling licence areas who pay for water supply and water recycling services on the basis of actual usage as measured by installed water meters. Historically, water supply and water recycling services in England and Wales were charged on the basis of fixed tariffs based on property values. However, the water regulator in England and Wales perceived metering as a

beneficial development for consumers, as metering promotes greater transparency between price and usage. Operating costs associated with metered customers, such as the cost of reading meters, billing metered customers and responding to customer queries, are significantly higher than for unmetered customers. In Anglian Water's water supply and water recycling licence areas, the number of households paying measured charges rose from 0.5 million in 1998 (or 31.0 per cent. of households) 1.66 million in 2020 (or 83.4 per cent. of households).

Typically, the transition by customers towards metered water results in lower aggregate volumes of reported water used and consequently lower gross revenues in periods immediately following the transition, because customers' bills are directly linked to usage. However, reductions in usage are factored into the regulatory pricing model, based on projections of numbers of customers and their characteristics as agreed with Ofwat. See Chapter 10, "*Regulation of the Water and Water Recycling Industry in England and Wales*". The principal risk to a regulated water and water recycling company's revenue is that actual numbers of customers switching to meters or other reductions in consumption patterns are greater than anticipated in the price model. Anglian Water has had a longer track record with a relatively higher proportion of metered customers than other water companies and the Directors believe this experience has helped reduce its risks of inaccurately forecasting the growth in metered customers and their consumption patterns. For the AMP5 Period performance, Ofwat's revenue sharing mechanism corrected tariff basket revenue in the medium term to the level assumed when setting price controls. For the AMP6 Period, a new wholesale revenue control maintained the level of company revenue despite fluctuations in customer numbers. The retail revenue allowed under the new controls introduced in AMP6 was based on an average cost to serve for each type of customer (unmetered, metered, household and non-household) and therefore was adjusted as respective customer numbers change. A similar revenue control which adjusts for actual customer numbers is in place for AMP7. See "*Risk Factors*" and Chapter 4, "*Anglian Water Business Description*" and in particular, "*Risk Factors – Risks relating to the Issuer – Regulatory, Legislative and Political Risks*" and "*Risk Factors – Risks relating to the Issuer - Failure to meet costs allowed under price controls*".

Competition

The Water Act 2014 enabled the creation of a market for retail water and water recycling services to all non-domestic customers in England as of 1 April 2017. In accordance with the appropriate secondary legislation Anglian Water ceased retail operations in respect of non-household premises and transferred that business for value to AWBN, an associated company outside the AWS Financing Group immediately prior to market opening. Consequently, it does not compete in that market, but in any event has a clear licence responsibility as a wholesaler to facilitate the proper functioning of the market.

Ofwat has also implemented licence changes whose 'clear purpose' is 'to support development and operation of markets in water resources, demand management, leakage services and bio-resources through the promotion of effective competition and monitoring the progress and development of those markets'.

In November 2015, the Government asked Ofwat to provide an assessment of the costs and benefits of extending retail competition to residential customers. Ofwat provided its final assessment in September 2016. The final decision as to whether to extend retail competition, as well as the form and timeline for implementing such competition, rests with the Government. No publications have since been issued.

In August 2020, Ofwat published a report detailing its review of incumbent support for markets in the water sector. This covered the market for non-domestic retail, inset (NAV) appointments and

development sites, as well as new markets for water resources and bioresources. Overall Anglian Water performed favourably in Ofwat's assessment. Ofwat continues to encourage incumbent companies to support the development of market and outlined further incremental policy proposals for 2020 and 2021, with a focus on increased harmonisation across the industry (e.g. on tariff structures).

See *“Risk Factors – Risks relating to the Issuer – Regulatory, Legislative and Political Risks”* and Chapter 10, *“Regulation of the Water and Water Recycling Industry in England and Wales”* and in particular Chapters 10.9.1 and 10.9.2, *“– Competition in the Water Industry – General”* and *“– The Water Act 2003”*, respectively.

Economic and Demographic Trends

The underlying trend is for the population of Anglian Water's water supply and water recycling licence areas to grow steadily. The population has grown by 25 per cent. since privatisation and may grow by another million people in 2040. Steady growth in the population and new housing construction (which requires connection to the water and water recycling networks) have been factored into Anglian Water's turnover forecasts. However, significant changes in macro-economic indicators, such as inflation and employment, and government policy on migration could affect levels of new housing construction, reduce the population of the region as well as individual consumption and materially adversely affect Anglian Water's business.

Climate Change

Climate change is leading to changes in weather patterns and producing more extreme weather events. These will affect Anglian Water's assets and operations. (See also *“Risk Factors – Erratic Weather and Climate Change”* for the impact of the long-term effects of climate change on Anglian Water.) To maintain customer service and the financial condition of the company, Anglian Water assesses its assets and infrastructure to identify investment required to adapt to climate change, which then forms part of the Final Business Plan submitted to Ofwat. As well as investing in adaptation measures on assets, Anglian Water undertakes research to fill gaps in knowledge, reduce uncertainties and develop innovative solutions. Anglian Water's climate change adaptation activity is overseen by a strategic steering group chaired by the Director of Strategy and Regulation.

Under the Climate Change Act 2008, Anglian Water has been invited by the Secretary of State to report on the current and predicted impact of climate change on its functions, its proposals and policies for adapting to climate change and its progress towards implementing such proposals and policies. The first Climate Change Adaptation Report was published in January 2011 with a second report published in December 2015. In March 2020 Anglian Water became the first organisation to publish a report in the third-round of reporting. The report was published as a draft for consultation. The final report will be submitted to Government before the December 2021 deadline. In 2017 Anglian Water signed up as a supporter of the Task Force for Climate-related Disclosures (TCFD) and its first disclosure in line with TCFD was included in its 2018 Annual Integrated Report. Since then Anglian Water has continued to publish a climate-related disclosure in line with TCFD. The most recent disclosure is available in its latest Annual Integrated Report and also from the Carbon Disclosure Project (CDP).

Anglian Water's actions to reduce greenhouse gas emissions form part of the international efforts seeking to reduce global emissions and limit the severity of climate change to an increase of well-below two degrees above pre-industrial times and to endeavour to limit them to 1.5°C. In 2016 Anglian Water committed to become carbon neutral before 2050. This ambition was subsequently

reviewed with others in the water industry and in 2019 Anglian Water and others in the sector committed to a net-zero carbon target by 2030.

Sustainability

As a business, Anglian Water recognises that water is vital to health and wellbeing, the economic prosperity of the East of England, and maintaining a thriving natural environment. Climate change, population and housing growth and the need to protect and enhance the natural environment are all particularly acute issues in its region, where they combine to pose a unique challenge. Its ethos in addressing these challenges is embodied in its Love Every Drop approach that embeds sustainability throughout its operations. In recognition of this approach, Anglian Water was awarded a Queen's Award for Enterprise; Sustainable Development for the second time in 2020, and in 2017 it was named the Business in the Community Responsible Business of the Year.

Anglian Water's commitment to environmental and social prosperity goes back many years, even before the Love Every Drop strategy was set in 2010. It first considered climate change in its assessment of water resources back in 1993 and its education programme has reached nearly half a million people since its launch in 2006.

Recently, Anglian Water has been instrumental in the development of the water industry's shared Public Interest Commitment, published in April 2019, in which the participating companies each committed to enshrining public interest in its company's purpose and signed up to five ambitious goals to tackle leakage, carbon emissions, plastics, affordability and social mobility.

With its shareholders' support, in July 2019 Anglian Water became the first water company to enshrine purpose in its articles of association, requiring the Directors to conduct its business and operations for the benefit of shareholders while delivering long-term value for the company's customers, the region and the communities it serves, and seeking positive outcomes for the environment and society.

In its recent Strategic Direction Statement, Anglian Water describes itself as a "Natural Capital Business", relying on healthy ecosystems to supply water, to help manage floods and to help it recycle water after it has been used. Whilst recognising that its primary resource and its operational activities are embedded in natural ecosystems, Anglian Water also understands that a successful business must be supported by a strong foundation underpinned by the remaining five capitals and an understanding of the role it plays in delivering success for its customers, the communities in its region and all those who rely on efficient, effective and affordable water services.

Whilst its work on natural capital is most advanced, particularly in relation to carbon reduction, Anglian Water has also demonstrated significant action in other areas. Anglian Water's collaborative work to develop a vision for community regeneration in Wisbech is a prime example of improving social capital; particularly in raising aspiration, attainment and employment opportunities through the education sector. Another example of social capital in action was the launch of its £1 million Anglian Water Positive Difference Fund, funded by shareholders, in April 2020 to support its communities through Covid-19. A focus on employee wellbeing and training has left a significant impact on Anglian Water's human capital – in 2019 it was named as the best place to work by Glassdoor.

Manufactured capital relates to the assets that Anglian Water uses to deliver its services. Anglian Water recognises the vital importance of ensuring that these assets are not only fit for today but resilient to the pressures of climate change. This is exemplified in the development of the multi-sector water resource project, Water Resources East. From a financial capital perspective, in 2017,

Anglian Water became the first European utility to issue a Sterling Green Bond. It has since issued a further five Green Bonds worth a total of £876 million to fund around 850 projects.

Finally, in order to ensure that it creates a sustainable business and delivers on its customers' aspirations across all these capitals, Anglian Water has established the Anglian Centre for Water Studies (in partnership with the University of East Anglia). This is just one example of maximising intellectual capital at Anglian Water.

This approach to embedding sustainability into the heart of its business and decision making ensures that Anglian Water is able to deliver against the 10 outcomes that have been agreed with its customers and that shape its business plan.

Impact of Inflation

Inflation rates affect the company's RCV, which in turn affects the debt covenant headroom. Inflation impacts Anglian Water's operating cost base and capital expenditure, however those impacts largely correlate with Anglian Water's ability to pass inflationary changes on to customers via the regulatory pricing mechanism.

Energy

Anglian Water is one of the largest users of electricity in the east of England, due to the power required to treat water and water recycling and pump it around such a geographically flat region. Energy represents around 12 per cent. of Anglian Water's total operating costs.

Revenue and Expenses

The principal sources of Anglian Water's turnover and expenses are as follows:

Revenue

Anglian Water earns revenue for delivering treated water supplies to residential customers and non-household retailers, and removing and treating waste water and other effluvia through its water recycling network. Revenue is accounted for using standard accounting practices under IFRS. Revenue generally represents the income receivable (excluding value added tax ("VAT")) in the ordinary course of business for services provided. Income receivable is based on the actual billing for the Financial Year to the end of the accounting period with an accrual or adjustment at the end of that period. For example, in the case of income from metered users, there is an accrual for income due but not billed based on average customer consumption data. This accrual is subsequently reconciled to actual billing, which takes place over the subsequent 12 months. See Anglian Water's Annual Reports for 2020. In the case of unmetered income which is billed in advance (principally at the start of the Financial Year) an adjustment is made at the end of each accounting period to take account of the income billed in advance for the subsequent accounting period. Income from water recycling services and other income (such as charges for connecting customers to Anglian Water's water network) follow these general principles.

Operating Costs

Historically, the principal component of Anglian Water's operating costs is staff costs, which consist of wages and salaries, social security expenses and pension costs. Other operating costs principally consist of power, business and water rates, hired and contracted services, abstraction charges, bad debt, equipment, tools and materials. Anglian Water focused on numerous business unit savings initiatives and also a number of key business wide initiatives. The key initiatives included energy conservation and self-generation, disposal of surplus land, optimising the sourcing of commodities, centralised management of operations, renegotiating supplier contracts on improved

terms, and a number of productivity improvements from embedding more lean thinking and processes into the business, and more efficient asset maintenance programmes.

Depreciation

For purposes of its statutory accounts (which Anglian Water is required to prepare in compliance with IFRS (the “**Statutory Accounts**”)), Anglian Water depreciates its assets in a manner that the Directors believe is consistent with that of other regulated water supply and water recycling companies in England and Wales. Depreciable assets are classified as either infrastructure assets (mains, sewers, reservoirs, dams, sludge pipelines and sea outfalls) and other assets (land and non-operational buildings, operational assets and vehicles, and plant and equipment). Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight-line basis over their estimated useful lives, which are primarily as follows:

Non-operational buildings	30–60 years
Infrastructure assets – water	50–120 years
Infrastructure assets – water recycling	50–160 years
Operational assets	30–80 years
Fixed plant	12–40 years
Vehicles and plant and equipment	3–10 years

Items of property, plant and equipment that have no further operational use are treated as having decommissioned and are written off immediately to profit or loss. In addition, property, plant and equipment is assessed for impairment, in accordance with IAS 36 ‘Impairment of Assets’, if events or changes in circumstances indicate that the carrying value may not be recoverable.

For additional information, see Anglian Water’s 2020 Annual Report – Notes to the Financial Statements – Note 1(k).

Consolidation

Anglian Water is required to produce consolidated financial statements pursuant to the Common Terms Agreement as amended, supplemented or restated from time to time (“**CTA**”). Accordingly, the financial statements of Anglian Water for the years ended 31 March 2020, 31 March 2019 and 31 March 2018 have been prepared on a consolidated basis.

Regulatory Information

In addition to producing its Statutory Accounts, as a condition of its Licence, Anglian Water, like all other Regulated Companies in England and Wales, is required to submit regulatory accounts (now referred to as the Annual Performance Report) to Ofwat in July of each year (the “**Regulatory Information**”) which comply with accounting conventions established by Ofwat and IFRS. The Regulatory Information is to a certain extent used by Ofwat in establishing the regulatory price controls for Anglian Water. Although Anglian Water’s Regulatory Information is published in its 2020 Annual Performance Report, potential investors should be aware that significant differences exist between the Regulatory Information and the Statutory Accounts.

The principal difference between Anglian Water’s Statutory Accounts, which are prepared in accordance with IFRS, and its Regulatory Information, is in respect of capitalised interest. IFRS

requires companies to capitalise interest that relates to the funding of capital expenditure. For Regulatory Information, capitalising interest is not permitted. Differences between the Regulatory Information and the Statutory Accounts also arise because the Regulatory Information relates to the appointed business only of Anglian Water, and slightly different balance sheet classification rules apply. As a result, Anglian Water's recorded total tangible and intangible fixed assets at 31 March 2020 are £9,793.2 million in its Regulatory Information and £10,157.6 million in its Statutory Accounts. There is also a corresponding adjustment to depreciation and deferred tax. Ofwat also require companies to classify grants and contributions income as 'other income' rather than revenue. Furthermore, Anglian Water's Regulatory Information includes certain additional disclosures required by Ofwat. For additional information on the Regulatory Information, see Anglian Water's 2020 Annual Performance Report.

Results of Operations (in accordance with the IFRS annual report and accounts for year ended 31 March 2020)

Year ended 31 March 2020 compared to year ended 31 March 2019

Revenue, excluding grants and contributions, for the year was £1,330.6 million (2019: £1,280.3 million), an increase of £50.3 million (3.9 per cent.) on last year. This primarily reflects the regulatory pricing mechanism, offsetting reduced demand for both household and non-household customers.

Grants and contributions represent the cash and asset contributions made principally by property developers and local authorities for connecting new property developments to the water and sewerage network, and for diverting existing infrastructure. During the year these have increased by £14.9 million to £89.3 million, which reflects an increased level of adopted sewers and pumping stations in relation to new housing developments.

Other operating income comprises primarily external income from power generation, bio-solid sales to farms, rents received and various other non-core activities. During the year other operating income decreased by £0.6 million to £13.0 million, principally due to increased power usage resulting in lower income from power generation.

Operating costs including impairment losses for the year increased by £34.8 million (5.5 per cent.) to £665.3 million. This increase is explained in the table below:

Increases/(decreases) in operating costs (before depreciation and amortisation)

	£m
One-off costs in 2018/19 not repeating	(3.3)
General inflationary increases	15.6
Increase in energy prices and costs	5.0
Increase in below ground infrastructure maintenance	4.0
Operating costs of newly commissioned plant	4.4
Maintenance Totex solutions	2.0
Restructuring costs	5.0

Increase in bad debt charge	14.0
Net efficiency savings achieved	(11.9)
Net increase in operating costs	34.8

The increase in bad debt charge primarily reflects an additional £12 million provision in relation to the impact of Covid-19, which has resulted in lower post year-end cash collection.

The cost and efficiency savings are derived from a range of initiatives including energy conservation and self-generation, optimising the sourcing of commodities, centralised management of operations and renegotiating supplier contracts on improved terms. In addition to a number of productivity improvements from embedding more lean thinking and processes into the business, and more efficient asset maintenance programmes.

Depreciation and amortisation increased by 5.6 per cent. compared with last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Adjusted finance costs (excluding fair value gains and losses on financial instruments) decreased from £331.4 million in 2019 to £329.9 million in 2020. This was primarily the result of the non-cash impact of lower inflation on index-linked debt where the year on year average Retail Price Index (RPI) fell from 3.2 per cent. to 2.6 per cent. partially offset by an increase in interest costs and a decrease in interest capitalised, the latter reflecting a lower level of capital projects in progress.

There was a fair value loss of £30.4 million on derivative financial instruments in 2020, compared with loss of £98.4 million in 2019. This reduction was due to movements in market expectations of long-term interest, inflation and exchange rates. Fair value gains and losses in the prior year include a charge of £11.7 million relating to the restructuring of derivatives which were cash settled in the period. The fair value losses in the current year are all non-cash in nature and have no material effect on the underlying commercial operations of the business. The driving factors for the smaller loss in 2020 compared to 2019 were a significant fall in forward inflation expectations substantially offset by a fall in forward interest rates. During the year, forward inflation decreased by circa 62 basis points (2019: 12 basis points), and forward interest rates decreased by 68 basis points (2019: 16 basis points).

Adjusted profit before tax for the year was £74.0 million, compared with £60.5 million in the prior year. This increase reflects the increase in operating profit due to revenue increases more than offsetting higher operating costs and depreciation.

Anglian Water's underlying effective tax rate of 22.2 per cent. is in line with the rate of corporation tax before considering the effects of the reversal of the corporation tax rate reduction and adjustments for prior periods. Anglian Water is one of the largest private investors in infrastructure in Anglian Water's region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants Anglian Water capital allowances, which defer some of Anglian Water's corporation tax liabilities until a later period. Anglian Water's customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2020, other than corporation tax, amounted to £270 million (2019: £256 million), of which £87 million (2019: £82 million) was collected on

behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of Anglian Water's taxes are paid as they become due.

The current tax credit for the year was £14.5 million (2019: charge of £55.9 million).

The current tax charge for 2019 included payments to other group companies for losses surrendered from those companies and also reflects a charge on the transition to IFRS 15 and the disclaiming of capital allowances to utilise the Surplus ACT asset held on the balance sheet.

In 2020, the current tax credit reflects receipts from other group companies for losses surrendered to those group companies. No capital allowances have been disclaimed in 2020.

The deferred tax charge has increased by £195.9 million from a credit of £61.0 million in 2019 to a charge of £134.9 million this year. This is mainly due to the reversal of a corporation tax reduction and the claiming of maximum capital allowances in the year.

The corporation tax rate was expected to reduce from 19 per cent. to 17 per cent. effective from 1 April 2020 and the deferred tax balances at 31 March 2019 were measured using the rate of 17 per cent.

This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances have been re-measured using the rate of 19 per cent.

The relatively low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment and the interest Anglian Water pays to fund that investment.

Dividend payments were marginally down on the prior year. Dividends paid in the year of £67.8 million (2019: £68.0 million) were retained within the Group and used to finance AGWL's operating costs and working capital needs. Dividends of £nil were paid to the shareholders of AGWL, the ultimate parent company, in the year (2019: £nil).

Based on the available free cash flow there was capacity to pay a further dividend of £192.2 million. However, the Directors have not proposed to pay a final dividend in line with their de-gearing target.

This decision to retain £192m, follows on from the previous £165m shareholder investment into the resilience of the company. Both of these decisions reduced shareholders returns in AMP6 for the benefit of the Company.

The Company's dividend policy is to identify the cash available for distribution, allowing for the business' liquidity requirements in respect of funding its operations, the capital programme and servicing its debt for the next 18 months. The dividend policy is also designed to ensure that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts and give consideration to the potential impact of external factors in the economy and regulatory environment on the Company's forecast cash flows.

The Directors consider this cash-based approach provides a more appropriate consideration of the needs of Anglian Water's customers, employees, pensions schemes and other stakeholders whilst ensuring the liquidity requirements of the business are met fully. The overall amount of the Company's ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition

to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with condition P of the Licence.

As part of its PR19 process Ofwat has introduced a mechanism which penalises more highly geared companies (such as Anglian Water) and therefore provides these companies with an incentive to reduce their level of gearing. Anglian Water is challenging this mechanism (together with many other aspects of Ofwat's AMP7 determination) by way of a reference to the CMA for a redetermination. The company's approach to de-gearing will be reviewed in the light of the CMA's decision which is expected no later than December 2020.

Year ended 31 March 2019 compared to year ended 31 March 2018 (restated)

Revenue for the year was £1,354.7 million, an increase of £42.7 million (3.3 per cent.) on last year. On 1 April 2018 IFRS 15 'Revenue from Contracts with Customers' came into effect. The principal consequence of this new standard is that grants and contributions income is recognised as revenue immediately whereas in the past it was spread over the life of the related asset and included in other operating income. Revenue, excluding grants and contributions, for the year was £1,280.3 million (2018: £1,248.9 million), an increase of £31.4 million (2.5 per cent.) on last year. This primarily reflects the regulatory pricing mechanism, increases in household consumption due to the hot, dry summer and growth in customer numbers. The increase in demand experienced over the summer months was, as expected, not sustained for the remainder of the year.

Other operating income comprises primarily external income from power generation, bio-solid sales to farms, rents received and various other non-core activities. During the year other operating income increased by £2.5 million to £13.6 million, principally due to increased power generation.

Operating costs for the year increased by £38.4 million (6.5 per cent.) to £630.5 million. This increase is explained in the table below:

Increases/(decreases) in operating costs	£m
One-off net costs in 2017/18 not repeating	(3.5)
General inflationary increases	17.7
Increase in energy prices and costs	10.4
Increase in minor repair activities to maintain water and waste water ground infrastructure	10.0
Providing more effective solutions through operational maintenance rather than capital investment	9.0
Dealing with the 'Beast from the East' and the exceptional hot, dry summer – proactive leakage management and avoiding interruptions to customer supply	6.5
Operating costs of newly commissioned plant	4.8
Reduction in actuarial pension charge	(1.1)
Reduction in bad debt charge	(2.4)
Net efficiency savings achieved	(13.0)
Net increase in operating costs	38.4

Pension costs were reduced by £4.4 million by closing the defined benefit scheme in March 2018. However, this was partially offset by a £3.3 million provision recognised in respect of AWS' obligation under the principle of guaranteed minimum pension (GMP) equalisation between male and female employees.

The *net efficiency savings* are derived from a range of initiatives including energy conservation and self-generation, optimising the sourcing of commodities, centralised management of operations, renegotiating supplier contracts on improved terms, and a number of productivity improvements from embedding more lean thinking and processes into the business, and more efficient asset maintenance programmes.

Depreciation is up 3.9 per cent. compared with last year, consistent with the impact of newly commissioned assets in the year, and a reduction in the useful life of various operational assets.

Operating profit has decreased by 1.6 per cent. to £389.0 million, which is consistent with the effect of the regulatory price increase, more than offset by the increases in operating costs and depreciation.

Net finance costs (excluding fair value gains and losses) decreased from £344.1 million in 2018 to £331.4 million in 2019. This was primarily the result of the non-cash impact of lower inflation on index-linked debt where the year on year average Retail Price Index (RPI) fell from 3.7 per cent. to 3.2 per cent. and the increase in interest capitalised reflecting a higher level of capital projects in progress.

There was a *non-cash fair value loss* of £98.4 million on derivative financial instruments in 2019, compared with a gain of £117.6 million in 2018. The driving factors for the loss in 2019 compared to the gain in 2018 were a rise in forward inflation expectations together with a fall in forward interest rates. During the year, forward inflation increased by circa 12 basis points (2018: 13 basis point fall), and forward interest rates decreased by 16 basis points (2018: 19 basis point increase). Fair value gains and losses include a charge of £11.7 million relating to the restructuring of derivatives which were cash settled in the period. The balance of the fair value gains and losses are non-cash in nature and have no material effect on the underlying commercial operations of the business.

Underlying profit before tax for the year was £60.5 million, compared with £52.9 million in the prior year. This increase reflects the lower finance costs (excluding fair value gains/losses on derivatives) due principally to a lower RPI, partially offset by the reduction in operating profit.

The underlying *effective tax rate* is in line with the rate of corporation tax before considering losses surrendered from other group companies. Anglian Water is one of the largest private investors in infrastructure in the region, investing more than £2 billion over five years. The Government actively encourages infrastructure investment and grants Anglian Water capital allowances, which defer some of its corporation tax liabilities until a later period. Anglian Water's customers directly benefit from the deferral as it helps to keep their bills lower.

Total tax paid or collected in the year to 31 March 2019, other than corporation tax, amounted to £256 million (2018: £227 million), of which £82 million was collected on behalf of the authorities for value added tax (VAT) and employee payroll taxes. All of Anglian Water's taxes are paid as they become due.

The *current tax charge* for the year was £55.9 million (2018: £44.0 million). The increase was mainly due to a charge that arises on adoption of IFRS 15 and an increase in profits before taking

account of fair value adjustments on derivative financial instruments, which have no current tax effect. This is offset by the claiming of capital allowances.

The *deferred tax credit* has increased from £9.4 million to £61.0 million. The main reason for this increase was the movement in fair value on financial derivatives which changed from a gain of £117.6 million last year to a loss of £98.4 million this year. There was also an increase in the credit in respect of prior years and the credit due to the reduction in corporation tax rates. Anglian Water's relatively low level of cash tax reflects the fiscal incentives available to all UK companies for sustained high levels of capital investment, the interest Anglian Water pays to fund that investment and utilisation of surplus Advance Corporation Tax.

Loss for the financial year: As a result of the foregoing factors, the loss for the financial year was £(32.8) million compared with a profit of £332.3 million for the year ended 31 March 2018.

Dividends paid/payable: Dividends available for distribution to investors in the ultimate parent company for the year ended 31 March 2019 were £68.0 million compared with £86.1 million for the year ended 31 March 2018. Dividends described as not available for distribution to investors in the ultimate parent company amounted to £nil in 2019, compared with £1,856.6 million in 2018. The non-distributable dividends in the comparative year consisted of a £62.2 million special dividend to partially fund the statutory transfer of the non-household retail business, and a £191.8 million dividend paid to Anglian Water Services Holdings Limited (AWSH) through Anglian Water Services Overseas Holdings Limited (AWSOH). The latter dividend was used by AWSH to service interest payable on the £1,602.6 million inter-company loan provided under the Issuer/Anglian Water Loan Agreement by Anglian Water on 30 July 2002. See Chapter 6.4.5, "*Financing Structure – Intercompany Loan Arrangements – UK Holdco/Anglian Water Loan*" below. The remainder of £1,602.6 million dividend was paid up to Anglian Water Services Holdings Limited (AWSH), in order for AWSH to repay the aforementioned inter-company loan in full. From 1 April 2018, following the settlement of the £1,602.6 million inter-company loan, the inter-company interest and dividend payments were no longer necessary.

Distributions: The Directors proposed a final dividend for the year ended 31 March 2019 of £2.12 per share, which is a total of £67.8 million. This distribution has not been accounted for within the 2019 financial statements as it was proposed and approved after the year end.

Financial Condition

In the balance sheet of the Statutory Accounts, Anglian Water's asset base consists of intangible assets, property, plant and equipment, derivative financial instruments and investments. Intangible assets comprise computer software, asset plans and surveys. Property, plant and equipment consist mainly of the network infrastructure (such as the underground piping network for both the water supply and water recycling network) and non-network infrastructure (such as pumping stations, water treatment plants and water recycling treatment plants). Derivative financial instruments represent the fair values of hedge contracts. They are categorised between non-current and current assets and liabilities.

Anglian Water accounts for supplies of materials used in the water and water recycling business (acquired in advance of requirements to ensure that the materials are readily available as and when required by the business) as inventory. Such materials generally include infrastructure supplies such as replacement pipes, chemicals for water purification processes and mechanical and electrical hardware.

Current assets include trade and other receivables which for the most part consist of accounts receivable by Anglian Water. The predominant component of this line item in the Statutory Accounts is charges for use of the network (so-called “main charges”) levied on residential customers and non-household retailers. Other components include prepayments, which comprises items such as the Ofwat licence fee (paid annually in advance), contract payments for laboratory services, laboratory rents and service payments to Anglian Water’s IT contractor (paid monthly in advance), accrued income, which represents the estimated amount of main water and water recycling charges unbilled at the year end, and VAT charges recoverable from HM Revenue & Customs. Under applicable law, water and water recycling charges for residential customers are zero-rated for VAT purposes (residential customers do not pay VAT). Consequently, Anglian Water pays out more VAT than it receives in and can recover the net difference from HM Revenue & Customs.

Anglian Water accounts for portions of its loan portfolio that must be repaid in the next 12 months under borrowings within current liabilities. Trade and other payables consist principally of trade creditors in the ordinary course of business and amounts paid in advance by unmetered customers. Other components of current liabilities include outstanding corporate taxes owed to HM Revenue & Customs and provisions for liabilities. Provisions for liabilities currently comprise three elements: (i) a provision for onerous losses for the cost of vacant office space; (ii) a provision for other onerous contracts which relates to contractual obligations on financial instruments that are not part of a hedging relationship where future net cash outflow is forecast on the remaining life of the instrument; and (iii) a provision which relates to coupon enhancement and other related costs incurred on the transfer of debt from the Anglian Water Group to the Anglian Water Services Financing Group as part of the financial restructuring. These are split between current and non-current liabilities.

Anglian Water accounts for the portions of its loan portfolio that are repayable in periods beyond 12 months under borrowings within non-current liabilities. Other non-current liabilities consist of grants and contributions received by Anglian Water principally from new housing developments in connection with extending necessary infrastructure and connections to Anglian Water’s network.

Anglian Water recognises the assets and liabilities of its defined benefit plans on its balance sheet within non-current assets and non-current liabilities, respectively. Actuarial gains and losses arising on the retirement benefit plan’s assets and liabilities are taken to the statement of total recognised gains and losses.

As at 31 March 2020 compared to 31 March 2019

Intangible assets were £217.3 million at 31 March 2020, compared with £197.3 million at 31 March 2019. The increase of £20.0 million is due principally to additions in the year, mainly computer software due to the continual development of Anglian Water’s IT infrastructure and software.

Property, plant and equipment was £9,940.3 million as at 31 March 2020, an increase of 1.7 per cent., compared with £9,770.2 million as at 31 March 2019. The increase is primarily due to additions of infrastructure and operational assets, partially offset by depreciation charged.

Derivative financial instruments: the fair value of derivative financial instruments on a combined basis increased over the year, with a net liability at 31 March 2020 of £742.8 million, compared with £780.5 million at 31 March 2019.

Inventories were £12.4 million as at 31 March 2020, marginally higher than the value of £11.6 million as at 31 March 2019.

Trade and other receivables as at 31 March 2020 were £530.6 million, an increase of £44.9 million, or 9.2 per cent., compared to £485.7 million as at 31 March 2019. The increase was primarily due to the impact of the timing of Anglian Water's billing cycle resulting in higher accrued income.

Trade and other payables were £520.9 million as at 31 March 2020, an increase of £28.9 million, or 5.9 per cent., compared to £492.0 million as at 31 March 2019. The increase in trade payables is consistent with an increase in receipts in advance of £25.0 million which relates to amounts received from customers for water and sewerage charges in respect of bills that fall due in the following year. As a large proportion of Anglian Water's customers pay by direct debit, any fluctuations in accrued income due to timing of bills being raised are typically being offset by fluctuations in receipts in advance.

Current tax liabilities were £198.2 million as at 31 March 2020, a decrease of £54.8 million compared to £253.0 million as at 31 March 2019. The reduction reflects the current tax credit for the year and payments for group tax relief.

Non-current liabilities at 31 March 2020 were £8,844.0 million, an increase of £253.4 million compared with £8,590.6 million at 31 March 2019. This increase primarily comprises an increase in deferred tax liabilities of £156.8 million. The corporation tax rate was expected to reduce from 19 per cent. to 17 per cent. effective from 1 April 2020, and the deferred tax balances at 31 March 2019 were measured using the rate of 17 per cent. This reduction in corporation tax rate was reversed in March 2020 and so those deferred tax balances have been re-measured using the rate of 19 per cent.

Retirement benefit obligations: the IAS19 defined benefit pension asset (before deferred tax) increased by £126.5 million from a net asset of £3.5 million at 31 March 2019 to a net asset of £130.0 million at 31 March 2020. The increase in the accounting surplus reflects an increase in the corporate bond rate used to discount the scheme's liabilities, which has more than offset any impact on asset performance due to current market conditions.

Provisions for liabilities: the provision (current and non-current combined) increased by £4.5 million from £12.2 million as at 31 March 2019 to £16.7 million as at 31 March 2020. The increase was due to the recognition of a restructuring provision of £4.7 million relating to costs associated with an organisational model review conducted at the end of the year.

As at 31 March 2019 compared to 31 March 2018 (restated)

Intangible assets were £197.3 million at 31 March 2019, compared with £168.3 million at 31 March 2018. The increase of £29.0 million is due principally to additions in the year, mainly computer software due to the continual development of Anglian Water's IT infrastructure and Software.

Property, plant and equipment was £9,770.2 million as at 31 March 2019, an increase of 1.1 per cent., compared with £9,663.7 million as at 31 March 2018. The increase is primarily due to additions of infrastructure and operational assets, partially offset by depreciation charged.

Derivative financial instruments: the fair value of derivative financial instruments on a combined basis decreased over the year, with a net liability at 31 March 2019 of £780.5 million, compared with £740.9 million at 31 March 2018.

Inventories were £11.6 million as at 31 March 2019, marginally higher than the value of £10.0 million as at 31 March 2018.

Trade and other receivables as at 31 March 2019 were £485.7 million, an increase of £6.8 million, or 1.4 per cent., compared to £478.9 million as at 31 March 2018. The increase was primarily due to the impact of regulatory price increases in the year.

Trade and other payables were £492.0 million as at 31 March 2019, a decrease of £20.2 million, or 3.9 per cent., compared to £512.2 million as at 31 March 2018. The decrease in trade payables is consistent with a lower level of capital expenditure compared with the previous year, resulting in a £27.7 million decrease in capital creditors and accruals. This is offset by an increase in receipts in advance of £6.7 million which relates to amounts received from customers for water and sewerage changes in respect of bills that fall due in the following year.

Current tax liabilities were £253.0 million as at 31 March 2019, a decrease of £11.3 million compared to £264.3 million as at 31 March 2018. The small reduction reflects the current tax charge for the year being more than offset by payments for group tax relief and Advance Corporation Tax utilisation.

Non-current liabilities at 31 March 2019 were £8,590.6 million, an increase of £481.0 million compared with £8,109.6 million at 31 March 2018. This increase primarily comprises an increase in the non-current element of borrowings of £387.9 million and an increase in the non-current element of derivative financial instruments of £117.8 million.

Deferred tax liabilities at 31 March 2019 were £936.8 million, a decrease of £20.6 million compared with 31 March 2018. The decrease reflects the deferred tax credit for the year exceeding the amount of the Advance Corporation Tax asset recovered in the year.

Retirement benefit obligations: the IAS19 defined benefit pension asset (before deferred tax) decreased by £5.6 million from a net asset of £9.1 million at 31 March 2018 to a net asset of £3.5 million at 31 March 2019. The reduction in the accounting surplus reflects market conditions and changes in actuarial assumptions.

Provisions for liabilities: the provision (current and non-current combined) decreased by £3.8 million from £16.0 million as at 31 March 2018 to £12.2 million as at 31 March 2019. The decrease was due to the utilisation of provisions in the year.

Liquidity and Capital Resources

For the years ended 31 March 2020, 2019 and 2018, net cash inflow from operating activities was £645.7 million, £670.5 million and £667.3 million respectively. The decrease in cash inflow between 31 March 2019 and 31 March 2020 reflects an increase in intra-group tax paid of £10.1 million and a reduction in cash collection from retailers as a result of the agreement to defer payment of 50 per cent of the March 2020 invoice as well as an increase in the household customer bad debt charge. The increase in cash inflow between 31 March 2018 and 31 March 2019 reflects an increase in operating costs, more than offset by an increase in revenue and an inflow of cash for working capital movements.

Anglian Water had a net cash outflow from investing activities of £445.4 million for the year ended 31 March 2020, £466.2 million for the year ended 31 March 2019 and an inflow of £1,430.3 million for the year ended 31 March 2018. The net cash outflow for 2020 and 2019 resulted from the purchase of property, plant and equipment and intangible assets. The net cash inflow for 2018 was principally due to the repayment of the £1,602.6 million inter-company loan by Anglian Water Services Holdings Limited in order to simplify Anglian Water's dividend reporting in the future.

Excluding this one-off item the result for the year would have been a net cash outflow of £172.3 million.

Anglian Water had a net cash inflow from financing activities of £271.5 million for the year ended 31 March 2020, an outflow of £194.1 million for the year ended 31 March 2019 and an outflow of £2,205.3 million for the year ended 31 March 2018. The net cash inflow in the year includes £815.9 million from new borrowings, £220.3 million of repayment of amounts borrowed and £11.3 million of lease repayments. New borrowing includes the drawdown of £600 million of liquidity facilities in response to economic uncertainty surrounding Covid-19. This drawdown is expected to provide an adequate buffer to ensure payments can be met as they fall due. The net cash outflow for the year ended 31 March 2019 includes £447.8 million from new borrowings, £140.0 million of repayments of amounts borrowed and £6.2 million of finance lease repayments. The net cash outflow for the year ended 31 March 2018 includes £1,857.1 million of dividends which were not available for distribution to investors in the ultimate parent company, but which were used to enable a group restructuring to simplify and enhance the transparency of the corporate structure, or inter-company interest thereon. Also included was £248.6 million from new borrowings, £247.7 million of repayments of amounts borrowed and £5.7 million of finance lease rental payments.

Overall, there was a net increase in cash of £471.8 million for the year ended 31 March 2020, a net increase of £10.2 million in the year ended 31 March 2019 and a net decrease in cash of £107.7 million in the year ended 31 March 2018.

At 31 March 2020, net debt (including the fair value of financial derivatives) was £7,415.4 million, an increase of £255.6 million from 31 March 2019.

Loans and borrowings increased by £790.7 million from £6,934.6 million at 31 March 2019 to £7,725.3 million at 31 March 2020, principally due to new borrowings, accrued indexation and fair value movements in the year, partially offset by loan repayments. Loans and borrowings increased by £482.9 million from £6,451.7 million at 31 March 2018 to £6,934.6 million at 31 March 2019, principally due to new borrowings, accrued indexation and fair value movements in the year, partially offset by loan repayments.

Cash (including short-term deposits) and short-term investments were £1,048.1 million, £554.3 million and £287.1 million as at 31 March 2020, 31 March 2019, and 31 March 2018, respectively. The 31 March 2020 balance comprised £1,008.1 million for working capital and £40.0 million for tax reserve. The 31 March 2019 balance comprised £420.1 million for working capital, £92.4 million for capex reserve, £1.8 million for debt service and £40.0 million for tax reserve. The 31 March 2018 balance comprised £200.5 million for working capital, £1.7 million for debt servicing, £44.9 million for capex reserve and £40.0 million for tax reserve. The increase in cash and short-term deposits between 31 March 2019 and 31 March 2020 was due to the cash flow movements outlined above.

Capital Expenditure

The capital expenditure figures set forth below are not derived from the cash flow data set forth in “*Cash Flow Data*”. They represent accounting expenditures including accruals for the year ended 31 March 2020.

Capital investment for regulatory purposes (excluding capitalised interest (£17.8 million), and the fair value of assets adopted at nil consideration (£37.1 million)) was £470.9 million during the year ended 31 March 2020, which is broadly in line with management expectations, and concludes Anglian Water’s commitment to reinvest £100 million of efficiencies and £65 million in resilience.

CHAPTER 4

ANGLIAN WATER BUSINESS DESCRIPTION

The Anglian Water Group

Anglian Water Group Limited (“**AWGL**”) is the ultimate Holding Company for the Anglian Water Group, the principal business of which is Anglian Water, the group’s regulated water and water recycling company. AWGL was incorporated on 14 September 2006 as Osprey Jersey Holdco Limited and changed its name on 19 April 2007. AWGL’s wholly-owned subsidiary, Osprey Acquisitions Limited, acquired AWG plc (now known as AWG Parent Co Ltd) and its subsidiaries, including Anglian Water, on 23 November 2006.

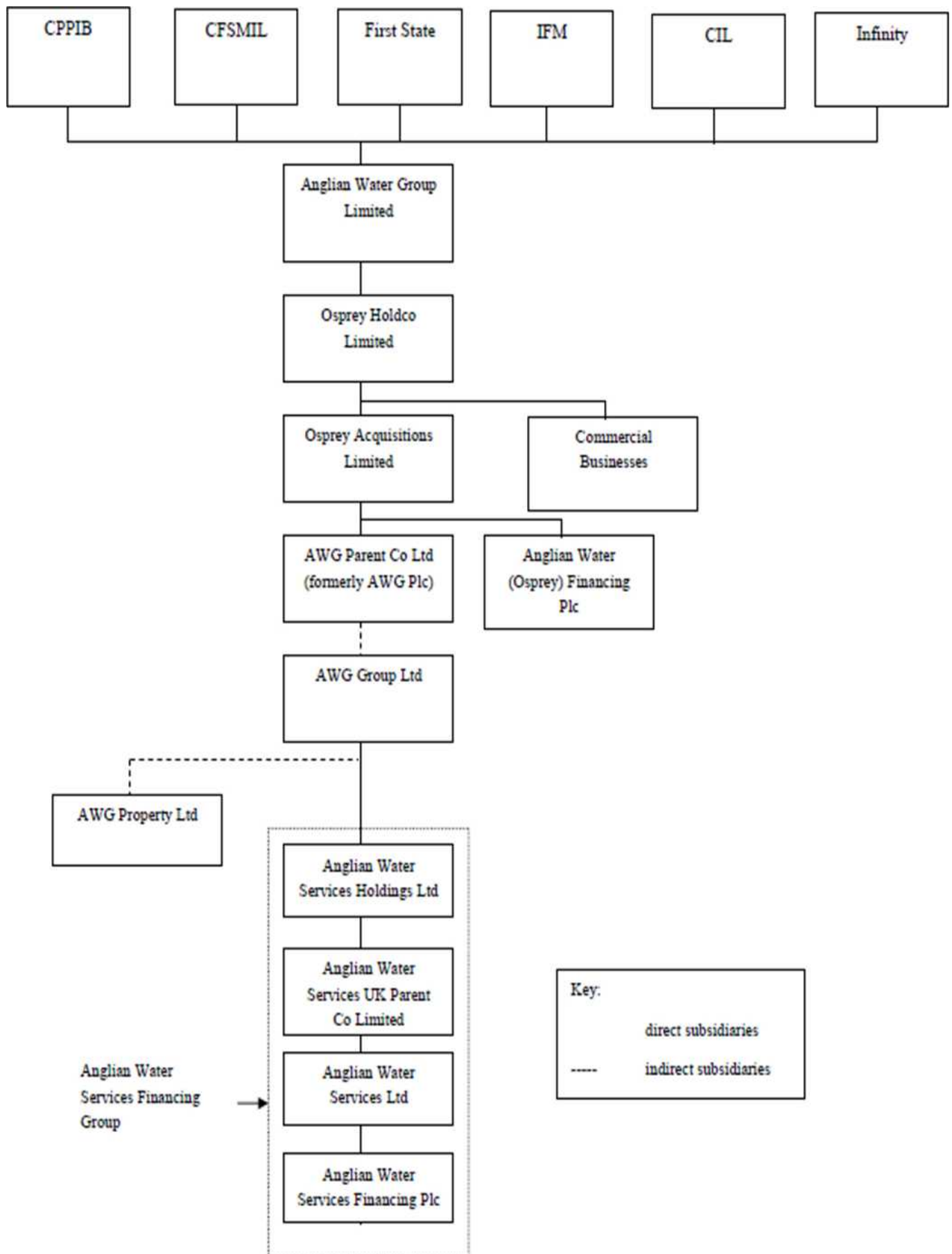
AWGL is owned by a consortium of investors comprising CPPIB (Hong Kong) Limited (“**CPPIB (HK)**”), First Sentier Investors (Australia) RE Limited (formerly Colonial First State Managed Infrastructure Limited), First State Investments Fund Management S.a.r.l., Global InfraCo (HK) E. Limited, Camulodunum Investments Ltd and Infinity Investments S.A. (the “**Consortium**”). CPPIB (HK) is a wholly-owned subsidiary of the Canada Pension Plan Investment Board (32.9 per cent. ownership of AWGL), which is managed independently of the Canada Pension Plan by experienced investment professionals to help sustain the future pensions of 20 million contributors and beneficiaries. First Sentier Investors (known as First State Investments globally), holds its interest in AWGL through First Sentier Investors (Australia) RE Ltd (10.2 per cent. ownership of AWGL) and First State Investments Fund Management S.a.r.l. in its own name and on behalf of the European Diversified Infrastructure Fund FCP-SIF (5.3 per cent. ownership of AWGL). Global InfraCo (HK) E. Limited (19.8 per cent. ownership of AWGL) is an indirect, wholly-owned subsidiary of the IFM Global Infrastructure Fund, a fund advised by IFM Investors. IFM Investors is a global institutional fund manager owned by 27 Australian pension funds, specialising in infrastructure, private equity, debt and equity investments. Camulodunum Investments Ltd (15.0 per cent. ownership of AWGL) is a joint investment vehicle for Dalmore Capital Limited (“**Dalmore**”) and GLIL Infrastructure LLP. Dalmore is an independent fund manager, founded in 2009 by three partners. Dalmore has a focus on lower volatility infrastructure assets, particularly in the UK, and sources capital from UK and overseas institutional investors. Dalmore has interests in over 120 infrastructure assets and has assets under management of over £5bn. GLIL Infrastructure LLP targets core infrastructure projects, mainly in the UK, and is run by the pension funds of Greater Manchester, Merseyside, West Yorkshire – collectively known as the Northern LGPS – and Local Pensions Partnership Investments Ltd (LPPI), which manages the assets of Berkshire Pension Fund, Lancashire County Pension Fund and London Pensions Fund Authority. GLIL has committed capital of £1.8 billion. Infinity Investments S.A. (16.7 per cent. ownership of AWGL) is a wholly-owned, indirect subsidiary of the Abu Dhabi Investment Authority, a public institution established by the Government of the Emirate of Abu Dhabi as an independent investment institution. The investors have affirmed that they are committed and responsible owners who have strong reputational and ethical standards. The investors have also affirmed their support for the management and strategy of Anglian Water and to maintaining the solid investment grade rating for Anglian Water. To this end, the Board of Anglian Water, together with its shareholders, announced in March 2018 a series of measures to improve transparency, trust and customer confidence to show that public interest is at the heart of the business. These measures included a commitment to reduce dividends, resulting in a significant reduction in the Company’s level of debt and gearing, while continuing to meet investment commitments. Furthermore, in July

2019, the shareholders supported Anglian Water becoming the first water company to enshrine purpose in its articles of association. See Chapter 5, “*Ring-fencing and the Anglian Water Services Financing Group*”.

The principal activities of AWGL and its subsidiaries are: water supply and distribution and water recycling collection and treatment. The shares of AWG Parent Co Ltd were removed from the Official List and ceased trading on the London Stock Exchange following acquisition on 23 November 2006 and there is therefore no related market capitalisation. In the period ended 31 March 2020, on a consolidated basis, AWGL and its subsidiaries had total assets less current liabilities of £11,254.9 million, recorded revenue from continuing operations of £1,455.7 million and employed 5,210 people in continuing operations.

To maintain Anglian Water’s position as one of the leading water and water recycling companies in England and Wales, AWG Parent Co Ltd (then AWG plc) restructured Anglian Water within its group in 2002 by establishing a “ring-fenced” financing group to separate (so far as practicable) Anglian Water financially and operationally from the rest of the group. Management believes that the ring-fencing structure provides significant benefits to Anglian Water, providing better access to the long-term debt markets and an opportunity to reduce significantly the cost of capital employed in the Regulated Business, thereby enhancing shareholder returns. Management further believes that the ring-fencing structure also provides the best operating environment to sharpen management focus in the regulated water and water recycling business and align incentives. See Chapter 5, “*Ring-fencing and the Anglian Water Services Financing Group*”.

Set out below is the structure of AWGL, its major subsidiaries, and its relationship to the respective members of the Consortium, as of the date hereof:



Updated Key

CPPIB	CPPIB (Hong Kong) Limited (a wholly-owned subsidiary of the Canada Pension Plan Investment Board)
FSI(A)	First Sentier Investors (Australia) RE Ltd (formerly Colonial First State Managed Infrastructure Limited)
First State	First State Investments Fund Management S.a.r.l. in its own name and on behalf of the European Diversified Infrastructure Fund FCP-SIF
IFM	Global InfraCo (HK) E. Limited (an indirect, wholly-owned subsidiary of Conyers Trust Company (Cayman) Limited in its capacity as trustee of IFM Global Infrastructure Fund)
CIL	Camulodunum Investments Ltd
Infinity	Infinity Investments S.A.

Anglian Water

Overview

AWS is subject to economic regulation as further described in this Prospectus. As such, AWS's operational performance can impact on its financial performance through the incentives and penalties systems which Ofwat has in place. In AWS's view, such operational performance figures are not financial measures and as such not alternative performance measures unless specifically disclosed as such.

Anglian Water serves the largest geographic area of the regional water and water recycling companies in England and Wales, covering an area that stretches from the Humber bank in the North to the Thames estuary in the South and from Daventry in Northamptonshire to the East Coast. It also includes the town of Hartlepool in the Northeast of England. Anglian Water provides water services to approximately 4.8 million people in an area covering approximately 22,600 square kilometres and water recycling services to approximately 7 million people in an area covering approximately 27,500 square kilometres. At 31 March 2020 Anglian Water was the fourth largest of the 11 regulated water supply and water recycling companies in England and Wales in terms of its regulatory capital value. In addition, on the basis of regulatory accounts which Anglian Water files with Ofwat (the “**Regulatory Information**”), for the year ended 31 March 2020, Anglian Water’s appointed water and water recycling activities generated turnover of £1,308.6 million and its net cash generated from operating activities was £414.7 million. See Anglian Water’s 2020 Annual Performance Report.

The region in which Anglian Water operates is mainly rural and agricultural but also includes several urban centres such as Northampton, Peterborough, Norwich, Lincoln, Milton Keynes, Ipswich, Hartlepool (water only) and Grimsby. Because of the historical development of water supply and water recycling services in Anglian Water’s region, there are a number of areas (mostly in the south), such as Cambridge, Chelmsford and Basildon where Anglian Water provides water recycling services only and local water companies provide water services. Anglian Water also holds six “inset” appointments to operate water services in areas outside its principal water supply licence area and one “inset” appointment to operate water recycling services in areas outside its principal water recycling licensed area. For more information relating to “inset” appointments, water supply licensing and market reform, see Chapter 10.9, “Regulation of the Water and Water Recycling Industry in England and Wales — Competition in the Water Industry”. Within Anglian Water’s water supply and water

recycling licence areas, there are a number of significant industrial customers in the petroleum, electricity and food processing sectors. The region in East Anglia where Anglian Water principally operates has had population growth of approximately 0.9 per cent. per year since 2000. Anglian Water's water supply and water recycling licence areas within East Anglia are part of the driest regions in the UK. Consequently, Anglian Water has invested considerable resources in developing reservoirs and supply management technology to deal with more limited water supplies.

History

Anglian Water is a limited company registered under the Companies Act under number 2366656, and is an indirect subsidiary of **AWGL**. Anglian Water was appointed by an Instrument of Appointment dated 24 August 1989 (with effect from 1 September 1989) by the then Secretary of State for the Environment, as a Regulated Company under the provisions of sections 11 and 14 of the Water Act 1989 (now replaced by sections 6 and 11 of the WIA) for a wide area of Eastern England and the Midlands. Before 1 September 1989, the former Anglian Water Authority provided water and water recycling services in those areas. In 1997, AWG Group Ltd acquired Hartlepool Water plc. On 1 April 2000, the appointment of Hartlepool Water plc as a water undertaker was merged with that of Anglian Water. Hartlepool Water plc's name was changed on 26 April 2001 to Hartlepool Water Ltd and then to Osprey Water Services Ltd on 18 December 2006. Osprey Water Services Limited changed its name to Anglian Water Business (National) Limited on 21 March 2013 and then, on 1 April 2017, acquired the non-household business of Anglian Water.

Regulation and Licence

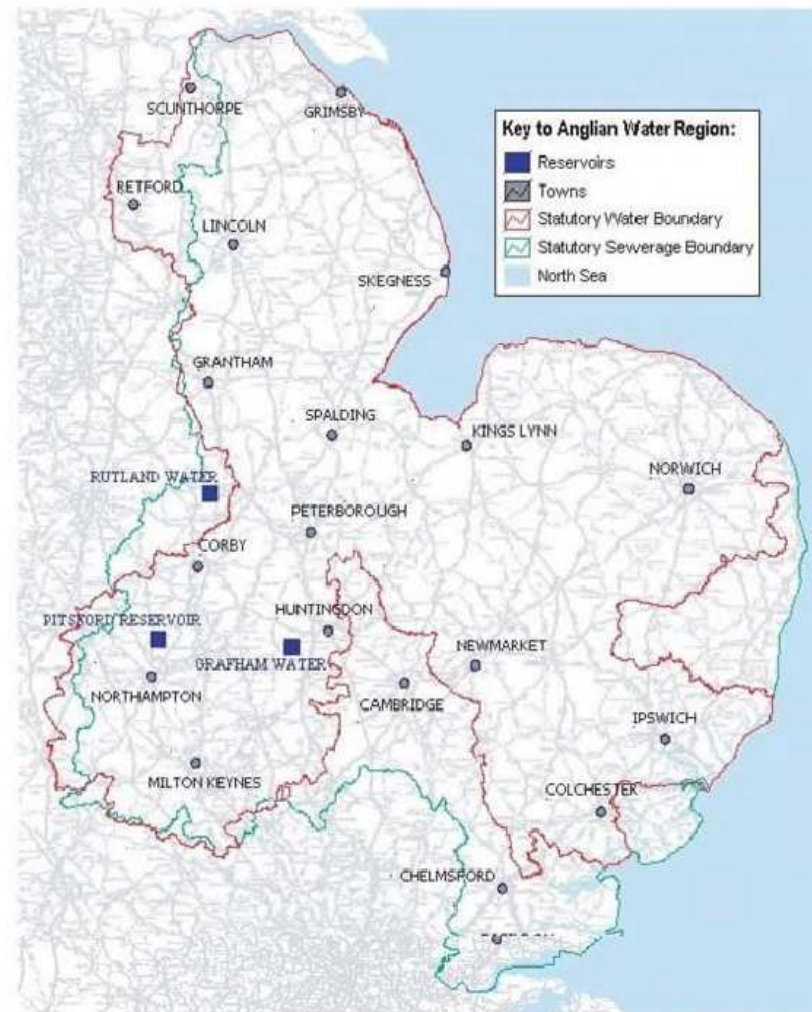
Anglian Water operates within a highly regulated industry in England and Wales and its operations are strongly influenced by economic, drinking water quality and environmental regulation. Anglian Water is licensed to operate as a Regulated Company in England and Wales. In particular, Anglian Water's business and results are affected by the regulated controls on revenues which Anglian Water may collect from its customers as approved by the economic regulator as well as by drinking water quality and environmental regulations and the terms of its Licence. Every five years, the economic regulator has set revenue controls intended to enable water and water recycling companies in England and Wales to finance their operations and earn a reasonable return on capital. The Final Determination of the price controls for the AMP7 Period (2020-25) was published by Ofwat on 16 December 2019.

Anglian Water accepted its Final Determination of the retail price control. However, Anglian Water did not accept the Final Determination of its wholesale price controls and asked Ofwat to make a reference to the CMA for a re-determination of these controls. The CMA's re-determination of Anglian Water's wholesale price controls for AMP7 commenced in March 2020 and is expected to be completed in December 2020. The revenues allowed by the CMA's re-determination may be lower than, equal to or higher than those determined by Ofwat. Ofwat's Final Determination will continue to apply pending the outcome of the CMA's re-determination.

See "*Risk Factors – Risks relating to the Issuer – Failure to meet costs allowed under price controls*", Chapter 10, "*Regulation of the Water and Water Recycling Industry in England and Wales*" and Chapter 11, "*Licence Conditions – Anglian Water's Control over its Operations*".

Each year, in addition to Regulatory Information, Anglian Water's Board is required to submit a certificate to Ofwat confirming, among other things, the availability of sufficient financial resources and facilities, management resources and systems of planning and internal controls to enable it to carry out its functions as a regulated Company for at least the next twelve months.

Set out below is a map of Anglian Water's water supply and water recycling licence areas as at the time of privatisation in 1989 (references on the map to 'sewerage' should be read as 'water recycling'). The water supply licence area now includes the town of Hartlepool and six inset appointments: (i) at 2 Sisters Premier Division (formerly Buxted Chicken) in Flixton, Suffolk; (ii)-(iv) at Wynyard Park near Wolviston in Cleveland; (v) at Woods Meadow, Oulton in Suffolk; and (vi) at Northstowe phase 1 in Cambridgeshire. The water recycling licence area now includes one inset appointment at RAF Finningley in South Yorkshire. Twenty-eight sites have been excluded from the licence area where other companies have been granted inset appointments to provide water and / or sewerage (water recycling) services instead of Anglian Water.





Strategy

Anglian Water's fundamental goal is to deliver a reliable supply of safe drinking water and effective water recycling services at an affordable price. The key strategic priorities for 2020 to 2045 are to:

- make the east of England resilient to the risks of drought and flooding;
- enable sustainable economic and housing growth in the UK's fastest growing region;
- be net zero carbon by 2030; and
- work with others to achieve significant improvement in ecological quality across Anglian Water's catchments.

Further details of its goals are set out within Anglian Water's 2020 Annual Report and strategic direction statement for the 25 year period from 2020 to 2045.

Water Supply Services

Anglian Water's water supply services to customers consist of the "abstraction" of water and its subsequent treatment and distribution to homes and other premises. Abstraction refers to the removal of water from surface sources, such as reservoirs and rivers, or from underground sources, such as aquifers. All water is then treated prior to being supplied to customers. Partially treated water may be supplied for industrial use, but water undergoes full treatment before being supplied to domestic customers, with the treatment processes used dependent on the quality of the raw water. In general, water abstracted from underground sources is of high quality and requires minimal treatment, whereas, water abstracted from rivers and reservoirs undergoes a complex sequence of advanced treatment processes, typically clarification using iron salts, filtration, ozonation and granular activated carbon. All water is then disinfected to treat any potentially harmful micro-organisms. Water from

treatment works then passes through a distribution network of interconnected water mains, service reservoirs and water towers.

Water Resources and Supply

Of the water abstracted by Anglian Water for public supply in its licensed water region, approximately 50 per cent. consists of groundwater abstracted from aquifers, approximately 45 per cent. is abstracted from large raw water storage reservoirs which are refilled by abstraction from rivers, and approximately 5 per cent. is abstracted directly to water treatment works from rivers. Anglian Water holds licences that allow for up to 605 million cubic metres of water to be abstracted per year.

The mix of water supply resources in the Anglian Water licence area is largely a product of historical development, river systems and geology. The eastern and northern parts of the region in which Anglian Water operates are underlain by permeable chalk, limestone and sandstone aquifers. The groundwater system, direct river intakes and the pumped storage reservoirs provide security against drought events. The overall security of the supply system has been further improved through investment in key resilience schemes e.g. the development of a strategic main that allows for water treated at Rutland to be transferred to Grafham in the event of a major long term outage, "daisy chain" work across sources in North Norfolk to better connect these more isolated systems or as part of a drought management strategy, including major capital works at Anglian Water's Marham groundwater source. Further investment is being undertaken in the AMP7 Period to improve connectivity between groundwater sources.

The three largest surface water storage reservoirs of Anglian Water, Rutland Water, Grafham Water and Pitsford Water are linked through trunk supply mains to form the "Ruthamford" system. This facilitates water management in periods of low rainfall for the major urban areas in the west of Anglian Water's licence area, where growth is highest. In addition, Anglian Water relies on water demand modelling to maintain a secure balance of water supply and demand. The demand for water is forecast by considering the components of residential and commercial/industrial supplies and leakage. This is supported by extensive analysis of domestic water use, economic analysis of trends in industrial demand and the evaluation of the economic levels of leakage. The forecasts are revised periodically and agreed with Ofwat and the EA. Forecasts of demand include the distribution and predicted growth of population at local level and the impact of climate on the peak demand for water. These forecasts form a key part of the Water Resources Management Planning (WRMP) process.

Anglian Water's long term strategy to maintain the balance between supplies and demand is documented in its WRMP. This is a regulatory return under the Water Act 2003. The WRMP 2019 was signed off by the Secretary of State in November 2019 and published in December 2019. The plan, which covers the period from 2020-2045, takes account of forecast demand, as described above. The plan also accounts for reductions in available water due to climate change and environmental pressures, as well as planning for resilience to severe drought events with a 1 in 200 year return period.

The plan takes a twin track approach to address these risks and ensure continued security of supply with a focus on demand management to reduce the amount of water used and investment in new supply-side options to increase the amount of water available. Anglian Water's demand management strategy includes installing smart meters, reducing leakage and investing in water efficiency and behavioural change campaigns.

Anglian Water is recognised as an industry leader in the field of leakage control despite serving the largest geographic area in England and Wales. In terms of new supply-side options, Anglian Water

is investing in over 500km of strategic, interconnecting pipelines to form a new network, that will move water from areas of surplus to areas of deficit and provide resilience across the region.

Anglian Water's approach to managing water resources, supply and demand during periods of exceptionally low rainfall is documented in its Drought Plan, with the latest version published in June 2020 following public consultation. Anglian Water is in the process of drafting a new Drought Plan for public consultation in 2021.

Anglian Water monitors volumes of abstracted water through a fully maintained and telemetered metering system. Over 300 meters are affixed to all abstraction points. The telemetered flow data from these meters is recorded on the Licensed Abstraction Reporting System ("LARS"). Similarly, all treated water leaving Anglian Water's 132 treatment works is measured through a fully maintained and telemetered system. Over 200 meters are affixed to all treatment works outputs. The telemetered flow data from these meters is recorded on the Source Works Output Reporting System ("SWORPS").

Customers and Turnover

During the year ended 31 March 2020, Anglian Water delivered an average of 1,136 mega litres of treated water per day to approximately 2.2 million properties in the Anglian Water licence area. Anglian Water also delivered 45 mega litres of partially treated water per day from its non-potable works. In the same period, Anglian Water installed approximately 24,000 new water connections. Anglian Water's customer base for water services is predominantly residential.

On the basis of the Regulatory Information for the year ended 31 March 2020, the turnover from Anglian Water's wholesale water business was £494.8 million and this comprised 40.4 per cent. of Anglian Water's turnover (relating to Anglian Water's wholesale business for household and non-household customers). It should be noted that from 1 April 2017 non-household customers are no longer directly billed by Anglian Water but rather via the relevant retailer.

Water Services Infrastructure

Anglian Water operates 132 water treatment plants, producing over 1.1 billion litres of water a day, and maintains over 38,700km of water mains. At peak periods, Anglian Water produces over 1.45 billion litres of water a day with the most recent highest peak recorded in May 2020. An ongoing programme involving replacing old iron mains with new polyethylene pipes or scraping and relining the interior of the old mains has helped to reduce leakage and the susceptibility of mains bursts; the leakage performance remains one of the best of the water and water recycling companies in the UK despite the adverse impact of extreme winter conditions in recent years.

Capital Investment

Between 1 April 2019 and 31 March 2020, representing the fifth and final year of the asset management plan (AMP6 Period), Anglian Water invested £222.6 million in capital projects related to improvements in water treatment and water delivery infrastructure, of which £93.4 million was invested in new assets, £94.3 million was invested in maintaining existing infrastructure, £26.9 million was invested in infrastructure network reinforcement, and £8.0 million was invested in assets used for third party services.

Drinking Water Quality and Service Performance

Anglian Water continually invests to ensure that the high standard of drinking water quality is maintained. Ofwat reviews proposals and determines the level of investment. During the AMP6 Period, Anglian Water invested £100 million on drinking water quality improvements. Over the five years through to 2025, a further £105 million in drinking water quality enhancements has been proposed, including treatment for parameters such as nitrate. Anglian Water will also be working alongside a wide range of other agencies, particularly with the agricultural community on pesticides and owners of older buildings on replacement of lead pipes.

To assess compliance with drinking water standards prescribed in the Water Supply (Water Quality) Regulations 2016 as updated in 2018 (the “**Water Quality Regulations**”), Anglian Water monitors water quality through an extensive programme of regular sampling and analysis. The Water Quality Regulations prescribe the legal requirements for monitoring and analysis of drinking water. Samples are taken by trained, accredited, uniformed samplers from all of Anglian Water’s water treatment works, service reservoirs, water towers and directly from customers’ taps in its supply zones. The Water Quality Regulations specify the numbers of samples to be taken from each location, and the analysis to be undertaken with variation in sampling permitted subject to accredited risk assessments. The numbers of samples taken from a water treatment works depend on the volumetric output of the site, with monitoring in supply zones dependent on the population. Every month, the results of all samples taken as part of the Water Quality Regulations are submitted to the drinking water quality regulator, the DWI, along with commentary detailing the outcome of investigations into any breaches of drinking water standards. DWI has powers to require improvements or take other enforcement action, although it may refrain from doing so if satisfied that Anglian Water is taking appropriate remedial action.

Drinking water quality in 2019 was excellent with a mean zonal compliance (the key compliance measure used by the DWI) of 99.96 per cent. The DWI has introduced a new headline water quality measure, the Compliance Risk Index (CRI). The CRI is designed to allocate a numerical value to risk, assigning a figure to the significance of the failing parameter, the proportion of consumers potentially affected and the quality of the company’s response. Anglian Water has seen a year on year improvement in its CRI score since the measure was introduced and in 2019 had a CRI score of 1.75 against an industry average of 2.87.

Water Recycling Services (comprising water recycling networks and sludge)

Anglian Water’s water recycling services consist of the collection and disposal of wastewater including domestic wastewater, trade effluent and surface water (including highway drainage). Wastewater is collected through networks of 76,575 km of sewers via 6,313 pumping stations and treated at 1,126 water recycling centres. The organic solids waste extracted receives further treatment, is dried and then used in agriculture as a natural fertiliser and an important source of soil organic matter. In October 2011, thousands of km of sewers previously in private ownership transferred into Anglian Water responsibility due to new government legislation. Anglian Water estimates the total length of these sewers to be 31,200 kms (including surface water sewers).

Customers and Turnover

For the year ended 31 March 2020, Anglian Water received an estimated flow of 1,731 megalitres per day of wastewater into its water recycling network, which covers approximately 2.8 million properties. This included an average volume of 61 mega litres per day of trade effluent from approximately 3,300 commercial customers. During the year ended 31 March 2019, Anglian Water installed approximately 29,000 new water recycling connections (which includes approximately

24,000 new connections within Anglian Water's water supply licence area and approximately 5,000 outside its water supply licence area). 96 per cent. of Anglian Water's customers are residential and 4 per cent. are industrial/commercial customers. Currently, no single customer accounts for more than 0.28 per cent. of Anglian Water's total revenues from water recycling services. On the basis of the Regulatory Information for the year ended 31 March 2020, turnover from the water recycling business for that year was £729.6 million or 59.6 per cent. of Anglian Water's wholesale business.

Capital Investment

Between 1 April 2019 and 31 March 2020, representing the fifth and final year of the AMP6 Period, Anglian Water invested £243.4¹ million in capital projects related to improvements in water recycling treatment, water recycling infrastructure and sludge treatment, of which £82.6² million was for investment in new assets and £138.5² million was invested in maintaining existing infrastructure, £15.3² million was invested in infrastructure network reinforcement, and £7.0² million was invested in assets used for third party services.

Pollution and Quality Control

Wastewater is collected via Anglian Water's water recycling networks and treated at its water recycling centres. The effluent from water recycling centres is discharged to controlled waters (including rivers and other inland and coastal waters) in accordance with consents issued and regulated by the EA. Another product of water recycling treatment is sewage sludge. In 2019/20 all of the sewage sludge (biosolids) processed by Anglian Water was recycled to agricultural land. Any sludge that is unsuitable for recycling or reclamation is disposed of in landfill sites; none was sent to landfill in 2019/20.

The management of sludge produced at water recycling centres is strictly controlled. Disposal to landfill sites is becoming increasingly restricted due to tightening legislation and reducing landfill space. In addition, all sludge disposed of in this way is subject to a landfill tax. The recycling of treated sludge to agricultural land is controlled by UK regulations, compliance with which is monitored by the EA.

As a result of Anglian Water's continued investment in water recycling treatment works, as at December 2019, 98.94 per cent. of Anglian Water's water recycling centres complied with the terms of the permits under which they are entitled to return treated effluent to environmental waters, compared to 98.68 per cent. in 2018. See Chapter 10.8, "*Regulation of the Water and Water Recycling Industry in England and Wales —Environmental Regulation — Principal EU Law*".

Anglian Water seeks to ensure high levels of bathing water quality. Over the past 25+ years Anglian Water has invested over £300 million to protect the UK coastline.

Anglian Water's performance to date demonstrates its commitment to comply with the EU Bathing Water Directive, which was revised in 2015 and saw standards tightened significantly. Classifications now use sample results from the previous four years to assess compliance against 'excellent', 'good', 'sufficient' and 'poor' classifications. Full compliance with the now more stringent Bathing Water Directive, however, requires actions by third parties to mitigate the effects of discharges not within Anglian Water's control. The end of the 2019 bathing water season saw thirty of Anglian Water's beaches achieve the status of excellent, which is a deterioration of two beaches on the previous year. The drop in performance is due to the EA sampling during extreme flooding in Lincolnshire – an action Anglian Water does not consider to be reflective of the requirements in the

¹ Based on the 2019/2020 Annual Performance Report, table 2B.

Directive and are therefore in the process of a judicial review. Court hearings are scheduled for November 2020, Thirteen beaches were classified as good, with five sufficient, and one poor.

It is not clear whether bathing water classifications will occur for the 2020 bathing water season. Due to restrictions implemented by the EA on their sampling activities as a consequence of Covid-19, a full sampling programme has not been undertaken for the bathing water season of 2020. As a result, it is currently unclear how DEFRA and the EA will manage the classifications for this year.

Customer Charging — Water Supply and Water recycling Services

Charges for water supply and water recycling services are calculated separately based on the average costs of providing each service for each class of customer. Customers with unmetered supplies are billed primarily in advance on an annual basis with payment being annually, half-yearly or by instalments. For supplies of metered water, domestic customers are billed quarterly, half-yearly or annually, in all cases in arrears. Non-domestic customers are served by licensed retailers as a result of regulatory and market changes introduced in April 2017. Wholesale charges between retailers and Anglian Water are settled through the retail market process on a monthly basis. See Chapter 3, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

Charges for bulk supplies of water are usually determined on an individual basis, as are charges for some larger commercial water supplies and some industrial water recycling. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply. Trade effluent from industrial users is normally charged on a formula basis taking account of the volume of water recycling, its strength and costs of removal and treatment.

According to forecast data compiled by Ofwat, the average annual household bill within the water supply and water recycling licence areas served by Anglian Water for the year ending 31 March 2020 would be £438, comprising £191 for water supply and £247 for water recycling services. Ofwat sets limits on Anglian Water’s allowed revenues for the provision of water supply and water recycling services. On 16 December 2019 Ofwat published its Final Determination of price controls for the AMP7 Period (2020-2025). Anglian Water asked Ofwat to make a reference to the CMA for a re-determination of the price controls, which is expected to be completed in December 2020. See “*Risk Factors – Risks relating to the Issuer - Failure to meet costs allowed under price controls*”.

Approximately 83 per cent. of Anglian Water’s residential customers are metered for the year ended 31 March 2020. Although the domestic rating system was discontinued in 1990 (under the provisions of the UK Local Government Finance Act 1988), under the WIA, water companies were originally allowed to continue to use rateable values for charging until 1 April 2000. However, following a review of water and water recycling charges in England and Wales, the Government has allowed companies to continue using the system after that date. At the same time it has made changes designed to encourage the use of water meters on domestic properties. See Chapter 3, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and Chapter 10, “*Regulation of the Water and Water Recycling Industry in England and Wales*”.

As a consequence of the experience gained in respect of metering, Anglian Water has developed and introduced a number of tariff options. In 1998, Anglian Water was the first regulated water and water recycling company in England and Wales to introduce a tariff which targeted assistance at the more vulnerable customer groups. This idea was later adopted by the Government and, under regulations made under the WIA, it is now mandatory for all water and water recycling companies in England to offer a tariff to assist certain vulnerable customer groups.

Anglian Water has since privatisation expanded the range of tariffs available to non-residential customers with the result that charges more closely reflect the costs of servicing the different types and sizes of customers. Management believes this development makes charges fairer for all customers.

Anglian Water offers a range of separate tariffs to retailers serving industrial customers. Its range of large user tariffs covers drinking water, water recycling and trade effluent. Further refinements include separate tariffs for non-potable water, and the availability of an interruptible tariff. These are augmented by a change in the structure of tariffs for large water users, whereby a maximum daily water demand of each customer is subject to a separate charge. For the AMP7 Period, Final Determinations include controls based on total allowed costs to be recovered through revenue for wholesale water supply and water recycling services, and an average revenue control for household retail services, adjusted to reflect the difference between actual and forecast customer numbers. Companies are required to publish both wholesale and household retail charges (retailers publish non-household retail charges). They are required to provide an assurance that their charges will recover the allowed level of revenue based on customer numbers x demand x price.

Bad Debts

Following the introduction of the WIA in 1999, regulated water and water recycling companies were barred from disconnecting residential customers from their water supply for failure to pay bills. Retailers, however, are subject to strict payment terms imposed by the market operator, MOSL, and persistent failure to meet these payment terms could result in their trading licence being revoked. Anglian Water, through the use of a dedicated billing call centre, contacts customers who are in arrears and arranges payment plans wherever possible. Bad debts are measured by Anglian Water as a percentage of Anglian Water's gross revenue for the appointed household business only (as reported in the Regulatory Information). In the year ended 31 March 2020, Anglian Water's bad debt ratio was 3.9 per cent., compared to 2.6 per cent. in the prior year on an equivalent basis. This increase is a result of an additional £12 million charge in relation to the impact of Covid-19. Excluding this charge reduces the bad debt ratio to 2.7 per cent.

Suppliers

Anglian Water depends upon a number of key inputs to deliver its water and water recycling services and to construct new assets. Anglian Water relies on (i) IT software and hardware to monitor delivery and supply from and to its water and water recycling network, to schedule deployment of its own resources along with those of certain suppliers to manage its infrastructure and assets, and billing of customers, (ii) electricity to operate pumping stations, treatment plants and the pipe networks, (iii) chemicals for water purification and water recycling treatment and (iv) a variety of materials and support services relating to construction of plants, installation of network infrastructure and other capital plant works. A number of these are sourced from separate suppliers so as to ensure Anglian Water's supply chain resilience. In respect of energy costs Anglian Water has implemented a hedging strategy in its procurement that enables it to mitigate increases in energy costs. Alongside such hedging Anglian Water has entered into agreements for third parties to install solar renewable energy assets upon its sites from which it purchases electricity at a fixed price.

Outsourcing

Like most of the water and water recycling industry, Anglian Water outsources the majority of its capital investment programme and many of its day-to-day operations to third-party providers of goods and services. Over half of Anglian Water's totex investment programme is carried out in collaboration with its Main Works alliance made up of six leading construction industry companies

integrated with Anglian Water staff, operating an incentivised commercial model, and being monitored through a number of key performance indicators. A further alliance has been appointed on a similar model to deliver the pipelines associated with the Water Resource Management Plan for AMP7, so as to ensure that Main Works alliance continues to focus on the bulk of the totex programme. The balance of the totex programme is made up of lower value schemes and is also delivered in an incentivised collaborative manner by four further strategic alliances which also include Anglian Water staff. In respect of operations, outsourced services include water and water recycling pipe repair and maintenance, IT services, staff training, facilities management, logistics functions and some minor operations such as small value water and water recycling maintenance contracts. The principal customer-facing roles are not outsourced.

The Common Terms Agreement sets out parameters that Anglian Water must adhere to in connection with its outsourcing of contracts. See Chapter 6, “*Financing Structure*”.

Ofwat previously imposed extensive requirements on Anglian Water to act properly and to report in respect of its Outsourcing Policy. However, this licence obligation has been repealed with effect from 13 July 2020. See Chapter 11, “*Licence Conditions – Anglian Water’s Control over its Operations*”.

Dividends and Dividend Policy

Anglian Water’s dividend policy is to identify the cash available for distribution, allowing for the business’s liquidity requirements in respect of funding its operations, the capital programme, servicing its debt for the next 18 months. The dividend policy is also based on ensuring that there is adequate headroom in relation to all of its financial covenants. In assessing the dividend payment, the Directors review the business performance forecasts and give consideration to the potential impact of external factors in the economy and regulatory environment on the company’s forecast cash flows.

The Directors consider this cash-based approach provides a more appropriate consideration of the needs of Anglian Water’s customers, employees, pension schemes and other stakeholders whilst ensuring the liquidity requirements of the business are met fully. The overall amount of the company’s ordinary dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water, and in practice will be limited by its current and forecast financial covenants. Special dividends may also be paid in addition to ordinary dividends, but these too are limited by specific financial covenant constraints. This policy is consistent with Condition P of the Licence.

As part of its PR19 price control review process Ofwat has introduced a mechanism which penalises more highly geared companies (such as Anglian Water) and therefore provides these companies with an incentive to reduce their level of gearing. Anglian Water is challenging this mechanism (together with many other aspects of Ofwat’s AMP7 Final Determination) by way of a reference to the CMA for a redetermination. The company’s approach to de-gearing will be reviewed in light of the CMA’s decision which is expected no later than December 2020.

For the year ended 31 March 2020, Anglian Water paid dividends of £67.8million (2019: 68.0 million) which were retained within the Group and used to finance AWGL’s operating costs and working capital needs. Dividends of £nil were paid to the shareholders of Anglian Water Group Limited (AWGL), the ultimate parent company, in the year (2019: £nil). Based on the available free cash flow there was capacity to pay a further dividend of £192.2 million. However, the Directors have not proposed to pay a final dividend in line with their de-gearing target. This decision to retain £192 million, follows on from the previous £165m shareholder investment into the resilience of the

company. Both of these decisions reduced shareholders returns in AMP6 for the benefit of the company. For the year ended 31 March 2018, Anglian Water paid dividends of £86.1 million to AWG Group Ltd for distribution to the investors. In addition, for the year ended 31 March 2018, Anglian Water paid dividends of £1,856.6 million which were retained within the Anglian Water Services Financing Group (AWSFG). These non-distributable dividends consisted of a one-off £62.2 million special dividend to partially fund the statutory transfer of the non-household retail business, and a £191.8 million dividend paid to Anglian Water Services Holdings Limited (AWSH) through Anglian Water Overseas Holdings Limited (AWSOH) which was used to service interest payable on an intercompany loan provided by Anglian Water to AWSH. The remainder of £1,602.6 million was paid through AWSOH to AWSH, in order for AWSH to repay the aforementioned inter-company loan in full (see Chapter 6.5, “*Financing Structure — Common Terms Agreement*” and Chapter 3, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Year ended 31 March 2018 (restated) compared to year ended 31 March 2017*”). From 1 April 2018, following the settlement of the £1,602.6 million inter-company loan, the inter-company interest and dividend payments were no longer necessary, therefore there were no equivalent dividend payments in the year ended 31 March 2019 or 31 March 2020.

Insurance and Risk Management

Anglian Water maintains insurance coverage consistent with the principles of Good Industry Practice. This insurance is maintained as part of the Anglian Water Group insurance programme. Anglian Water has procured a number of insurance policies, as set out in Schedule 16 of the CTA. These have been reviewed and approved by an independent insurance adviser retained to ensure that Anglian Water’s insurances (i) are consistent with Good Industry Practice, (ii) have regard to the risk being covered and (iii) address the interests of Anglian Water and each Finance Party.

The insurance strategy for Anglian Water has been to tailor its insurance cover to address various aspects of Anglian Water’s risk profile as well as develop robust risk management systems. With respect to high severity but low probability (catastrophic) events that management believes would significantly impact Anglian Water’s business (such as a dam burst), the risk management policy has been to purchase insurance from external carriers.

With respect to low severity but high probability events, management generally does not view it as cost effective to purchase insurance products for these relatively predictable losses and Anglian Water makes provision for such losses and liabilities from operating cash flow.

As part of its strategy to ensure effective insurance Anglian Water is required to follow the requirements of Schedule 16 of the CTA by using only external insurance providers who (a) have a minimum long-term credit rating of “A” and/or (b) are acceptable to the Security Trustee and each Financial Guarantor. Marsh Limited, or any other such reputable insurance broker appointed in the future, monitors and advises the Anglian Water Group’s insurance department of any deterioration in the credit rating of Anglian Water’s insurance carriers.

Anglian Water has various risk control processes in place that management believes effectively monitor operational risks. For example, it has a rolling inspection programme for mechanical and electrical equipment. Structural engineers review the condition of dams and other infrastructure. Anglian Water works closely with Government departments to ensure that key installations are fully protected and all operating sites are monitored by telemetry systems. Moreover, Anglian Water constantly monitors water quality. The Anglian Water 2020 Annual Report set out the approach taken to managing operational risks as detailed in the following pages:

- political, regulatory and legislative changes (please see page 78 of the Anglian Water 2020 Annual Report);
- financing the business (please see page 79 of the Anglian Water 2020 Annual Report);
- pensions and regional growth (please see page 80 of the Anglian Water 2020 Annual Report);
- long-term supply and climate change (please see page 81 of the Anglian Water 2020 Annual Report);
- preparing for AMP7 (please see page 82 of the Anglian Water 2020 Annual Report);
- pollution (please see pages 82 and 83 of the Anglian Water 2020 Annual Report);
- Brexit (please see page 83 of the Anglian Water 2020 Annual Report);
- Customer satisfaction (please see page 84 of the Anglian Water 2020 Annual Report);
- health and safety (please see page 85 of the Anglian Water 2020 Annual Report);
- talent and succession (please see page 86 of the Anglian Water 2020 Annual Report);
- cyber security and data protection (please see page 86 of the Anglian Water 2020 Annual Report); and
- water quality (please see page 87 of the Anglian Water 2020 Annual Report).

The Common Terms Agreement contains provisions requiring Anglian Water's on-going insurance regime to meet various criteria. These are outlined in greater detail in Chapter 6, "*Financing Structure*".

Employment

Anglian Water employed approximately 4,813 full time equivalent staff at 31 May 2020. Where Anglian Water employees provide services to the rest of the Anglian Water Group (e.g. payroll), such services are charged out on an arm's length basis.

The costs of any benefits (such as medical expenses insurance) purchased by Anglian Water Group companies (other than Anglian Water) and provided to employees of Anglian Water and other Anglian Water Group companies are similarly shared on an arm's length, pro rata basis. See Chapter 5, "*Ring-fencing and the Anglian Water Services Financing Group*".

Pensions

From 1 April 2018 significant changes were made to the provision of pension benefits to employees in Anglian Water through the Anglian Water Group Pension Scheme (the "**Pension Scheme**"). All defined contribution and defined benefit sections of the Pension Scheme were closed to future accrual and additional member contributions. Defined Contribution pension arrangements are now in place to all employees through a Master Trust defined contribution pension plan (the "**Pension Plan**"). Anglian Water has proposed to the trustees of the Pension Scheme that the funds from the defined contribution section of the Pension Scheme are bulk transferred to the Pension Plan.

Litigation

Legal proceedings have been issued against Anglian Water and other water and sewerage companies by three different groups of personal search companies who are seeking refunds of fees paid by them for CON29DW drainage and water searches on the basis that they believe that the

Environmental Information Regulations 2004 (“**EIR**”) entitles them to have had free access to the information contained in a CON29DW search since the EIR came into force on 1 January 2005.

Political Developments

The United Kingdom’s exit from the European Union (EU)

On 23 June 2016, the UK held a referendum to decide on the UK's membership of the European Union. The UK vote was to leave the European Union. There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. Following the UK Government’s decision to invoke Article 50 on 29 March 2017, the UK withdrew from the EU at 11 p.m. (London time) on 31 January 2020.

The terms of the UK’s future relationship with the EU are unclear and will be determined by the negotiations taking place following the UK's exit. Negotiations are due to complete on 31 December 2020.

CHAPTER 5

RING-FENCING AND THE ANGLIAN WATER SERVICES FINANCING GROUP

5.1 Ring-fencing

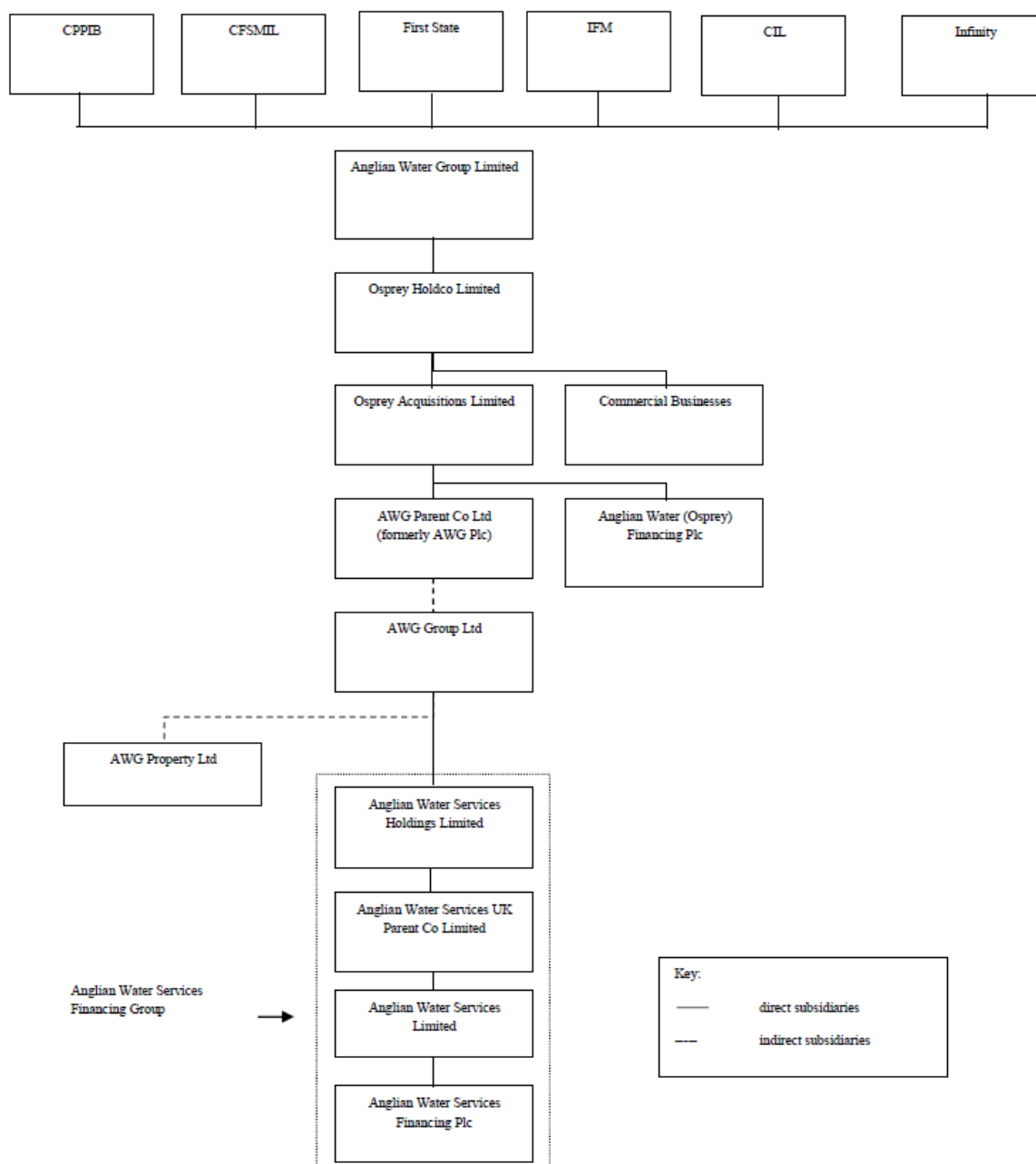
5.1.1 Introduction

As part of its obligations as a Regulated Company, Anglian Water is subject to certain ring-fencing restrictions under its current Licence. See Chapter 5.1.2, “*Regulatory Ring-fencing*” and Chapter 11, “*Licence Conditions – Anglian Water’s Control over its Operations*”.

In addition, to reduce Anglian Water’s exposure to credit and event risk of other Anglian Water Group companies, the Anglian Water Group created a new “ring-fenced” financing group (being the “*Anglian Water Services Financing Group*”). These measures also reflect the requirements of the covenant and security package as summarised in Chapter 6, “*Financing Structure*”.

The ring-fencing measures are intended to ensure: (i) that Anglian Water has the means to conduct its Regulated Business separately from the other Anglian Water Group companies; and (ii) that all dealings between the Anglian Water Group and the Anglian Water Services Financing Group are on an arm’s length basis.

The ownership structure of the Anglian Water Services Financing Group is as follows:



Updated Key

CPPIB	CPPIB (Hong Kong) Limited (a wholly-owned subsidiary of the Canada Pension Plan Investment Board)
FSI(A)	First Sentier Investors (Australia) RE Ltd (formerly Colonial First State Managed Infrastructure Limited)
First State	First State Investments Fund Management S.a.r.l. in its own name and on behalf of the European Diversified Infrastructure Fund FCP-SIF

IFM	Global InfraCo (HK) E. Limited (an indirect, wholly-owned subsidiary of Conyers Trust Company (Cayman) Limited in its capacity as trustee of IFM Global Infrastructure Fund)
CIL	Camulodunum Investments Ltd
Infinity	Infinity Investments S.A.

The main elements comprising the structural and legal ring-fencing of the Anglian Water Services Financing Group from the other Anglian Water Group companies are set out below.

5.1.2 Regulatory Ring-fencing

For many years, the Regulated Companies in England and Wales have been subject to regulatory ring-fencing obligations pursuant to their respective licences. The development of these ring-fencing obligations, and their adoption by Regulated Companies, has been somewhat haphazard such that different companies were subject to different ring-fencing obligations. Ofwat has taken a number of steps towards harmonising the applicable licence provisions, most recently by way of licence modifications implemented in July 2020.

The modifications introduced in July 2020 were designed principally to bring ring-fencing obligations for other Regulated Companies up to the standards to which Anglian Water was already held by its then existing licence conditions, with minor changes to modernise and harmonise the provisions. The modifications introduce a new condition P and associated amendments which contain provisions which, for the most part, were contained in the Licence before July 2020, in conditions I, K and P, and before that in conditions F, K and P. In addition, the opportunity was taken to introduce a small number of substantive changes, including:

- technical modifications to the treatment of credit ratings;
- a new obligation to inform Ofwat if Anglian Water becomes aware of arrangements in progress that may lead to a change of Ultimate Controller;
- a new obligation to enforce Ultimate Controller undertakings given to Anglian Water if Ofwat so directs; and
- a new obligation to inform Ofwat if Anglian Water's Board becomes aware of any circumstance that may materially affect its ability to carry out the Regulated Activities.

As now amended, the ring-fencing provisions of the Licence which Anglian Water considers to be most important are:

- (a) **Transactions between Anglian Water and its associated companies:** Any transaction between Anglian Water and its associated companies (being its subsidiaries and any affiliated companies) must be conducted at arm's length, such that there is no cross-subsidy of the associated company by Anglian Water (or vice versa). See Chapter 10, "*Regulation of the Water and Water Recycling Industry in England and Wales*". This requirement is supplemented by RAG 5, failure to comply with which (or with any of Ofwat's Regulatory

Accounting Guidelines) may give rise to a breach of the Licence and possibly the Competition Act 1998.

- (b) **Limits on transfer of certain assets:** Save with the express consent of Ofwat, Anglian Water is not permitted to transfer certain rights or assets (being those which a Special Administrator would require if a Special Administration Order were made in order to operate the Appointed Business) to an associated company.
- (c) **Restrictions on other transactions:** Save with the express consent of Ofwat, Anglian Water must not: (i) give any guarantee of any liability of any associated company; (ii) make to any associated company a loan; or (iii) enter into an agreement or incur a commitment incorporating a cross-default obligation (whether with an associated company or otherwise).
- (d) **Restrictions on Dividend Payments:** Anglian Water is required to declare or pay dividends only in accordance with a dividend policy which has been approved by the Board of Anglian Water and which complies with the principles: (i) that dividends will not impair the ability of Anglian Water to finance its regulated business; and (ii) that under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk.
- (e) **Adequate Resources:** Anglian Water is required at all times to act in a manner best calculated to ensure that it has adequate financial resources and facilities, management resources and systems of planning and internal control to carry out its regulated activities (including necessary investment programmes). The board of Anglian Water is required to certify on an annual basis, among other things, that in the opinion of the board this requirement as to adequacy will continue to be met for the subsequent 12-month period. The main factors taken into account in giving its opinion must also be disclosed to Ofwat. The board is required to inform Ofwat as soon as it becomes aware of any circumstances which would change its opinion in this regard.

- (f) **Special administration:** Anglian Water must ensure at all times, so far as reasonably practicable, that if a Special Administration Order was made in respect of it, Anglian Water would have available to it sufficient rights and resources (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purposes of such order could be achieved. See Chapter 10.5, “*Regulation of the Water and Water Recycling Industry in England and Wales — Special Administration Orders*”.
- (g) **Conducting the Appointed Business of Anglian Water:** Anglian Water is required to operate the Appointed Business as though it were substantially Anglian Water’s sole business and Anglian Water was a separate public limited company.¹ It is also required to meet Ofwat’s objectives on board leadership, transparency and governance, which are set out below, and explain in a manner that is effective, accessible and clear how it is meeting those objectives. The objectives are that:
 - (i) its board establishes the company’s purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves;
 - (ii) it has an effective board with full responsibility for all aspects of Anglian Water’s business for the long term;
 - (iii) the board’s leadership and approach to transparency and governance engenders trust in Anglian Water and ensures accountability for their actions; and
 - (iv) the board and its committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.
- (h) **Investment Grade Rating:** Anglian Water is obliged to ensure that it (or any associated company as issuer of corporate debt on its behalf) maintains at all times an investment grade credit rating in relation to its corporate debt.
- (i) **Cash lock-up provision:** this provision prohibits, subject to certain limited exceptions, without Ofwat’s prior consent, the transfer of cash or other assets to an associated company when Anglian Water: (i) no longer holds an investment grade rating; or (ii) holds a rating at the minimum investment grade level and that rating has been put under review for possible downgrade or is assigned a negative outlook.
- (j) **Maintenance of a bond listed on the London Stock Exchange:** Anglian Water is required to maintain the listing of a financial instrument on the London Stock Exchange (or with the prior agreement of Ofwat, some other exchange of similar standing) whose market price should react to the financial position of Anglian Water’s Appointed Business; and it must use all reasonable endeavours to retain that financial instrument, unless it satisfies Ofwat that the listing is no longer appropriate.

¹ Ofwat has stated that, in assessing compliance with the requirement to conduct the Regulated Business as if it were the sole business of Anglian Water and Anglian Water were a separate public limited company: “we may take account, inter alia, of the constitution of the board, but we would not need nor wish to try and second guess whether or not the directors were acting in, or in what they thought were, the interests of” Anglian Water. Ofwat further stated that it did not see this requirement “in any way as the regulator re-interpreting the duties of a director under either the Companies Act or common law. nor in [Ofwat’s] view should it be construed as precluding a director from having due regard to the interests of an Appointee’s shareholders”.

- (k) **Ultimate Controller provision:** Anglian Water must secure legally enforceable undertakings from its Ultimate Controller and, when such Ultimate Controller is not the UK holding company, from its UK holding company, that they (and each of their subsidiaries (other than Anglian Water and its subsidiaries)), will:
- (i) give Anglian Water all such information as may be necessary to enable Anglian Water to comply with the Licence;
 - (ii) refrain from any action which might cause Anglian Water to breach any of its obligations under the WIA or the Licence; and

Anglian Water must inform Ofwat immediately in writing if it becomes aware that the undertaking has ceased to be legally enforceable, or that there has been any breach of its terms; and except with the written consent of Ofwat, refrain from entering (directly or indirectly) into any contract or arrangement with its Ultimate Controller or any associated company (other than subsidiaries of Anglian Water) at a time when no such undertaking exists or there is an unremedied breach of such undertaking. For these purposes, “Ultimate Controller” means any person which, whether alone or jointly and whether directly or indirectly, is in the reasonable determination of Ofwat, in a position to control, or to materially influence, the policy or affairs of the Appointed Business or of any holding company of the Appointed Business.

As noted above, there is a new obligation to inform Ofwat if Anglian Water becomes aware that arrangements are in progress that may lead to a change of Ultimate Controller; and to enforce Ultimate Controller undertakings given to Anglian Water if Ofwat so directs.

5.1.3 Corporate Structure

The regulatory ring-fencing measures described above have been enhanced by the separation of Anglian Water from the other businesses of the Anglian Water Group through the interposition of two intermediate special purpose Holding Companies, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited, each of which is incorporated in England and Wales. Anglian Water Services Holdings Limited is a wholly-owned subsidiary of AWG Group Ltd. The principal purpose of Anglian Water Services Holdings Limited is to hold all of the shares in Anglian Water Services UK Parent Co Limited and the principal purpose of Anglian Water Services UK Parent Co Limited is to hold all of the shares in Anglian Water.

5.1.4 Directors

The board of directors of each company in the Anglian Water Services Financing Group may comprise directors who are also directors of other Anglian Water Group companies outside the Anglian Water Services Financing Group. Currently John Hirst (Chairman of AWGL) is Chairman of Anglian Water; Peter Simpson (Chief Executive Officer of AWGL) is Chief Executive Officer of Anglian Water; and Steve Buck (Chief Financial Officer of AWGL) is Chief Financial Officer of Anglian Water.

The Companies Act 2006 provides that a director has a duty to avoid situations in which he has, or could have, a direct or indirect interest that conflicts with the interests of the company; and that if he is in any way, directly or indirectly interested in a proposed transaction or arrangement with the company, he must declare the nature and extent of that interest to the other directors.

The constitutional documents of each company in the Anglian Water Services Financing Group state that, provided he has made disclosure to the directors, a director may be a party to, or otherwise interested in, any transaction or arrangement with the company. No director may vote on any contract, transaction or arrangement between a company in the Anglian Water Services Financing Group and any other company of which he is a director, other than a company in the Anglian Water Services Financing Group. All directors are entitled to vote on the matter of dividends and distributions to Anglian Water Group companies. The boards of the companies in the Anglian Water Services Financing Group require all conflicts of interest of directors to be disclosed. On 26 February 2009, the board of directors of the Issuer, Anglian Water and Anglian Water Services Holdings Limited passed ordinary resolutions in line with the new Companies Act 2006 provisions and subject to the relevant company's articles of association. The resolutions allow a director to be a party to a contract or transaction where that director may have a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company, provided he discloses that interest to the other directors. Where a director has an outside interest which can reasonably be regarded as likely to give rise to a conflict of interest, the director is required to take additional steps in order to manage such conflict, including (i) declaring to the meeting that he has such an interest, but the director is not required to disclose the nature of that interest where he is subject to confidentiality obligations; (ii) absenting himself from any relevant meetings of the directors; and (iii) not reviewing any relevant documents or information made available to the directors generally and/or arranging for such documents to be reviewed by a professional adviser to ascertain the extent to which it might be appropriate for him to have access to such documents. Nevertheless, subject to the provisions of the articles the director is still entitled to vote on such matter in which he is interested and be counted towards the quorum, and retain for his own absolute use and benefit all direct or indirect profits and advantages.

The Common Terms Agreement provides that following the occurrence of a Trigger Event and if the Trigger Event has not otherwise been remedied or waived, the Security Trustee is entitled to procure the appointment of additional non-executive directors to the board of Anglian Water and a similar entitlement applies in relation to the other companies in the Anglian Water Services Financing Group (the “**Security Trustee Directors**”). See Chapter 6.5.8, “*Financing Structure — Common Terms Agreement — Trigger Event Consequences*”. The articles of association of each company in the Anglian Water Services Financing Group provide that the total number of votes capable of being cast by Security Trustee Directors in respect of any question arising at a meeting of the Directors cannot exceed the total number capable of being cast by the other Directors participating in the meeting in respect of that question. Additionally, the articles of association of each company in the Anglian Water Services Financing Group provide that no Security Trustee Director may be appointed chairman or vote on any resolutions concerning the appointment or removal of a chairman.

5.1.5 Management Compensation

The remuneration policy within Anglian Water reflects the organisation's desire to achieve both short-term and long-term goals. In April 2020, Executive Directors and certain senior managers received an award under a Deferred Bonus Plan (“**DBP**”) which, in 2019, replaced both the annual bonus and the LTIP awards which have,

historically, been made to senior managers. The structure of the DBP allows for the staggered vesting of Award payments. The 2020 award envisages that payments will be made 1 year, 3 years and 4 years after the Award Date (with 50 per cent. of the value of the Award being deferred). The primary performance condition that governs the extent to which the 2020 Awards will vest is based on three customer focused measures that take account of: customer satisfaction; customer delivery; and customer efficiency. In addition to these three customer-focused measures, the Executive Directors have been given specific targets relevant to their broader roles across the Anglian Water Group companies.

5.1.6 Security and Covenant Packages

In connection with the restructuring of Anglian Water, the Anglian Water Services Financing Group provided as full a security package as was commensurate with the limitations imposed by the WIA and the Licence.

Pursuant to the covenant package (as set out in Chapter 6.5.3, “*Financing Structure — Common Terms Agreement — Covenants*”), dividends, management fees (if any), Customer Rebates and other such distributions are only permitted provided that no Trigger Event or Event of Default is continuing and historical and forward-looking interest cover ratios and regulated asset ratios and certain other conditions are met. In addition, the companies in the Anglian Water Services Financing Group may incur new financial indebtedness to make Restricted Payments only if certain additional ratio tests are met. The security package and the covenant-based ring-fencing restrictions placed on the Anglian Water Services Financing Group are set out in Chapter 6, “*Financing Structure*”.

5.1.7 Business Separation

Following the corporate restructuring in 2002, Anglian Water operates as a separate corporate entity from the other Anglian Water Group businesses. The Anglian Water Group achieved this separation to the fullest extent practicable by asset and business transfers and by ensuring that contracts between Anglian Water and Anglian Water Group companies were entered into on an arm’s length basis. In addition, all existing and new debt as at the Initial Issue Date relating to the regulated water and water recycling business was transferred to and issued by the Issuer, or in certain limited circumstances, Anglian Water, thereby severing any financing links between the Anglian Water Services Financing Group and other companies in the Anglian Water Group.

Pursuant to the ring-fencing obligations, Anglian Water has access to all employees required to run the Regulated Business, including adequate management resources. The majority of such employees are employed by Anglian Water.

The general health and safety policy for companies within the Anglian Water Group is set by AWGL, but Anglian Water-specific policy, procedures and administration are carried out by Anglian Water.

All transactions entered into by the Anglian Water Services Financing Group with third parties (including other Anglian Water Group companies) are entered into on an arm’s length basis. Any transaction between Anglian Water and another company in the Anglian Water Group is formally reviewed to ensure compliance with the Licence,

RAG 5 and procurement regulations. See Chapter 11, “*Licence Conditions – Anglian Water’s Control over its Operations*”.

As part of the ring-fencing arrangements, Anglian Water’s activities are restricted to the business of a Regulated Company in England and Wales. Anglian Water’s management has retained some non-regulated business and assets within permitted *de minimis* levels (for example, providing certain recreational water activities in or around its reservoirs).

Under the covenant package, the Security Trustee may permit Anglian Water to enter into limited joint ventures in areas outside the regulated water and water recycling business subject to certain limitations on the aggregate value of all non-regulated business. See Chapter 6, “*Financing Structure*”.

Under the covenant package, Anglian Water is able to acquire assets or make disposals only if conditions relating to each are met (for example, regulated asset ratio requirements in relation to disposals). See Chapter 6.5.5, “*Financing Structure – Common Terms Agreement – Covenants – General*”.

5.1.8 Ongoing Trading Relationships with other Anglian Water Group companies

Pension Scheme

Anglian Water participates in the same retirement benefit arrangements as some other companies in the Anglian Water Group, including the Pension Scheme. The ring-fencing programme does not segregate Anglian Water’s pension arrangements from those of the Anglian Water Group. However, Anglian Water’s contributions to the Pension Scheme are made in respect of Anglian Water’s employees only. Anglian Water has entered into agreements with the other Anglian Water Group companies participating in the Pension Scheme to provide that these companies will withdraw from the Pension Scheme if they are unable to meet their contribution obligations. Transfer payments made out of the Pension Scheme in respect of employees of the withdrawing employer reflect any failure on the part of the withdrawing employer to pay contributions. These measures are intended to minimise the risk of any cross-subsidy within the Pension Scheme between Anglian Water and other Anglian Water Group companies.

In November 2000, the Accounting Standards board issued Financial Reporting Standard 17 (Retirement Benefits) (“**FRS 17**”). Anglian Water has fully adopted its requirements.

Intellectual Property (“IP”)

Anglian Water’s water and water recycling businesses do not depend heavily on IP and, apart from software licences, there are no other significant “licences-in” of third-party IP. Anglian Water owns all of the UK-registered “Anglian Water” trademarks together with such registered and unregistered intellectual property rights as may subsist in work product produced by its employees.

5.2 The Anglian Water Services Financing Group

5.2.1 Anglian Water Incorporation, Board of Directors and Corporate Governance

Anglian Water Details

Anglian Water is a private limited company which was incorporated in England and Wales on 1 April 1989 under the Companies Act 1985 with registered number 2366656. The registered office and headquarters of Anglian Water are at Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

Anglian Water's issued share capital is £32,000,000 divided into 32,000,000 ordinary shares of £1 each. On 30 September 2015, Anglian Water's board of directors passed a resolution to increase Anglian Water's authorised share capital from £860,000,000 to £2,570,200,000 divided into 2,570,200,000 ordinary shares of £1 each. On 30 September 2015 Anglian Water's board of directors also approved a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. On 5 October 2015, Anglian Water undertook a bonus issue of 2,560,200,000 ordinary shares out of its revaluation reserve. Following this bonus issue Anglian Water completed a capital reduction exercise, creating £2,560.2 million of distributable reserves. On completion of this process the issued share capital of Anglian Water remained unchanged from the 10,000,000 ordinary shares of £1 each in issue at the start of the 2015/16 financial year. On 5 October 2018 Anglian Water received an equity injection, resulting in its share capital increasing from 10,000,000 ordinary shares of £1 each to 32,000,000 ordinary shares of £1 each.

The service address of the directors of Anglian Water is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire PE29 6XU; the telephone number is 01480 323 000.

Following a competitive tender process, Anglian Water appointed Deloitte LLP as its external auditor with effect from 1 September 2016. Prior to that date (and until its resignation on 29 July 2016) PricewaterhouseCoopers LLP was the external auditor of Anglian Water. The company secretary of Anglian Water is Claire Russell.

Directors of Anglian Water

Anglian Water operates under the overall direction of Anglian Water's Board of Directors (the "**Board**") which is responsible for policy and strategic matters. The Board currently consists of a non-executive chairman, two executive directors, four independent non-executive directors and three additional non-executive directors. All of the directors of Anglian Water, with the exception of the three additional non-executive directors, are also directors of the Issuer, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited.

There are no potential conflicts of interest between any duties to Anglian Water of its directors and their private interests or duties.

Chairman

John Hirst, CBE

John Hirst was appointed to the Board in April 2015 and became Chairman on 1 April 2020. He was appointed as Senior Independent Non-Executive Director in January 2016. John is a Non-Executive Director of Marsh Limited (for which he is also a member of the Audit, Nomination, Remuneration and Risk Committees). He is also a Non-Executive Director and Chairman of the Risk Committee for Jelf Insurance Brokers Limited, part of the Marsh group. John is Chairman of the British Standards

Institution, the National Oceanography Centre and SUDEP Action. He is also a director of three smaller companies: IMIS Global Limited, White Square Chemical Inc and Afontech Limited. John is a Trustee of Epilepsy Research UK.

John was a Non-Executive Director of Ultra Electronics Holdings plc (for which he was also the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees), Chief Executive of the Met Office from 2007 to 2014 and Group Chief Executive of Premier Farnell plc between 1998 and 2005. He joined Imperial Chemical Industries plc in 1979 where he held several roles over a 19-year period, including Group Treasurer and Chief Executive Officer, ICI Performance Chemicals. He also served as a Non-Executive Director and Chairman of the Audit Committee of Hammerson plc between 2004 and 2014. He is a Fellow of the Institute of Chartered Accountants and a member of the Association of Corporate Treasurers.

Executive Directors

Steve Buck

Chief Financial Officer

Steve Buck joined Anglian Water Group in June 2019 and was appointed to the Board as Chief Financial Officer on 1 August 2019.

Steve has spent almost two decades working across the globe in different roles within the utility sector. He has led finance and transformation functions, focusing on delivering for both shareholders and millions of customers in complex and challenging environments.

Between 2008 and 2017 Steve held several positions within Centrica (the global energy and services company) including Group Head, Finance and Transformation. Prior to this, he held a number of roles in Thames Water, the largest water and wastewater company in the UK.

Peter Simpson

Chief Executive Officer

Peter's career in the water industry has covered eight countries across three continents, including as Regional Director for Europe and South America based in the Czech Republic, and Senior Vice President based in the USA.

He has been Chief Executive Officer of Anglian Water Group since October 2013, and was previously Managing Director of Anglian Water from January 2010 and Chief Operating Officer from 2004. He was Chairman of Water UK from April 2012 to October 2013 (for which he remains a Director) and is a Past President of the Institute of Water. Peter currently serves as a director of Water Resources East (WRE) Limited ("WRE"). WRE is a pioneering, multi-sector, collaborative business originally formed by Anglian Water, but now operating as an independent not for profit organisation collaborating with local, regional and national partners to deliver resilience and enable economic growth and environmental gain through the development of a regional holistic water management plan for Eastern England.

Peter is a co-chair of Cambridge University's 'Programme for Sustainability Leadership' UK Climate Change Leaders Group. The UK & EU CLG influences at a

national, EU and global level to reduce carbon emissions, and to champion resource efficiency in water, energy and other natural resources.

Peter is co-sponsor of the water industry's 2030 net zero carbon commitment.

Peter also works with Business in the Community (“**BITC**”) as Chair of the Water Taskforce and East of England Advisory Board as well as being part of the BITC Circular Economy Team and Place Leadership Teams.

Peter became a Trustee of WaterAid in 2018. WaterAid is an international non-governmental organisation focused on providing clean safe drinking water, sanitation and hygiene for everyone. Peter is a Chartered Water and Environmental Manager, a Chartered Scientist and a Chartered Environmentalist.

In 2016, he was made an Honorary Fellow of both the Society of the Environment and of the Chartered Institution of Water and Environmental Management. He is a Companion of the Chartered Management Institute. He holds an MBA from Warwick Business School.

Independent Non-executive Directors

Natalie Ceeney, CBE

Natalie Ceeney was appointed to the Board in May 2018. Natalie is also a non-executive director of Countrywide PLC, Ford Credit Europe and Sport England, and chairs the Board of Innovate Finance, an independent membership association that represents the UK's global FinTech community.

Natalie has a strategy consultancy background at McKinsey & Company. Her executive career has included CEO roles at HM Courts & Tribunals Service, the Financial Ombudsman Service, the National Archives and as a member of HSBC's UK executive team. Natalie is a graduate of the University of Cambridge.

Dame Polly Courtice, DBE, LVO

Polly Courtice was appointed to the Board in April 2015 and was appointed as Senior Independent Non-Executive Director and Chair of the Nomination Committee in April 2020. Polly is Founder Director of the University of Cambridge Institute for Sustainability Leadership (“**CISL**”). She is a Director of the Judge Business School Executive Education Limited, a By-Fellow of Churchill College and an Honorary Fellow of Murray Edwards College at the University of Cambridge. She is a Director of Jupiter Green Investment Trust, and serves on the environmental/sustainability advisory boards for a number of leading companies.

In 2016 Polly was made a Dame Commander of the Order of the British Empire (DBE) for services to sustainability leadership, and in 2008 was made a Lieutenant of the Victorian Order (LVO). Polly was awarded the 2015 Bright Award for Environmental Sustainability from Stanford University Law School, and in 2016 was recognised with a Lifetime Achievement Award from Ethical Corporation.

Zarin Patel

Zarin Patel was appointed to the Board in October 2018 and became Audit Committee Chair in April 2020. Zarin is currently an Independent Member of the Audit & Risk

Committees of both HM Treasury and John Lewis Partnership plc. She also sits on the Board of Trustees of the National Trust and chairs its Audit & Risk Committee.

Zarin was previously the Chief Operating Officer of The Grass Roots Group PLC, a customer and employee engagement specialist. She was the BBC's Chief Financial Officer and member of its Board from 2004 to 2013 during which time she helped to transform the BBC into a fully digital broadcaster. Prior to the BBC she spent 16 years at KPMG working on FTSE quoted conglomerates in a variety of sectors. Zarin is a chartered accountant.

Paul Whittaker

Paul Whittaker was appointed to the Board in October 2013 and became Chairman of the Remuneration Committee in January 2015. This role is one of a small number of advisory and consultancy activities he undertakes for infrastructure companies.

Paul Whittaker was previously Director, UK Regulation at National Grid plc from 2006 to 2014. In this role he led UK regulatory strategy and price control activities, supported individual UK businesses in their day-to-day regulatory discussions and sat on the Boards of the two main UK operating subsidiaries – National Grid Electricity Transmission plc and National Grid Gas plc. Immediately prior to that he was Group Head of Strategy.

His career started in British Gas in 1981 and included the privatisation and subsequent liberalisation of the UK gas industry as well as periods working in the USA, Egypt and Ireland. He joined National Grid when it merged with Lattice in 2002.

Additional Non-Executive Directors

James Bryce

James Bryce was appointed as a non-executive director in December 2014. James is a Managing Director in CPPIB's Portfolio Value Creation Team. Prior to joining CPPIB in 2012, James was a managing director at Royal Bank Equity Finance where he spent 10 years focused on private equity and infrastructure transactions. Prior to RBEF, James worked at JP Morgan Capital and Hambros Bank. James holds an MA from Oxford University. James is also a director of Associated British Ports Holdings Limited and Glencore Agriculture Limited. He was appointed an alternate non-executive director of Anglian Water Group Limited on 1 December 2014 and as a Non-Executive Director in May 2018.

Niall Mills

Niall Mills was appointed as a Non-Executive Director in April 2014. Niall is employed by First State Investment Management (UK) Limited where he is a Partner in the Direct Infrastructure Investment business. Niall has extensive infrastructure experience gained in senior industry roles across a variety of sectors, including utility companies, rail and airports.

Niall was a director of Electricity North West and remains a director of several other fund investments across Europe. He has been a Non-Executive Director of Anglian Water Group Limited since September 2008. He is a Fellow of the Institution of Civil

Engineers and holds a Master of Business Administration from the London Business School and an Institute of Directors Diploma in Company Directorship.

Duncan Symonds

Duncan Symonds was appointed as a Non-Executive Director on 1 November 2016. Duncan is the Director of Asset Management for the IFM Investors European Infrastructure team. He also represents IFM Investors as a Director on the Boards of Global Infracore S.a.r.l., Airports Group Europe S.a.r.l., Luxpoort S.a.r.l., Midlands Expressway Limited and is an alternate director on the board of Anglian Water Group Limited.

Duncan is a Fellow of the Institution of Civil Engineers with over 20 years' experience of the construction industry. He holds an MBA from Cranfield School of Management.

The Chairman, Executive Directors and Independent Non-executive Directors are all Directors of the Issuer, Anglian Water, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited. The following individuals are Directors of the Issuer, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited.

Jane Pilcher

Jane Pilcher is Group Treasurer at Anglian Water Group where she has responsibility for all finance and treasury activities of the group. She has prime responsibility for raising group debt, debt and bank investor relations, and liaison with the three rating agencies. In August 2017, Jane led the launch of the company's inaugural green bond, the first GBP Utility public bond, and the first GBP bond since 2015. She was responsible for procuring the Second Party Opinion, writing the company's Green Bond Framework as well as leading the extensive investor marketing to deliver a successful bond. Further sustainable finance has been raised since then with a second GBP public bond, US Private Placement debt as well as a CPI Note with Phoenix Assurance; c. £900m of finance has now been raised in accordance with the Green Bond Principles.

Jane also has responsibility, on behalf of the company, for the asset and liability management of the company's £1bn+ pension fund. She is a Fellow of the Association of Corporate Treasurers and a Non-Executive Director of the Loughborough Building Society.

Directors of Anglian Water Services UK Parent Co Limited

Alex Plant

Alex Plant became Regulation Director at Anglian Water in 2017, having spent the prior two years leading on regulatory policy and market reform. Previously he has worked as Director of Regulation at Royal Mail, Executive Director for Economy, Transport & Environment at Cambridgeshire County Council, and Chief Executive of Cambridgeshire Horizons, driving forward the delivery of sustainable new communities in Cambridgeshire.

Earlier in his career, Alex was Deputy Regional Director of the Government Office for the East of England, spent four years as Head of Economic Policy and International

Aviation at the CAA, and worked in HM Treasury on competition policy, including leading the work on the 2002 Enterprise Act.

Corporate Governance

Under paragraphs 3 to 47 of its memorandum of association (which now forms part of its articles of association), Anglian Water's primary objects are to carry on the business of a water and water recycling undertaker and to act as a Holding Company.

Anglian Water's independence from its ultimate Holding Company, AWGL, is enhanced by the inclusion of the following provisions in Anglian Water's articles of association:

- the composition of the board of directors of Anglian Water will include a minimum number of three non-executive directors who are not directors of any company in the Anglian Water Group (outside of the Anglian Water Services Financing Group) and who are not employees of any company in the Anglian Water Group; and
- any Anglian Water director who serves on any boards of directors within the Anglian Water Group will be disqualified from voting in respect of any contracts, transactions and arrangements between Anglian Water and any other company in the Anglian Water Group (or any subsidiary of it) in which he is interested by virtue of being a director of that other company (save for any contracts, transactions and arrangements between Anglian Water and the companies in the Anglian Water Services Financing Group).

Equivalent provisions are included in the articles of association of the Issuer, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited. Subject to the above provisions relating to the composition of the Anglian Water Board, AWGL, as ultimate holding company, may appoint up to four non-executive directors to the Board of Anglian Water and of the other companies in the Anglian Water Services Financing Group. All directors are entitled to vote on the matter of dividends and distributions to members.

As a private limited company with no listed equity, Anglian Water is not required to comply with the UK Corporate Governance Code (the “**Code**”). However, under the terms of its Licence, it is required to conduct its regulated business as if it were substantially the company's sole business and Anglian Water was a separate public limited company.

In January 2019, Ofwat issued a revised set of Board Leadership, Transparency and Governance Principles (the BLTG Principles), which consist of four broad objectives (compliance with which is an obligation of Anglian Water under the terms of its Licence) and a series of supporting provisions. These principles supersede the previous BLTG Principles which were issued in 2014. With effect from 1 August 2019 the BLTG principles were incorporated into Anglian Water's Licence. In July 2018 the FRC published the 2018 UK Corporate Governance Code, which applies to accounting periods beginning on or after 1 January 2019. In response to both Ofwat's revised BLTG Principles and the new UK Corporate Governance Code Anglian Water has developed the Anglian Water Services Corporate Governance Code 2019 (2019 Code).

The 2019 Code incorporates Ofwat's revised BLTG Principles together with most of the provisions contained in the 2018 UK Corporate Governance Code. Only those parts of the 2018 UK Corporate Governance Code that cannot be sensibly applied to a company in private ownership have been omitted. The 2019 Code was replaced with Anglian Water Services Corporate Governance Code 2015 and came into effect on 1 April 2019.

Copies of the 2015 Code and 2019 Code can be found on the Anglian Water website. Anglian Water established an Audit Committee in 2002. The members of the Audit Committee are currently Zarin Patel (Chairman of the Committee), Natalie Ceeney and Paul Whittaker. In July 2013 Anglian Water also established Remuneration and Nomination Committees. The current members of the Remuneration Committee are Paul Whittaker (Chairman of the Committee), James Bryce, Natalie Ceeney, Dame Polly Courtice, John Hirst, Niall Mills and Duncan Symonds. The current members of the Nomination Committee are John Hirst (Chairman of the Committee), James Bryce, Polly Courtice, Niall Mills, Zarin Patel and Paul Whittaker. Copies of the terms of reference of all of the Board Committees are available on the Anglian Water website www.anglianwater.co.uk.

Anglian Water has established management systems to ensure compliance with health and safety and environmental regulations in respect of water quality and wastewater disposal. Anglian Water is also subject to the provisions of the Companies Act.

The Annual Report and Accounts is now an integrated report which reports on all Anglian Water's sustainable activities.

In July 2019, Anglian Water became the first water company to enshrine purpose in its Articles of Association. See Chapter 3, "*Ring-fencing and the Anglian Water Services Financing Group - Sustainability*".

Directors' Interests

Prior to the takeover by Osprey, the directors of Anglian Water had interests in AWG plc's (now known as AWG Parent Co Ltd) share capital. As a result of the subsequent acquisition all share incentive schemes vested early and consequently the directors no longer have interests in the share capital of AWG or AWG Parent Co Ltd.

Subsidiaries

At the date of this Prospectus Anglian Water has no subsidiaries other than the Issuer.

5.2.2 The Issuer

The Issuer was incorporated and registered in England and Wales under the Companies Act 1985 with limited liability as Precis (2157) Limited, a private limited company, on 28 November 2001 with registered number 4330322 (LEI: 213800DL377MH46PDY63). On 10 January 2002, it changed its name to Anglian Water Services Financing Limited. It was re-registered as a public limited company on 7 March 2002. The registered office of the Issuer is at Lancaster House, Lancaster Way Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU ; its telephone number is 01480 323 000. The website of the Issuer is www.anglianwater.co.uk but information on the website does not form part of this Prospectus unless it has been explicitly incorporated by reference into this Prospectus.

The Issuer is a wholly-owned direct subsidiary of Anglian Water and an indirect subsidiary of AWGL. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 of which have been issued quarter paid-up and two of which are fully paid-up. The Issuer has no subsidiaries.

Directors and Company Secretaries of the Issuer

The directors of the Issuer are John Hirst, Peter Simpson, Steve Buck, Dame Polly Courtice, Natalie Ceeney, Zarin Patel, Alex Plant, Jane Pilcher and Paul Whittaker and their principal activities are described in Chapter 5.2.1, “*Anglian Water Incorporation, Board of Directors and Corporate Governance*”.

There are no potential conflicts of interest between any duties to the Issuer of its directors and their private interests or duties.

The business address of the directors of the Issuer is Lancaster House, Lancaster Way Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

The company secretary of the Issuer is Claire Russell.

In accordance with Article 41.6(c) of Directive 2006/43/EC of the European Parliament and of the Council and any relevant implementing measures of the United Kingdom, the Issuer does not consider it appropriate to have either an audit committee or an administrative or supervisory body entrusted to carry out the functions of an audit committee, because the Issuer’s principal business consists of the issue of the Bonds and the application of principal, interest and other amounts received from or in connection with Anglian Water towards making payments of principal and interest on the Bonds and paying certain fees, expenses and other related amounts and as such, the Issuer is not conducting an operating business.

The Activities of the Issuer

The Issuer has no employees nor does it own any physical assets. Administration and treasury functions are conducted on its behalf by Anglian Water. It is intended to conduct all future financing activities (save for financing lease arrangements) for the Anglian Water Services Financing Group through the Issuer. The Issuer has issued various series of Bonds. The Issuer has entered into: (i) the Debt Service Reserve Liquidity Facility Agreements to enable it to borrow monies in order to fund liquidity shortfalls in respect of Bonds and certain other financial indebtedness of the Issuer; (ii) Hedging Agreements in accordance with the Hedging Policy; (iii) the O&M Reserve Facility Agreement; and (iv) any other documents incidental to the Programme. See Chapter 6, “*Financing Structure*”.

The Issuer is empowered under its memorandum and articles of association to enter into the proposed transaction documents to which it is a party and its directors have authority under the Issuer’s articles of association to exercise that power on its behalf.

The Issuer appointed Deloitte LLP as its external auditor with effect from 1 September 2016.

5.2.3 Anglian Water Services Holdings Limited

Anglian Water Services Holdings Limited was incorporated in England and Wales under the Companies Act 1985 as a limited liability company on 28 November 2001

under the name of Precis (2158) Limited, with registered number 4330144. It changed its name to Anglian Water Services Holdings Limited on 10 January 2002. The registered office of Anglian Water Services Holdings Limited is at Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU; its telephone number is 01480 323 000.

Anglian Water Services Holdings Limited is a wholly-owned direct subsidiary of AWG Group Limited and an indirect subsidiary of AWGL. Its issued share capital is £3 divided into 3 ordinary shares of £1 each, which have been issued to AWG Group Ltd and are fully paid-up.

Directors and Company Secretaries of Anglian Water Services Holdings Limited

The directors of Anglian Water Services Holdings Limited are John Hirst, Peter Simpson, Steve Buck, Dame Polly Courtice, John Hirst, Natalie Ceeney, Zarin Patel, Alex Plant, Jane Pilcher and Paul Whittaker and their principal activities are described in Chapter 5.2.1, “*Anglian Water Incorporation, Board of Directors and Corporate Governance*”.

The business address of the directors of Anglian Water Services Holdings Limited is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

The company secretary of Anglian Water Services Holdings Limited is Claire Russell.

The Activities of Anglian Water Services Holdings Limited

Anglian Water Services Holdings Limited has no employees nor does it own any physical assets other than its shares in Anglian Water Services UK Parent Co Limited. Administration and treasury functions are conducted on its behalf by Anglian Water.

The principal activity of Anglian Water Services Holdings Limited is to hold the shares of Anglian Water Services UK Parent Co Limited and to enter into documents incidental to the Programme. Anglian Water Services Holdings Limited has no direct subsidiaries other than Anglian Water Services UK Parent Co Limited.

Anglian Water Services Holdings Limited is empowered under its memorandum and articles of association to enter into the proposed transaction documents to which it is a party and its Directors have authority under Anglian Water Services Holdings Limited’s articles of association to exercise that power on its behalf.

The activities of Anglian Water Services Holdings Limited are restricted in the Common Terms Agreement. See Chapter 6.5.5, “*Financing Structure — Common Terms Agreement — Covenants — General*”.

Anglian Water Services Holdings Limited appointed Deloitte LLP as its external auditor with effect from 1 September 2016.

5.2.4 Anglian Water Services UK Parent Co Limited

Anglian Water Services UK Parent Co Limited was incorporated in England and Wales under the Companies Act 2006 as a private limited company on 5 April 2018, with registered number 11294507. The registered office of Anglian Water Services UK

Parent Co Limited is at Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU; its telephone number is 01480 323 000.

Anglian Water Services UK Parent Co Limited is a wholly-owned direct subsidiary of Anglian Water Services Holdings Limited and an indirect subsidiary of AWGL. Its issued share capital is £322,000,001 divided into 322,000,001 ordinary shares of £1 each, which are held by Anglian Water Services Holdings Limited and are fully paid-up.

Directors and Company Secretaries of Anglian Water Services UK Parent Co Limited

The directors of Anglian Water Services UK Parent Co Limited are John Hirst, Peter Simpson, Steve Buck, Dame Polly Courtice, Paul Whittaker, Natalie Ceeney, Zarin Patel, Jane Pilcher and Alex Plant and their principal activities are described in Chapter 5.2.1 “*Anglian Water Incorporation, Board of Directors and Corporate Governance*”. The business address of the directors of Anglian Water Services UK Parent Co Limited is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE29 6XU.

There are no potential conflicts of interest between any duties to Anglian Water Services UK Parent Co Limited of its directors and their private interests or duties.

The company secretary of Anglian Water Services UK Parent Co Limited is Claire Russell.

The Activities of Anglian Water Services UK Parent Co Limited

Anglian Water Services UK Parent Co Limited has no employees nor does it own any physical assets other than its shares in Anglian Water. Administration and treasury functions are conducted on its behalf by Anglian Water.

The principal activity of Anglian Water Services UK Parent Co Limited is to hold the shares of Anglian Water and to enter into documents incidental to the Programme. Anglian Water Services UK Parent Co Limited has no direct subsidiaries other than Anglian Water.

Anglian Water Services UK Parent Co Limited is empowered under its articles of association to enter into the proposed transaction documents to which it is a party and its Directors have authority under Anglian Water Services UK Parent Co Limited’s articles of association to exercise that power on its behalf.

The activities of Anglian Water Services UK Parent Co Limited are restricted in the Common Terms Agreement. See Chapter 6.5.5, “*Financing Structure — Common Terms Agreement — Covenants — General*”.

Anglian Water Services UK Parent Co Limited appointed Deloitte LLP as its external auditor with effect from 14 June 2018.

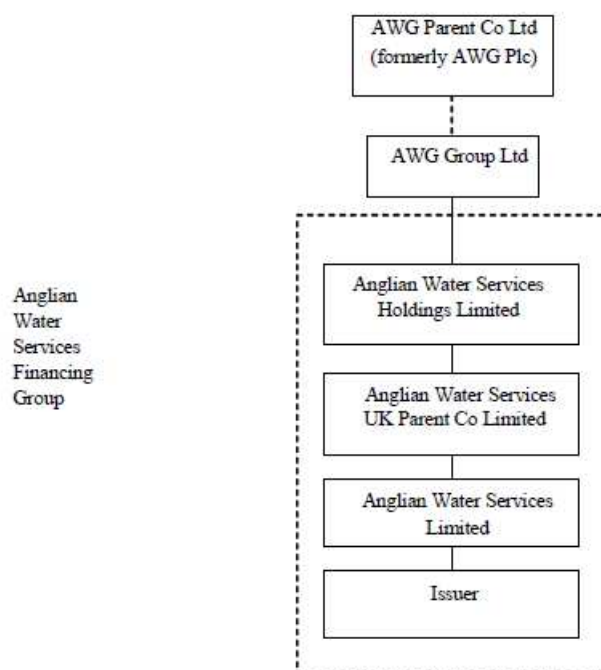
CHAPTER 6

FINANCING STRUCTURE

6.1 The Anglian Water Services Financing Group

In 2002, AWG Parent Co Ltd implemented a significant corporate restructuring and financing through the creation of the new Anglian Water Services Financing Group within the Anglian Water Group. The Anglian Water Services Financing Group consists of Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited's wholly-owned subsidiary, Anglian Water Services UK Parent Co Limited, Anglian Water Services UK Parent Co Limited's wholly-owned subsidiary, Anglian Water and Anglian Water's wholly-owned subsidiary, Anglian Water Services Financing Plc (see diagram, "*Ownership Structure of Anglian Water Services Financing Group*" below). The creation of the Anglian Water Services Financing Group within the Anglian Water Group facilitated the financing of Anglian Water through, inter alia, the issuance of Bonds and other financial indebtedness incurred by the Issuer. AWG Group Ltd's and/or Anglian Water's obligations under the Existing Bonds and the Transferred USPP Bonds (and the rights and obligations under Hedging Agreements hedging those Bonds) were transferred to the Issuer in return for the granting by Anglian Water of loan notes in favour of the Issuer and the assignment to the Issuer and the amendment of certain existing intercompany loans. Further, the Issuer has been, and will continue to be, funded by proceeds of Bonds issued under the Programme and other financial indebtedness. This is lent by the Issuer to Anglian Water pursuant to the Issuer/Anglian Water Loan Agreement (see Chapter 6.4, "*Intercompany Loan Arrangements*" below). Anglian Water on-lent certain of the monies borrowed by it from the Issuer to Anglian Water Services Holdings Limited pursuant to an interest-bearing loan and Anglian Water Services Holdings Limited used the proceeds of the borrowings to satisfy its obligations to pay to AWG Group Ltd the consideration for the acquisition by it of shares in Anglian Water Services UK Parent Co Limited.

Ownership Structure of Anglian Water Services Financing Group



6.2 Sources of Funds and Debt Transfer

6.2.1 Sources of Funds

At the date of this Prospectus, the Issuer has available to it financial accommodation from the following sources:

- (i) the Bonds issued for cash;
- (ii) the Authorised Loan Facilities;
- (iii) the Hedging Agreements;
- (iv) the Debt Service Reserve Liquidity Facilities; and
- (v) the O&M Reserve Facility.

The Issuer is also permitted, subject to the terms of the Common Terms Agreement to incur additional Permitted Financial Indebtedness including issuing Bonds under the Programme and such additional Permitted Financial Indebtedness may either be secured Class A Debt or Class B Debt (provided the lender accedes to the CTA and STID) (see Chapter 6.3, “*Security Trust and Intercreditor Deed*” and Chapter 6.5, “*Common Terms Agreement*”).

The Issuer may also (subject to the terms of the CTA) enter into certain unsecured financing arrangements.

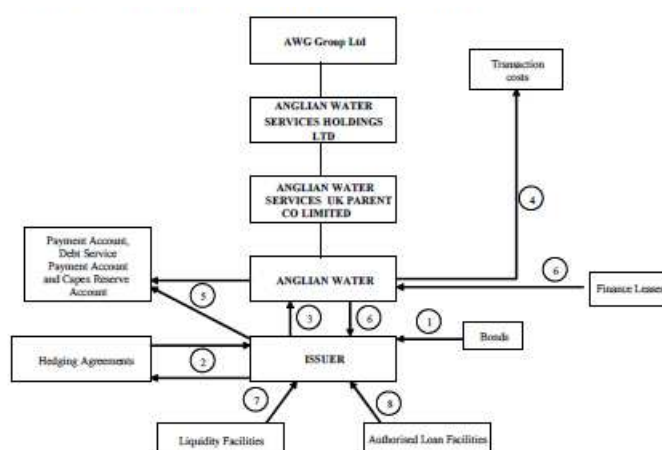
All monies borrowed by the Issuer have been, and will be, automatically on-lent to Anglian Water under the Intercompany Loan Arrangements (see Chapter 6.4, “*Intercompany Loan Arrangements*”). The Intercompany Loan Arrangements provide for payments to become due from Anglian Water to the Issuer on dates and in amounts

that match the obligations of the Issuer to its various financiers under its financial arrangements plus a management fee. To further reinforce the ability of the income of Anglian Water to be utilised in repayment of the Issuer's debt, Anglian Water has guaranteed the obligations of the Issuer to the Secured Creditors and has executed a Security Agreement in favour of the Security Trustee to secure its obligations under that guarantee (see Chapter 6.7, "*Security Agreement*").

The financial accommodation available to the Anglian Water Services Financing Group also includes Finance Leases which are available to Anglian Water. The purpose of the guarantee referred to above and the provisions of the STID are, *inter alia*, to prevent any structural subordination of other Secured Creditors to the Finance Lessors that may otherwise result.

Hedging arrangements have been entered into by the Issuer and the effect of these are passed on to Anglian Water via the Intercompany Loan Arrangements (see Chapter 6.4, "*Intercompany Loan Arrangements*").

6.2.2 Cashflow and Debt Structure on an Issue Date



Notes:

The steps described below explain the cashflow and debt structure of the Anglian Water Services Financing Group on an Issue Date. The numbers relate to the diagram above and indicate where in the transaction structure each step occurs:

- (1) the Issuer, on the relevant Issue Date, issues new Bonds for cash to investors and receives the net proceeds arising out of the sale of such new Bonds;
- (2) if any of the net proceeds are received in a currency other than Sterling, the Issuer will swap them with one or more Hedging Counterparties under the relevant Hedging Agreements, which the Issuer will have entered into prior to the Issue Date;
- (3) the Issuer will then loan the proceeds from the sale of the Bonds to Anglian Water under the pre-existing Issuer/Anglian Water Loan Agreement;
- (4) the Issuer will also then pay the relevant fees and other costs associated with the issue of the new Bonds to its advisers and service providers;
- (5) funds are paid into the Payment Account and Capex Reserve Account of Anglian Water and the Debt Service Payment Account of the Issuer in order to provide the Anglian Water Group with the capital it requires to operate its business, and to provide the Issuer with funds to pay the investors;
- (6) although the Issuer has lent the proceeds of the Issue of Bonds to Anglian Water, the Finance Leases will remain with Anglian Water subject to the provisions of the CTA and the STID;

- (7) in order to ensure the liquidity of the Issuer, debt service reserve liquidity facilities and an operating and maintenance reserve facility will be made available to the Issuer for the purposes of servicing any debts as they fall due and for covering certain operating and maintenance expenditure requirements; and
- (8) additionally, authorised loan facilities will be made available to the Issuer for working capital and/or any capital expenditure requirements.

6.3 Security Trust and Intercreditor Deed

6.3.1 General

The intercreditor arrangements in respect of the Anglian Water Services Financing Group (the “**Intercreditor Arrangements**”) are contained in the STID and the CTA. The Intercreditor Arrangements bind each of the Secured Creditors and each of the Issuer and the other Obligors.

The Secured Creditors include the Class A Debt Providers and the Class B Debt Providers. Any new Authorised Credit Provider (or in respect of Bondholders (other than holders of the USPP 2001 Bonds), the Bond Trustee) is required to accede to the STID and the CTA as a Class A Debt Provider or a Class B Debt Provider.

Unsecured creditors have not and will not become parties to the Intercreditor Arrangements and although ranking behind the Secured Creditors in an administration or other enforcement will have unfettered, independent rights of action in respect of their debts. However, the aggregate amount of unsecured debt is restricted to levels acceptable to the Secured Creditors. See Chapter 6.5, “*Common Terms Agreement*”.

The purpose of the Intercreditor Arrangements is to regulate, *inter alia*: (i) the claims of the Secured Creditors; (ii) the exercise, acceleration and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during a Standstill Period (see Chapter 6.3.13, “*Standstill*” below); (v) the Entrenched Rights and the Reserved Matters of the Secured Creditors; and (vi) the giving of consents and waivers and the making of modifications to the Finance Documents.

The Intercreditor Arrangements provide for the ranking in point of payment of the claims of the Secured Creditors and for the subordination of all intra Anglian Water Services Financing Group claims (other than claims in respect of the Intercompany Loan Arrangements).

6.3.2 Undertakings of Secured Creditors

Pursuant to the terms of the STID, each Secured Creditor (other than the Security Trustee and the Bond Trustee) agrees and each of the Obligors acknowledges that it will not, except as expressly contemplated in the Common Terms Agreement, or unless the Majority Creditors otherwise agree in writing in respect of a STID Proposal:

- (a) permit or require any Obligor to discharge any of the Secured Liabilities owed to it save:
 - (i) to the extent permitted by (a) the Payment Priorities, (b) any Permitted Lease Termination, (c) any Permitted Hedge Termination or (d) any Permitted Acceleration;

- (ii) in respect of a Permitted Tender for a Tranche of Class A Bonds or a Tranche of Class B Bonds to the extent any tender price paid is funded from (i) the proceeds of Permitted Financial Indebtedness (in “**Relevant Permitted Financial Indebtedness**”) that ranks *pari passu* with, or junior to, the Tranche of Bonds that are the subject of the Permitted Tender and/or (ii) cash equalling an amount that would not exceed the amount that any Obligor would be entitled to pay by way of a Distribution or payment under Subordinated Debt at such time pursuant to paragraph 39 (*Restricted Payments*) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) to the Common Terms Agreement, provided that, in each such case:
 - (a) no Trigger Event, no Event of Default and no Potential Event of Default is subsisting or would occur as a result of such discharge and, if applicable, the related FX Swap Modification (as defined in paragraph 21(b) of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA); and
 - (b) in the case of any Permitted Tender for a Tranche of Class A Bonds or a Tranche of Class B Bonds, the Effective Maturity Date of any Relevant Permitted Financial Indebtedness is a date falling no earlier than the Effective Maturity Date of such Tranche of Class A Bonds or Class B Bonds, and for the purposes of this paragraph (b) and paragraph 6.3.2(a)(iii) below, “**Effective Maturity Date**” means, in relation to any Relevant Permitted Financial Indebtedness or Tranche of Class A Bonds or Tranche of Class B Bonds (together, the “**Relevant Debt**” for the purposes of this sub-paragraph (b)), the earliest of:
 - (i) the date of legal maturity of the Relevant Debt;
 - (ii) in the case of the Relevant Debt being Bonds, the date on which the Issuer, as issuer of such Bonds, may exercise any early redemption option in accordance with the Conditions of such Relevant Debt; and
 - (iii) in the case of the Relevant Debt being Bonds, the date that such Relevant Debt would, in the ordinary course, be expected to be repaid in full as a result of a scheduled increase in margin or coupon or other extraordinary payment being required to keep such Relevant Debt outstanding;
- (iii) in respect of a Permitted Exchange for a Tranche of Class A Bonds or a Tranche of Class B Bonds where further Bonds issued under the Programme are exchanged with existing Bondholders of the relevant Tranche who have accepted the Permitted Exchange provided that (a) in the case of any exchange of Class A Bonds, any Bonds may be offered in exchange and the Effective Maturity Date of any such Bonds issued in exchange is a date falling no earlier than the Effective Maturity Date of the

relevant Tranche of Class A Bonds to be exchanged, (b) in the case of any exchange of Class B Bonds, only Class B Bonds may be offered in exchange and the Effective Maturity Date of any such Class B Bonds issued in exchange is a date falling no earlier than the Effective Maturity Date of the relevant Tranche of Class B Bonds to be exchanged, and (c) in the case of (a) and (b), no Trigger Event, no Event of Default and no Potential Event of Default is subsisting or would occur as a result of such exchange and, if applicable, the related FX Swap Modification (as defined in paragraph 21(b) of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*)) to the CTA);

- (iv) in the case of a Permitted EIB Compulsory Prepayment Event;
- (v) pursuant to a provision for prepayment upon illegality; or
- (vi) provided no Trigger Event is subsisting, if such discharge does not require or involve any actual or contingent present or future payment by the Obligors,

provided that:

- (A) this restriction will not apply to (x) a repayment by the Issuer to the relevant Liquidity Facility Provider of a Standby Drawing in the event of the replacement of such Liquidity Facility Provider by an alternative Liquidity Facility Provider or if such Liquidity Facility Provider is re-rated at or above the Liquidity Facility Requisite Ratings; or (y) the return of collateral by the Issuer or, as the case may be, AWS to a Hedge Counterparty; and
 - (B) in the case of any Bonds the subject of a Permitted Tender or a Permitted Exchange, such Bonds shall be cancelled as part of such Permitted Tender or Permitted Exchange;
- (b) other than to the extent permitted by paragraph 6.3.2(a) above or pursuant to a Permitted Lease Termination, a Permitted Hedge Termination, a Permitted Acceleration or a Permitted EIB Compulsory Prepayment Event, permit or require any Obligor to pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Secured Liabilities owed to it, save as otherwise permitted by this Deed or pursuant to the Common Terms Agreement;
 - (c) other than pursuant to the Security granted by AWS and AWG in respect of the Class B Debt Portion of the Bridging Facility, take, accept or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against financial loss from any of the Obligors in respect of any of the Secured Liabilities owed to it, except the Security and the Bond Policies or any other Security Interests, guarantees, indemnities or other assurances pursuant to the terms of the Finance Documents;
 - (d) take or receive from any of the Obligors by cash receipt, set-off, (except for set-off of any amounts in the Payments Account and Receipts Account to the extent of any costs and claims incurred or to be incurred by the Account Bank including as a result of any direct debit scheme) any right of combination of accounts or

in any other manner whatsoever, the whole or any part of the Secured Liabilities owed to it, save as otherwise permitted by the STID or pursuant to the Common Terms Agreement provided that this restriction will not apply to any such receipt or set-off by the relevant Liquidity Facility Provider in respect of a Standby Drawing under the relevant Liquidity Facility Agreement; or

- (e) except as permitted pursuant to paragraph 6.3.5 “*Modifications, Consent and Waivers*”, agree to any modification to, or consent or waiver under or in respect of, any term of any Finance Document to which it is a party.

6.3.3 Undertakings of Obligors

Pursuant to the terms of the STID, each Obligor undertakes that it will not, except as expressly contemplated in the Common Terms Agreement, or unless (subject to the provisions of paragraph 6.3.5 “*Modifications, Consent and Waivers*” the Majority Creditors otherwise agree in writing in respect of a STID Proposal:

- (a) discharge any of the Secured Liabilities owed by it save to the extent that such discharge would fall within one of the exceptions set out in Chapter 6.3.2(a) (*Undertakings of Secured Creditors*);
- (b) other than to the extent permitted by paragraph 6.3.3(a) above or pursuant to a Permitted Lease Termination, a Permitted Hedge Termination, a Permitted Acceleration or a Permitted EIB Compulsory Prepayment Event, pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Secured Liabilities owed by it, save as otherwise permitted by the STID or pursuant to the Common Terms Agreement other than pursuant to a Permitted Lease Termination, a Permitted Hedge Termination or a Permitted Acceleration, pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Secured Liabilities owed by it, save as otherwise permitted by the STID or pursuant to the Common Terms Agreement;
- (c) other than pursuant to the Security granted by AWS and AWG pursuant to the Deed of Charge between AW, AWG, the Issuer and the Facility Agent (as more fully defined in the Bridging Facility), create or permit to subsist any Security Interest over any of its assets for, or any guarantee, indemnity or other assurance against financial loss in respect of, any of the Secured Liabilities owed by it, except the Security and the Bond Policies or other Security Interests, guarantees, indemnities or other assurance pursuant to the terms of the Finance Documents;
- (d) discharge any of the Secured Liabilities by cash payment, set-off, any right of combination of accounts or in any other manner whatsoever, save as otherwise permitted by this Deed or pursuant to the Common Terms Agreement, except in accordance with the proviso to paragraph 6.3.2(d) (*Undertakings of Secured Creditors*);
- (e) without the consent of the Security Trustee or, where applicable, each relevant Secured Creditor pursuant to paragraph 6.3.5 “*Modifications, Consent and Waivers*”, agree to any modification to or consent or waiver under or in respect of, any terms of any Finance Document to which it is a party; or

- (f) take or omit to take any action whereby any subordination contemplated by this paragraph 6.3.3 (*Undertakings of Obligors*) may be impaired.

For the avoidance of doubt, notwithstanding the provisions of sub-clauses (a) to (f) of this paragraph 6.3.3 (*Undertakings of Obligors*), the Obligors shall (unless and until the Security Trustee directs otherwise) be entitled, without Majority Creditor consent, to pay any amounts due and payable pursuant to the terms of the UK Holdco/AWS Loan and/or the AWS Loan Notes and/or the Issuer/AWS Loan Agreement. In addition, pursuant to the terms of the STID, each Obligor undertakes that it will not until all the Secured Liabilities have been discharged in full, unless the Majority Creditors otherwise agree:

- (a) discharge any of the Subordinated Liabilities owed by it or require any other Obligor to discharge any of the Subordinated Liabilities owed to it, save to the extent permitted by the CTA and the STID;
- (b) pay, prepay, repay, redeem or make any distribution in respect of, or purchase or acquire, any of the Subordinated Liabilities owed by it or permit any other Obligor to do so in respect of any of the Subordinated Liabilities owed to it;
- (c) create or permit to subsist any Security Interest over any of its assets for, or any guarantee, indemnity or other assurance against financial loss in respect of, any of the Subordinated Liabilities owed by it or take, accept or receive the benefit of any Security Interest for, or any guarantee, indemnity or other assurance against financial loss in respect of, any of the Subordinated Liabilities owed to it;
- (d) discharge any of the Subordinated Liabilities owed by it by cash payment, set-off, any right of combination of accounts or in any other manner whatsoever or take or receive from, or permit the discharge by, any of the Obligors by cash receipt, set-off or in any other manner whatsoever, the whole or any part of the Subordinated Liabilities owed to it; or
- (e) take or omit to take any action whereby the subordination contemplated by the STID may be impaired.

The Obligors are (unless the Security Trustee directs otherwise) entitled without Majority Creditor consent to pay any scheduled amounts due and payable pursuant to the terms of the UK Holdco/Anglian Water Loan and/or the Intercompany Loan Arrangements.

6.3.4 Ranking of Secured Liabilities

The underlying principle of the Intercreditor Arrangements is that the Class A Debt ranks in point of payment prior to any payment in respect of the Class B Debt at all times (including both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security). Prior to a Standstill Period, payment dates for Class A Debt and Class B Debt may fall on different dates.

6.3.5 Modifications, Consents and Waivers

Subject to the Entrenched Rights and Reserved Matters (see Chapter 6.3.18, “*Entrenched Rights and Reserved Matters*”), the Security Trustee shall only agree to

any modification of or grant any consent or waiver under the Finance Documents or (subject to restrictions during a Standstill Period) take Enforcement Action with the consent of or if so instructed by the Majority Creditors. Not all proposals which require the consent of the Majority Creditors will be sent to all Secured Creditors (or their Secured Creditor Representatives, as the case may be). In certain circumstances, the Security Trustee is authorised to consult with the DIG Representatives only.

Subject to the Entrenched Rights and Reserved Matters (see Chapter 6.3.18, “*Entrenched Rights and Reserved Matters*”), the Security Trustee may make modifications to the Finance Documents without the consent of any other Secured Creditor if:

- (a) such modifications are to correct manifest errors or are of a formal, minor or technical nature; or
- (b) such modifications are in respect of an Authorised Credit Facility, Finance Lease or a Hedging Agreement where:
 - (i) the relevant contracting Secured Creditors (other than the Security Trustee) have provided written consent;
 - (ii) the relevant Authorised Credit Facility, Finance Lease or Hedging Agreement shall continue to qualify as Permitted Financial Indebtedness after the modifications;
 - (iii) the modifications will not impose additional obligations on the Security Trustee and the non-contracting Secured Creditors, will not breach any provisions of the Transaction Documents and (in AWS’ reasonable opinion) will not constitute an Entrenched Right or a Reserved Matter; and
 - (iv) the modifications shall be without prejudice to the rights of the Secured Creditors (other than the contracting Secured Creditors) under the Transaction Documents.

6.3.6 Class A Debt Instructing Group

Both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security, only the Qualifying Class A Debt Providers will be eligible to exercise the rights of the Majority Creditors. Prior to repayment in full of the Class A Debt, decisions of such Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors (see Chapter 6.3.18, “*Entrenched Rights and Reserved Matters*” below).

The Qualifying Class A Debt Providers will exercise their rights through the following representatives which will together be entitled to vote on certain proposals as part of the “**Class A Debt Instructing Group**” or the “**Class A DIG**”. The Class A DIG will be comprised of the following representatives (each, a “**Class A DIG Representative**”):

- (i) in respect of each Series of Class A Wrapped Bonds (if no FG Event of Default has occurred and is continuing), the Financial Guarantor;

- (ii) in respect of each Series of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class A Wrapped Bonds) and each Series of Class A Unwrapped Bonds (other than USPP Bonds), the Bond Trustee;
- (iii) in respect of Class A USPP Bonds, (a) prior to the occurrence of an Event of Default, any USPP Bondholder who has outstanding to it or any of its affiliates more than US\$70,000,000 of Class A USPP Bonds or (b) after an Event of Default has occurred and is continuing, any USPP Bondholder;
- (iv) in respect of the Barclays Authorised Loan Agreement, Barclays Bank PLC;
- (v) in respect of the Existing Finance Lease and the New Finance Lease, the relevant Finance Lessor;
- (vi) in respect of the EIB Authorised Loan Facility the European Investment Bank; and
- (vii) in respect of any other Secured Liabilities of the type referred to in paragraphs (i) to (vi) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum to the STID and the CTA, or, in relation to existing Secured Creditors, in the relevant Additional Finance Document Memorandum, as the Class A DIG Representative.

Each Class A DIG Representative will be required to provide an indemnity to the Security Trustee each time it votes as part of the Class A DIG irrespective of whether it is a Majority Creditor.

Unless a Default Situation has occurred and is continuing, the Bond Trustee shall not be entitled to convene a meeting of any Series of Bonds to consider any proposal to be voted on by the Class A DIG.

Decisions of the Majority Creditors will be determined by votes on a pound for pound basis (based on the Outstanding Principal Amount of the Qualifying Class A Debt voted by the Class A DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class A DIG Representatives which have actually voted by the specified date for voting which must be not less than 10 business days (or, in certain circumstances, five business days) (or, where the Bond Trustee is a DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure — see Chapter 6.3.9, “*Emergency Instruction Procedure*” below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series of Bondholders to seek directions) or, if earlier, as soon as Class A DIG Representatives in respect of more than 50 per cent. of the Qualifying Class A Debt have voted in favour of the relevant proposal.

6.3.7 Class B Debt Instructing Group

Following repayment in full of the Class A Debt, the Qualifying Class B Debt Providers will be eligible to exercise the rights of the Majority Creditors. After repayment in full

of the Class A Debt, decisions of such Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters that are fundamental to particular Secured Creditors. See Chapter 6.3.18, “*Entrenched Rights and Reserved Matters*”.

The Qualifying Class B Debt Providers will exercise their rights through a group of representatives which will together be entitled to vote on certain proposals as part of the “**Class B Debt Instructing Group**” or the “**Class B DIG**”. The Class B DIG will be comprised of the following representatives (each, a “**Class B DIG Representative**”):

- (i) in respect of each Series of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing), the Financial Guarantor;
- (ii) in respect of each Series of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class B Wrapped Bonds) and each Series of Class B Unwrapped Bonds, the Bond Trustee; and
- (iii) in respect of any other Secured Liabilities of the type referred to in paragraphs (i) and (ii) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum to the STID and the CTA, or, in relation to existing Secured Creditors, in the Additional Finance Document Memorandum as the Class B DIG Representative.

Each Class B DIG Representative will be required to provide an indemnity to the Security Trustee each time it votes as part of the Class B DIG irrespective of whether it is a Majority Creditor.

Unless a Default Situation has occurred and is continuing, the Bond Trustee shall not be entitled to convene a meeting of any Series of Bonds to consider any proposal to be voted on by the Class B DIG.

Decisions of the Majority Creditors will be determined by votes on a pound for pound basis (based on the Outstanding Principal Amount of the Qualifying Class B Debt voted by the Class B DIG Representatives). Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class B DIG Representatives which have actually voted by the specified date for voting which must be not less than 10 business days (or, in certain circumstances, five business days) (or, where the Bond Trustee is a DIG Representative and a Default Situation is continuing (subject to the Emergency Instruction Procedure — see Chapter 6.3.9, “*Emergency Instruction Procedure*” below), such later date (not later than two months after such date) as is requested of the Security Trustee by the Bond Trustee should the Bond Trustee consider it necessary to convene a meeting of any one or more Series of Bondholders to seek directions) or, if earlier, as soon as Class B DIG Representatives in respect of more than 50 per cent. of the Qualifying Class B Debt have voted in favour of the relevant proposal.

6.3.8 Voting by the Bond Trustee as DIG Representative of the Bondholders

Where the Bond Trustee acts as the DIG Representative of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing) and/or the Unwrapped Bondholders (other than the USPP Bondholders), the Bond Trustee may, both prior to a Default Situation and/or whilst a Default Situation is continuing, in its absolute discretion, vote on a STID Proposal or a DIG Proposal (without reference to any Bondholders) in respect of the total Outstanding Principal Amount of some or all such Series of Bonds, but shall not, prior to a Default Situation, be entitled to convene a meeting of Bondholders to seek directions.

Additionally, whilst a Default Situation is continuing, where the Bond Trustee acts as the DIG Representative in respect of the Bonds, the Bond Trustee:

- (i) subject to paragraph (ii) below, may, in its absolute discretion, direct the Security Trustee in respect of the total Outstanding Principal Amount of any Series of Wrapped Bonds (following the occurrence of an FG Event of Default in respect of the Financial Guarantor of such Series of Wrapped Bonds, which is continuing) and/or Unwrapped Bonds (other than USPP Bonds); and
- (ii) shall not be entitled to convene a meeting of the Bondholders to direct the Security Trustee in accordance with an extraordinary resolution of any such Series of Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See Chapter 6.3.9, “*Emergency Instruction Procedure*” below.

6.3.9 Emergency Instruction Procedure

Whilst a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an emergency instruction procedure (the “**Emergency Instruction Procedure**”) which is subject to Entrenched Rights and Reserved Matters. The Security Trustee will be required to act upon instructions contained in an emergency instruction notice (an “**Emergency Instruction Notice**”). An Emergency Instruction Notice must be signed by DIG Representatives (the “**EIN Signatories**”) representing 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt (or following the repayment in full of the Class A Debt, the Qualifying Class B Debt) after excluding the proportion of Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee in its absolute discretion has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that in their reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories will be materially prejudiced.

6.3.10 Hedge Counterparties

Each Hedge Counterparty (other than Lloyds Bank Corporate Markets plc (in respect of power hedging) and Macquarie Bank Limited (in respect of all hedging) or any other power hedging counterparty) is a Secured Creditor party to the STID and each Hedging Agreement constitutes Class A Debt.

The Hedge Counterparties do not form part of the Class A DIG. However, the Hedge Counterparties (other than Lloyds Bank Corporate Markets plc (in respect of power hedging) and Macquarie Bank Limited (in respect of all hedging) or any other power hedging counterparty) will generally rank in the Payment Priorities senior to or *pari passu* with interest and principal payments on the Class A Bonds. See Chapter 6.6, “Cash Management” and Chapter 6.10, “Hedging Agreements”.

The provisions of this Chapter 6 are not applicable to Lloyds Bank Corporate Markets plc (in respect of power hedging) and Macquarie Bank Limited (in respect of all hedging) who are not a party to the STID and who provide certain hedging services to the Group on an unsecured basis.

6.3.11 Liquidity Facility Providers

Each Liquidity Facility Provider is a Secured Creditor party to the STID and each Liquidity Facility Agreement constitutes Class A Debt.

The Liquidity Facility Providers do not form part of the Class A DIG. However, the Liquidity Facility Providers will rank in the Payment Priorities senior to interest and principal payments on the Class A Bonds. See Chapter 6.6, “Cash Management” and Chapter 6.9.3, “The Liquidity Facilities”.

6.3.12 Finance Lessors

Each Finance Lessor is a Secured Creditor party to the STID and all amounts arising under the Finance Leases constitute Class A Debt.

The Existing Finance Lessor and the New Finance Lessor will form part of the Class A DIG. Amounts due and payable under the Finance Leases are dealt with in Chapter 6.6, “Cash Management” and Chapter 6.9.1, “Existing Finance Lease and New Finance Lease”.

6.3.13 Standstill

The STID provides for an automatic standstill of the claims of the Secured Creditors against Anglian Water and the Issuer (the “**Standstill**”) immediately following notification to the Security Trustee of an Event of Default.

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against Anglian Water on the grounds of its insolvency or otherwise. Although not binding on unsecured and trade creditors and hence potentially giving such unsecured and trade creditors a position of greater strength upon an Event of Default, it is intended to allow time for the Secured Creditors to restore the financial condition of Anglian Water.

During the Standstill Period:

- (i) other than any action taken in relation to Permitted Accelerations, none of the Secured Creditors will be entitled to give any instructions to the Security Trustee to take any Enforcement Action (but without prejudice to the ability of the Secured Creditors to demand payment) in relation to the Security granted by the Issuer or Anglian Water;

- (ii) the Security granted by Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited may be enforced at any time by the Security Trustee at the direction of the Majority Creditors;
- (iii) save as provided in paragraphs (i) and (ii) above and other than Permitted Accelerations, no Enforcement Action may be taken;
- (iv) any monies received by Anglian Water or the Issuer will be applied in accordance with the cash management provisions contained in the CTA (see Chapter 6.6, “*Cash Management*” below) and in accordance with the Payments Priorities (see Chapter 6.6.5, “*Debt Service Payment Account*” below); and
- (v) the Secured Creditors will benefit from the Liquidity Facilities.

Notwithstanding the Standstill, the Secured Creditors are entitled to accelerate their claims to the extent required to apply proceeds of enforcement of the share pledges provided by Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited under the Security Documents.

The period of the Standstill (the “**Standstill Period**”) will be 18 months unless the Standstill Period is extended beyond 18 months (see Chapter 6.3.14, “*Standstill Extension*” below) or any of the following occur prior to the expiry of the relevant Standstill Period:

- (i) the date on which an order is made for the Special Administration of Anglian Water or any steps are taken to commence insolvency proceedings against any other Obligor other than proceedings that are commenced by the Security Trustee;
- (ii) (during the first 18 months of the Standstill Period) the date on which Class A DIG Representatives in respect of 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class B Debt vote to terminate the Standstill Period and (after the first 18 months) the date on which the Standstill Period terminates (see Chapter 6.3.14, “*Standstill Extension*” below); or
- (iii) the date of waiver of the relevant Event of Default or the date of remedy of the Event of Default giving rise to the Standstill Period.

6.3.14 Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

- (i) for a further 120 days unless Class A DIG Representatives in respect of 50 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 120 days to terminate the Standstill Period;
- (ii) following the period referred to in paragraph (i) above, for a further 60 days unless Class A DIG Representatives in respect of 33⅓ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 60 days to terminate the Standstill Period;

- (iii) following the period referred to in paragraph (ii) above, for a further 60 days unless Class A DIG Representatives in respect of 10 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 60 days to terminate the Standstill Period; and
- (iv) following the period referred to in paragraph (iii) above, for successive periods each of 60 days unless Class A DIG Representatives in respect of 10 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to or during such further 60 days to terminate the Standstill Period and a vote shall be taken of the relevant Class A DIG Representatives on the expiry of each subsequent period of 60 days for so long as the Standstill Period continues as to whether the Standstill Period should continue for a further period of 60 days.

The Bond Trustee shall not form part of the Class A DIG in respect of any vote to terminate the Standstill Period, unless directed or requested to vote in such manner (a) by an Extraordinary Resolution of the relevant Series of Class A Bonds or (b) in writing by Bondholders holding not less than the Outstanding Principal Amount of the relevant Series of Class A Bonds as specified in Condition 18(a) (*Decisions of Majority Creditors*) or the equivalent condition of the relevant Existing Bonds.

When the Class A Debt has been fully repaid, the rights to terminate the Standstill Period as described above shall be vested in the Class B DIG Representatives.

6.3.15 Enforcement

Subject to certain matters and to certain exceptions, following an enforcement, any proceeds of enforcement or other monies held by the Security Trustee under the STID will be applied by the Security Trustee in accordance with the Payment Priorities (see Chapter 6.6.5, “*Debt Service Payment Account*” below).

The Secured Creditors do not (with certain limited exceptions outlined in this Prospectus) have the right independently to accelerate their claims under their own facilities and agreements prior to termination of a Standstill Period. The Security Trustee will take all enforcement action and will be instructed by the Majority Creditors. Immediately upon notification to the Security Trustee of any Event of Default, the Standstill Period will commence, during which period no Secured Creditor may take any action to recover their debt or enforce the Security granted by Anglian Water or the Issuer. The Security granted by Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited may be enforced by the Security Trustee with the consent of the Majority Creditors as prescribed in the STID.

6.3.16 Accession of Additional Secured Creditors

The STID requires that, to the extent that Anglian Water and/or the Issuer wishes any Authorised Credit Provider (or in respect of Bonds, its Secured Creditor Representative) or other person to obtain the benefit of the Security, such Authorised Credit Provider or other person (other than Bondholders (excluding holders of USPP 2001 Bonds)) must sign an Accession Memorandum whereby it agrees to be bound by the terms of the STID and the CTA, including those provisions which prohibit

individual Secured Creditors from taking actions without the consent of the Majority Creditors.

6.3.17 Activities of the Security Trustee

Subject to its Entrenched Rights and Reserved Matters and certain exceptions, the Security Trustee will only be required to take any action if instructed to do so by the Majority Creditors or, in particular cases, other specified parties and indemnified to its satisfaction.

Subject to certain exceptions, when granting any consent or waiver or exercising any power, trust, authority or discretion relating to or contained in the STID, the Finance Documents or any ancillary documents, the Security Trustee will act in accordance with its sole discretion (where granted such right) or as directed, requested or instructed by or subject to the agreement of the Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

6.3.18 Entrenched Rights and Reserved Matters

Modifications, consents and waivers will be agreed by the Security Trustee, in accordance with votes of the Majority Creditors, subject to Entrenched Rights and Reserved Matters. Such modifications, consents and waivers will be binding on all of the Secured Creditors, subject to Entrenched Rights and Reserved Matters. No Entrenched Right or Reserved Matter will operate to override the provisions contained in the CTA which allow Anglian Water (following a Periodic Review or as a result of any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default provided that each Financial Guarantor and the Security Trustee (acting on the instructions of the Majority Creditors) agree and the Rating Requirements have been met.

Lists of Entrenched Rights and Reserved Matters are contained in Chapter 6.3.19, “*Entrenched Rights*” and Chapter 6.3.20, “*Reserved Matters*”, below.

6.3.19 Entrenched Rights

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

The Entrenched Rights of the Class A Debt Providers include, subject to certain provisions of the CTA including the right to amend financial ratios following a Periodic Review or as a result of a material change in the regulation of the water industry in the United Kingdom, any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

- (i) the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities thereunder or in connection therewith;
- (ii) (a) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the

terms of the STID and the relevant Security Document or (b) would alter the rights of priority of or the enforcement by the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;

- (iii) would change or would relate to the Payment Priorities;
- (iv) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class A Debt Provider's Entrenched Rights or Reserved Matters;
- (v) would change or would relate to (a) the definitions of "Class A DIG", "Class A DIG Representatives", "DIG Proposal", "DIG Directions Request", "Majority Creditors", "Qualifying Class A Debt" or "Voted Qualifying Class A Debt", (b) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors or the Security Trustee or (c) the percentages of Outstanding Principal Amount of Qualifying Class A Debt required to terminate a Standstill;
- (vi) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class A Debt Provider's Class A Debt or of any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable in respect of such Class A Debt or the amount of any fees or premia in respect thereof;
- (vii) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof or would increase the amount of principal, interest or Make-Whole Amount payable on any date in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof;
- (viii) would result in the exchange of the relevant Class A Debt Provider's Class A Debt for, or the conversion of such Class A Debt into, shares, bonds or other obligations of any other person;
- (ix) would change or would relate to the currency of payment due under the relevant Class A Debt Provider's Class A Debt (other than due to the United Kingdom joining the Euro);
- (x) would change Anglian Water's information and reporting covenants or (in respect of the USPP Bondholders only) the additional information and reporting covenants and covenants relating to inspection rights contained in the documents relating to the USPP Bonds in issue on the Effective Date;
- (xi) would change the change of control undertakings;
- (xii) would change or would relate to Anglian Water's negative pledge, financial indebtedness and restricted payments covenants;
- (xiii) would change or would relate to, but not waive (subject to paragraph (xiv) below), the Trigger Events, Trigger Event Consequences, Trigger Event Remedies or Events of Default;

- (xiv) would result in a waiver of the credit downgrade Trigger Event (see Chapter 6.5.7(ii), “*Credit Rating Downgrade*”), a non-payment Event of Default in respect of any Obligor, Events of Default relating to financial ratios and credit rating downgrades (see Chapters 6.5.10(i), (xix) and (xx), “*Events of Default*” including their effect as a Trigger Event);
- (xv) would change or would relate to the rights of the relevant Class A Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class A Debt Provider);
- (xvi) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class A Debt Provider’s Class A Debt in the event of the imposition of withholding taxes;
- (xvii) would relate to a substitution of the Issuer in circumstances where the relevant USPP Bondholder has demonstrated to the satisfaction of the Security Trustee that such substitution would adversely affect the tax treatment of their holding of USPP Bonds; or
- (xviii) would have the effect of changing certain notice, reporting and solicitation provisions relating to the USPP Bonds.

The Entrenched Rights of the Class B Debt Providers include, subject to certain provisions of the CTA including the right to amend financial ratios following a Periodic Review or as a result of a material change in the regulation of the water industry in the United Kingdom, any proposed modification to, or consent or waiver under or in respect of, the STID or any other Finance Document which:

- (i) the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities thereunder or in connection therewith;
- (ii) (a) would release any of the Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document or (b) would alter the rights of priority of or the enforcement by the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein;
- (iii) would change or would relate to the Payment Priorities;
- (iv) would change or would relate to the Entrenched Rights or the Reserved Matters or, where applicable, the relevant Class B Debt Provider’s Entrenched Rights or Reserved Matters;
- (v) would change or would relate to (a) the definitions of “Class B DIG”, “Class B DIG Representatives”, “DIG Proposal”, “DIG Directions Request”, “Majority Creditors”, “Qualifying Class B Debt” or “Voted Qualifying Class B Debt”, (b) those matters expressly requiring the consent, approval or agreement of, or

directions or instructions from, or waiver by the Majority Creditors or the Security Trustee or (c) the percentages of Outstanding Principal Amount of Qualifying Class B Debt required to terminate a Standstill;

- (vi) would delay the date fixed for payment of principal, interest or Make-Whole Amount in respect of the relevant Class B Debt Provider's Class B Debt or any fees or premia in respect thereof or would reduce the amount of principal, interest or Make-Whole Amount payable on any date in respect of such Class B Debt or any fees or premia in respect thereof;
- (vii) would bring forward the date fixed for payment of principal, interest or Make-Whole Amount in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof or would increase the amount of principal, interest or Make-Whole Amount payable on any date in respect of Class A Debt or Class B Debt or any fees or premia in respect thereof;
- (viii) would result in the exchange of the relevant Class B Debt Provider's Class B Debt for, or the conversion of such Class B Debt into, shares, bonds or other obligations of any other person;
- (ix) would change or would relate to the currency of payment under the relevant Class B Debt Provider's Class B Debt (other than due to the United Kingdom joining the Euro);
- (x) would change Anglian Water's information and reporting covenants;
- (xi) would change the change of control undertakings;
- (xii) would change or would relate to Anglian Water's negative pledge, financial indebtedness and restricted payments covenants;
- (xiii) would change or would relate to, but not waive (subject to (xiv) below), the Trigger Events, Trigger Event Consequences, Trigger Event Remedies or Events of Default;
- (xiv) would result in a waiver of the credit downgrade Trigger Event (see Chapter 6.5.7(ii), "*Credit Rating Downgrade*"), a non-payment Event of Default in respect of any Obligor, Events of Default relating to financial ratios and credit rating downgrades (see Chapters 6.5.10(i), (xix) and (xx), "*Events of Default*" including their effect as a Trigger Event);
- (xv) would change or would relate to the rights of the relevant Class B Debt Provider to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class B Debt Provider); and
- (xvi) would change or would relate to any existing obligation of an Obligor to gross up any payment in respect of the relevant Class B Debt Provider's Class B Debt in the event of the imposition of withholding taxes.

The Entrenched Rights of the Finance Lessors include, in addition to the Entrenched Rights of the Class A Debt Providers set out above, any proposed modification to, or

consent or waiver under or in respect of the STID or any other Finance Document which would change or relate to:

- (i) any sale, transfer or other disposal (whether deemed or otherwise) of any of the Equipment;
- (ii) the affixing of any Equipment to any land or building to which Anglian Water or the Issuer (as applicable) does not have an interest in such land for the purposes of the Capital Allowances Act 2001;
- (iii) the creation or subsistence of any encumbrance, lien, mortgage or other Security Interest over any Equipment;
- (iv) any of the covenants or representations and warranties set out in the Finance Documents which relate to the maintenance or condition of the Equipment;
- (v) any provision(s) contained in the Finance Documents pertaining to any damage, destruction or total loss of any of the Equipment;
- (vi) any elections filed with the United Kingdom HMRC by Anglian Water or the Issuer (as applicable) and any Finance Lessor under the Finance Leases pursuant to sections 177 and/or 227 of the Capital Allowances Act 2001 in respect of the Equipment and the relevant Finance Lessor's expenditure on the Equipment;
- (vii) the obligations of Anglian Water or the Issuer (as applicable) to reserve amounts monthly, as set out in the cash management arrangements, that reduces the amount which it is required to reserve;
- (viii) the provisions relating to the calculation of rental payments and/or sums due upon termination of the leasing of any Equipment; and
- (ix) any changes to the Entrenched Rights of the Finance Lessors set out in paragraphs (i) to (viii) above.

The Entrenched Rights of the Class A Debt Providers, the Class B Debt Providers and the Finance Lessors (where applicable) will be exercised through their Secured Creditor Representatives.

The Bond Trustee, the Security Trustee and the Financial Guarantor have certain other limited Entrenched Rights in relation to any provisions of the Finance Documents that generally affect them to a greater extent than others.

6.3.20 Reserved Matters

Reserved Matters are matters which, subject to the Intercreditor Arrangements and the CTA, a Secured Creditor is free to exercise in accordance with its own facility arrangements and so are not exercisable by or by direction of the Majority Creditors.

Those Reserved Matters which the Secured Creditors reserve to themselves to decide are each and every right, power, authority and discretion of, or exercisable by, the Secured Creditors at any time:

- (i) to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (as permitted under the CTA);

- (ii) to make determinations of and require the making of payments due and payable to it under the provisions of the Finance Documents (as permitted under the CTA);
- (iii) to exercise the rights vested in it or permitted to be exercised by it under and pursuant to the CTA and the STID;
- (iv) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;
- (v) in the case of each Finance Lessor, to inspect the relevant Equipment, to make calculations under the financial schedules to the relevant Finance Lease (or the equivalent provisions thereunder relating to the calculation of Rental or termination sums) and to terminate the relevant Finance Lease provided such termination is a Permitted Lease Termination;
- (vi) in the case of each Hedge Counterparty, to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedge Termination; and
- (vii) in the case of any Secured Creditor to accelerate their claims, to the extent necessary to apply proceeds of enforcement of the share pledges provided by Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited pursuant to the terms of the Security Documents.

The Bond Trustee, the Security Trustee and the Financial Guarantor each have certain additional Reserved Matters which each has reserved to itself to decide. For the Bond Trustee and the Financial Guarantor, these include rights vested in it pursuant to the terms of the Bond Trust Deed and the Bond Policy and for the Security Trustee, these include rights vested in it pursuant to the terms of the STID.

Those Reserved Matters which the Bond Trustee reserves to itself are every right, power, authority and discretion of, or exercisable by, the Bond Trustee (in respect of paragraphs (xiii) to (xix) below, in relation to any Series of Class A Unwrapped Bonds (other than USPP 2001 Bonds) or Class B Unwrapped Bonds and (where an FG Event of Default has occurred and is continuing) Class A Wrapped Bonds or Class B Wrapped Bonds), whether expressed as a right, power, authority or discretion of the Bond Trustee or obligation of any other party:

- (i) to make any determination contemplated or required under the Bond Trust Deed or the relevant Existing Bond Trust Deed as to the occurrence or otherwise of an FG Event of Default, in relation to its Reserved Matters and in relation to its Entrenched Rights;
- (ii) to agree to make any amendment or any waiver or consent which has the effect of resulting in or permitting any amendment to the provisions of any Bond Policy;
- (iii) to make any claim under, or enforce any provision of, any Bond Policy;
- (iv) which is provided for the purpose of enabling the Bond Trustee to protect its own position and interests in its personal capacity (including its own personal financial interests) or which the Bond Trustee determines to be necessary or

appropriate to exercise for the protection of its own position and interests in its personal capacity;

- (v) to determine amounts due in relation to and to claim under indemnities in favour of the Bond Trustee in its own capacity or for and on behalf of Bondholders under the Finance Documents;
- (vi) to receive any amounts owing to it for its own account in accordance with the provisions of the Finance Documents;
- (vii) to determine the amount of sums due in relation to expenses and stamp duties pursuant to the Finance Documents;
- (viii) to make a claim for expenses under the Finance Documents;
- (ix) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;
- (x) which relieves or exempts the Bond Trustee from liability and exculpates or exonerates it (including, without limitation, any right of the Bond Trustee under any of the Finance Documents to make assumptions as to, or rely on any notice, certificate or other communication confirming the existence or non-existence of any act, circumstance or event);
- (xi) against or in relation to the relevant Bondholders;
- (xii) to agree any amendment to Part 2 (*Bond Trustee Reserved Matters*) of Schedule 3 of the STID;
- (xiii) under the Third Schedule (*Provisions for Meetings of Bondholders*) of the Bond Trust Deed or the equivalent schedule of the relevant Existing Bond Trust Deed;
- (xiv) the right to appoint a co-trustee or to retire under, as the case may be, Clause 23 (*New Bond Trustee*) and Clause 24 (*Bond Trustee's Retirement and Removal*) of the Bond Trust Deed or the equivalent clauses of the relevant Existing Bond Trust Deed;
- (xv) the publication of an Interest Rate or Interest Amount, as the case may be, in accordance with Condition 6(b)(iv) (*Determination of Rate of Interest and calculation of Interest Amounts*) or the equivalent condition of the relevant Existing Bonds;
- (xvi) the determination of amounts, as the case may be, in accordance with Condition 6(b)(vi) (*Determination or calculation by the Bond Trustee*) or the equivalent condition of the relevant Existing Bonds. It should be noted that Condition 6(b)(vi) (*Determination or calculation by the Bond Trustee*) has been deleted from the Terms and Conditions of the Bonds;
- (xvii) the selection of an Indexation Adviser, as the case may be, in accordance with Condition 8(c)(ii)(a) (*Changes in circumstances affecting the Index (RPI)*) or the equivalent condition of the relevant Existing Bonds;
- (xviii) the consideration and approval in relation to a substitute index figure, as the case may be, in accordance with Condition 8(c)(ii) or the equivalent condition of the relevant Existing Bonds;

- (xix) the approval in relation to the Issuer being required to deduct or withhold amounts, as the case may be, in accordance with Condition 10 (*Taxation*);
- (xx) the variation, termination and appointment of Agents, as the case may be, in accordance with Condition 15 (*Agents*) or the equivalent condition of the relevant Existing Bonds; and
- (xxi) to consent to any proposed amendment to, as the case may be, the Bond Trust Deed or the relevant Existing Bond Trust Deed, the relevant Conditions or any Finance Document to which it is a party whether such consent is sought to correct a manifest error or is of a formal, minor or technical nature (and, for the avoidance of doubt, any other matter referred to in Clause 19 (*Waiver, Authorisation and Determination*) of the Bond Trust Deed or the equivalent Clause of the relevant Existing Bond Trust Deed involving the decision of the Bond Trustee to waive or modify any provisions of the documents referred to therein will be subject to the directions of the Majority Creditors).

Those Reserved Matters which the Financial Guarantor reserves to itself are each and every right, power, authority and discretion of, or exercisable by, the relevant Financial Guarantor at any time in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds for which it has issued a Bond Policy (prior to an FG Event of Default which is continuing) in relation to:

- (i) the publication of an Interest Rate or Interest Amount in accordance with Condition 6(b)(iv) or the equivalent condition of the relevant Existing Bonds;
- (ii) the determination of amounts in accordance with Condition 6(b)(vi) or the equivalent condition of the relevant Existing Bonds. It should be noted that Condition 6(b)(vi) has been deleted from the Terms and Conditions of the Bonds;
- (iii) the selection of an Indexation Adviser in accordance with Condition 8(c)(ii)(a) or the equivalent condition of the relevant Existing Bonds;
- (iv) the consideration and approval in relation to a substitute index figure in accordance with Condition 8(c)(ii) or the equivalent condition of the relevant Existing Bonds;
- (v) the approval in relation to the Issuer being required to deduct or withhold amounts in accordance with Condition 10;
- (vi) the variation, termination and appointment of Agents in accordance with Condition 15 or the equivalent condition of the relevant Existing Bonds; and
- (vii) any amendment to Part 3 (*Financial Guarantor Reserved Matters*) of Schedule 3 of the STID.

Those Reserved Matters which the Security Trustee reserves to itself are each and every right, power, authority and discretion of, or exercisable by, the Security Trustee, whether expressed as a right, power, authority or discretion of the Security Trustee or an obligation of any other party:

- (i) pursuant to the STID;

- (ii) to receive any sums owing to it for its own account in respect of fees, costs, charges, liabilities, damages, proceedings, claims and demands in performing its powers and exercising its discretions under the STID and any other Finance Document to which the Security Trustee is a party;
- (iii) which is provided for the purpose of enabling the Security Trustee to protect its own position and interests in its personal capacity (including its own personal financial interest) or which the Security Trustee determines to be necessary or appropriate to exercise for the protection of its own position and interests in its personal capacity;
- (iv) except as otherwise specifically provided herein to apply any of the sums referred to in Clause 15 (*Activities of the Security Trustee*) of the STID in accordance with such Clause;
- (v) to receive notices, certificates, communications or other documents or information, to direct that such notices, certificates, communications or other documents or information must be provided (or must not be provided) to it or any other party, or, where applicable, to determine the form and content of any notice, certificate, communication or other document;
- (vi) which relieves or exempts the Security Trustee from liability or exculpates or exonerates it (including, without limitation, any right of the Security Trustee under any of the Finance Documents to make assumptions as to, or rely on any notice, certificate or other communication confirming, the existence or non-existence of any act, circumstance or event);
- (vii) to agree to any amendment to Part 1 (Security Trustee Reserved Matters) of Schedule 3 of the STID;
- (viii) to determine amounts due in relation to and to claim under indemnities in favour of the Security Trustee under Clause 15.5 (*Indemnification of the Security Trustee*) or Clause 16 (*Remuneration and Indemnification of the Security Trustee*) of the STID or pursuant to any other Finance Documents;
- (ix) to appoint a co-trustee or to retire under Clause 17 (*Appointment of Additional Trustees*) and Clause 19.6 (*Resignation of the Security Trustee*) of the STID; and
- (x) to agree modifications to, or give any consent or grant any waiver under or in respect of, any term of the STID or any other Finance Document to which the Security Trustee is a party or over which it has Security under the Security Documents in accordance with Clause 8.1 (*Procedures for Modifications, Consents and Waivers*) of the STID.

6.3.21 Substitution of the Issuer

The Security Trustee shall implement any STID Proposal proposing the substitution in place of the Issuer, or any substituted Issuer, as the principal debtor under the Finance Documents of any other company incorporated in any other jurisdiction meeting the criteria for such a single purpose company established from time to time by the Rating Agencies.

6.4 Intercompany Loan Arrangements

Under the terms of the licence modifications, Anglian Water is prohibited from entering into loans with its associates without the consent of the Director General. The Director General has confirmed that he will not treat the following as being in breach of those conditions.

6.4.1 Anglian Water Loan Notes

The creation of the Anglian Water Services Financing Group within the Anglian Water Group facilitated the financing of Anglian Water through, inter alia, the issuance of Bonds and other financial indebtedness incurred by the Issuer. AWG Group Ltd's and/or Anglian Water's obligations under the Existing Bonds and the Transferred USPP Bonds (and the rights and obligations under Hedging Agreements hedging those Bonds) were transferred to the Issuer in return for the granting by Anglian Water of loan notes ("**Anglian Water Loan Notes**") in favour of the Issuer and the assignment to the Issuer and the amendment of certain existing intercompany loans.

Each series of bonds comprising the Existing Bonds and Transferred USPP Bonds is represented by a separate Anglian Water Loan Note. The interest rate in respect of each such Anglian Water Loan Note is equivalent to the rate of interest on the corresponding series of bonds or, if hedged, at the hedged rate. Similarly, each Anglian Water Loan Note will be redeemed (in whole or in part) immediately prior to the date upon which any payment of principal is to be made on the corresponding series of bonds.

6.4.2 Issuer/Anglian Water Loan Agreement

The Issuer has on-lent and will on-lend an amount equal to the Sterling equivalent of the gross proceeds of issue of each Series of Bonds and each drawing or other obligation for Financial Indebtedness under each Authorised Credit Facility (as adjusted by any applicable Hedging Agreements) entered into on or after the Effective Date to Anglian Water under the terms of a loan agreement (the "**Issuer/Anglian Water Loan Agreement**" and, together with the Anglian Water Loan Notes, the "**Intercompany Loan Arrangements**"). All advances to be made by the Issuer under the Issuer/Anglian Water Loan Agreement have been in Sterling and at rates of interest set out in the applicable Final Terms or, if hedged in accordance with the Hedging Policy (see Chapter 6.10, "*Hedging Agreements*") at the hedged rate. The repayment of each advance corresponding to a Bond issue shall be on the repayment terms of such Bonds. The Issuer charges Anglian Water an annual management fee in respect of entering into the Issuer/Anglian Water Loan Agreement.

6.4.3 Initial Advance and Further Advances

The first advance under the Issuer/Anglian Water Loan Agreement comprised an amount equal to the Sterling equivalent of the gross proceeds of the issue of Bonds under the Programme, the gross proceeds of drawings under Tranche A of the Bridging Facility and drawings under the Initial Authorised Loan Agreement on the Effective Date, after having exchanged the proceeds of each Series of Bonds denominated in a currency other than Sterling pursuant to the initial currency exchange under the Currency Hedging Agreements with the Existing Hedge Counterparties in respect of such Series of Bonds.

Further advances under the Issuer/Anglian Water Loan Agreement will, *inter alia*, comprise of amounts equal to the Sterling equivalent of the gross proceeds of the issue of Bonds under the Programme. It is the relevant advance under the Issuer/Anglian Water Loan Agreement which is the asset backing the corresponding relevant issue of Bonds. Advances under the Issuer/Anglian Water Loan Agreement along with the Transaction Documents have the characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Bonds.

6.4.4 Fees Generally

Under the terms of the Intercompany Loan Arrangements, Anglian Water is required to pay fees to the Issuer in an amount equal to all premia, fees, costs, charges and other expenses payable by the Issuer in connection with financial accommodation provided to Anglian Water.

6.4.5 UK Holdco/Anglian Water Loan

On the Effective Date, Anglian Water entered into the UK Holdco/Anglian Water Loan with Anglian Water Services Holdings Limited. This enabled Anglian Water Services Holdings Limited to satisfy obligations to pay to AWG Group Ltd the consideration for the acquisition of shares in Anglian Water Services Overseas Holdings Limited. On 29 March 2018, the UK Holdco/Anglian Water Loan was repaid in full. Interest under the UK Holdco/Anglian Water Loan was payable at a commercial rate and subject to restrictions. See Chapter 6.5.5(iv)(u)(D), “*Common Terms Agreement — Covenants — General*” below.

6.4.6 Subordinated Liabilities

All present and future liabilities payable or owing by one member of the Anglian Water Services Financing Group to another member of the Anglian Water Services Financing Group comprise subordinated liabilities other than liabilities under the Intercompany Loan Arrangements.

6.5 Common Terms Agreement

6.5.1 General

Each of the Finance Lessors, the Hedge Counterparties, the Security Trustee, the Cash Manager, the Original Lenders, the Liquidity Facility Providers, the Authorised Credit Providers, each Obligor, the Bond Trustee, the Initial Financial Guarantor, the Registrar, the Principal Paying Agent, the Transfer Agent, the Exchange Agent, and the USPP 2001 Bondholders and others entered into a common terms agreement (the “**Common Terms Agreement**” or “**CTA**”). The Common Terms Agreement sets out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which apply to each Authorised Credit Facility (including, for the avoidance of doubt, the Intercompany Loan Arrangements, Finance Leases, Hedging Agreements and any other document entered into in connection with an Authorised Credit Facility).

It is a term of the Common Terms Agreement that any representations, covenants (to the extent of being able to declare an Event of Default), Trigger Events and Events of Default contained in any document which are in addition to those in the Common Terms Agreement are (save for limited exceptions which, *inter alia*, include covenants relating

to indemnities, covenants to pay, remuneration, costs and expenses, Permitted EIB Compulsory Prepayment Events, covenants in each Series of Bonds issued on the Effective Date, those contained in the Programme Agreement, the Bond Trust Deed, the Indemnification Deed, the Tax Deed of Covenant and the Agency Agreement to the extent such apply to any Series of Bonds, certain provisions under the Hedging Agreements, the Finance Leases and the mandatory prepayment rights and obligations under the Bridging Facility) unenforceable. The Common Terms Agreement allows Anglian Water (following a Periodic Review or any material change in the regulation of the water industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default, provided that each Financial Guarantor and the Security Trustee (acting on the instructions of the Majority Creditors) agree and the Rating Requirement has been met.

The Common Terms Agreement also sets out the cash management arrangements to apply to Anglian Water Services Financing Group (see Chapter 6.6, “*Cash Management*” below). It is a requirement of the Common Terms Agreement that future providers of Class A Debt and Class B Debt must also accede to the Common Terms Agreement and the STID.

A summary of the representations, covenants, Trigger Events and Events of Default included in the Common Terms Agreement is set out below.

The Common Terms Agreement includes representations and covenants given by each Obligor in relation to Financial Indebtedness and Permitted Financial Indebtedness, and requires counterparties to Financial Indebtedness which is not Permitted Financial Indebtedness to accede to the Common Terms Agreement and the STID. The implementation of the International Financial Reporting Standards 16 (“**IFRS 16**”) for accounting periods from 1 January 2019 aligns the accounting treatment of finance and operating leases by bringing operating leases which exceed one year and relate to an asset valued in excess of U.S.\$5,000 on balance sheet. As such, operating leases now fall within the definition of “Financial Indebtedness” under the Common Terms Agreement and the STID and the lessors would, unless the operating leases constitute “Permitted Financial Indebtedness”, be required to accede to the Common Terms Agreement and the STID. Such accessions would present administrative and operational complications for the Obligors and the interests of the lessors, who only have recourse to relevant leased assets and have no recourse beyond repossession of the assets or termination of the operating leases, may not align with existing senior Secured Creditors.

For these reasons and following a STID proposal dated 1 March 2019, the Master Definitions Agreement dated 30 July 2002 (the “**Master Definitions Agreement**”) was amended to include definitions of “AWS Long Term Property Leases”, “AWS Other Operating Leases” and “Leases” set out below. Each Financial Guarantor and the Security Trustee consented to the incurrence of Financial Indebtedness which is a Lease to be “Permitted Financial Indebtedness”. The implementation of IFRS 16 therefore has not increased the Senior Net Indebtedness of AWS.

In this section:

“AWS Long Term Property Leases” means any leases entered into on market terms for the use and occupation of a property by AWS Financing Group where the relevant lease is treated (in whole or in part) as a finance lease or capital lease under Applicable Accounting Principles and would not have been so treated under Applicable Accounting Principles prior to the introduction of IFRS 16 as applied at 1 April 2019.

“AWS Other Operating Leases” means any leases entered into on market terms for the use of any equipment vehicles or any other assets (other than a property) by AWS where the relevant lease is treated (in whole or in part) as a finance lease or a capital lease under Applicable Accounting Principles and would not have been so treated under Applicable Accounting Principles prior to the introduction of IFRS 16 as applied at 1 April 2019.

“Leases” means the AWS Long Term Property Leases and the AWS Other Operating Leases, in each case, in effect as at 31 March 2019.

6.5.2 Representations

On the Effective Date each Obligor made, and in respect of certain representations on each Issue Date, each Payment Date, on the day any new Authorised Credit Facility or any new Tier 1 Material Agreement is entered into and only in relation to such agreements, and on each date for payment of a Restricted Payment into the Distributions Account or Customer Payments Account or for a payment of a UK Holdco Debt Service Distribution each Obligor will make, a number of representations in respect of itself to each Finance Party. These representations did and will (amongst others) include (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) representations as to:

- (i) its corporate status, power and authority (a) to enter into and perform its obligations under the Transaction Documents and (b) to own, lease and operate its assets and to carry on its business;
- (ii) its obligations under the Transaction Documents being its legal, valid and enforceable obligations;
- (iii) its entry into and performance under the Transaction Documents not conflicting with any document which is binding upon its assets, its constitutional documents or any material applicable law;
- (iv) the preparation of its financial statements in accordance with Applicable Accounting Principles;
- (v) the validity and admissibility in evidence of the Finance Documents in any proceedings in the jurisdiction of its incorporation;
- (vi) the Security Documents to which it is party conferring the Security Interests they purport to confer and such Security Interests not being subject to any prior or *pari passu* Security Interest (other than Permitted Security Interest);
- (vii) the conduct of its business not violating any judgment, law or regulation, which if enforced would have a Material Adverse Effect;
- (viii) no Default or Potential Trigger Event being outstanding;

- (ix) the obtaining by it prior to the Effective Date of all consents and approvals necessary for the conduct of Anglian Water's business and the transactions in the Finance Documents;
- (x) its ownership of, or interests in, the assets over which it has created Security Interests under the Security Documents and which are material to the operation of its business;
- (xi) insurances required to be maintained under any Finance Document being in full force and effect;
- (xii) there being no insolvency event in relation to it;
- (xiii) the ownership structure of the Anglian Water Services Financing Group;
- (xiv) the due payment of all its taxes (save to the extent any tax payment is being disputed in good faith);
- (xv) under the laws of its jurisdiction of incorporation and tax residence in force on the Effective Date, it not (other than as disclosed) being required to make any deduction or withholding from any payment of interest in circumstances where, under current United Kingdom law, no United Kingdom withholding tax would be imposed on the payment;
- (xvi) subject to certain reservations as to matters of law, the choice of English law being recognised and enforced in proceedings against Anglian Water Services UK Parent Co Limited;
- (xvii) the claims of Secured Creditors ranking prior to the claims of its other unsecured and unsubordinated creditors;
- (xviii) no Security Interest having been created, or allowed to exist, other than Permitted Security Interests and no indebtedness incurred other than Permitted Financial Indebtedness or any Permitted Volume Trading Arrangements;
- (xix) the Bonds constituting (or constituting upon execution, due authentication and delivery) legal and valid obligations binding on the Issuer and enforceable against it in accordance with its terms and constituting evidence of direct, secured and unconditional obligations of the Issuer;
- (xx) no litigation or other proceedings current, or to its knowledge pending or threatened against it or its assets;
- (xxi) limits on its powers not being exceeded as a result of the borrowing, leasing, granting of security or giving of guarantees contemplated by the Transaction Documents;
- (xxii) compliance with environmental laws and having obtained all environmental permits necessary for conduct of its business and no environmental claim having been commenced;
- (xxiii) loans not having been made to other persons other than pursuant to Finance Documents, the UK Holdco/Anglian Water Loan, Permitted Volume Trading Arrangements and the Intercompany Loan Arrangements;

- (xxiv) Treasury Transactions not having been entered into other than the Hedging Agreements entered into in accordance with the Hedging Policy and AWS Derivative Transactions entered into by AWS in accordance with the AWS Derivative Policy;
- (xxv) all arrangements or contracts with any person (including Affiliates) being on an arm's length basis and on terms no less favourable to it than would reasonably be expected to be obtained in a comparable arm's length transaction with a person not being an Affiliate, unless permitted under the Finance Documents, as a result of a Permitted Emergency Action, certain disclosed transactions up to the next Periodic Review or save as disclosed in this Prospectus; and
- (xxvi) on the Effective Date, no member of the Anglian Water Services Financing Group being liable in any manner in respect of any Financial Indebtedness (including by way of primary obligor, guarantor, surety or any other manner) that is not either Class A Debt or Class B Debt, the providers of which have executed the CTA and the STID, or Permitted Financial Indebtedness falling within the category listed in paragraphs (a), (b), (d) or (e) of the definition of Permitted Financial Indebtedness.

Additionally, Anglian Water (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) represented:

- (i) to the best of its knowledge, it has the right to use intellectual property rights necessary to conduct its Business;
- (ii) to the best of its knowledge (and save as disclosed to the Security Trustee) all parties to Transaction Documents are in compliance with the Transaction Documents;
- (iii) assumptions used in respect of financial ratio calculations having been made in good faith, after due and careful consideration and being consistent with Applicable Accounting Principles and Good Industry Practice;
- (iv) it is not aware of any Special Administration Order having been made in respect of it; and
- (v) the accuracy (in all material respects) of certain written information provided by Anglian Water and the accuracy of this Prospectus.

The representation referred to in paragraph (ii) above was made by Anglian Water on the date of the Common Terms Agreement and has been made and will be made on the date of each Investors Report, directors certificate, compliance certificate or interim compliance certificate. The representation referred to in paragraph (iv) above was made by Anglian Water on the date of the Common Terms Agreement, and, subject to minor amendments, on each date when any new Authorised Credit Facility has been or is entered into when it is generally syndicated.

Additionally, the other members of the Anglian Water Services Financing Group represented that they have not carried on any business since the date of their incorporation other than that required in connection with their formation and capitalisation and/or as envisaged by the Transaction Documents.

6.5.3 Covenants

The Common Terms Agreement contains certain covenants from each of the Obligors. A summary of the covenants which are (amongst others) included (subject, in some cases, as to agreed exceptions, *de minimis* amounts and qualifications as to materiality and reservations of law) in the Common Terms Agreement is set out below in Chapter 6.5.4, “*Information — Covenants*”, Chapter 6.5.5, “*Covenants — General*” and Chapter 6.5.6, “*Financial Covenants*”.

6.5.4 Information — Covenants

- (i) So far as permitted by any applicable law or any binding confidentiality obligation, Anglian Water has undertaken to supply to the Security Trustee certain information such as:
 - (a) a copy of all information, which would reasonably be expected to be material to an Authorised Credit Provider to the Anglian Water Services Financing Group, which it supplies to the Director General;
 - (b) as soon as reasonably practicable after becoming aware, details of any proposed material changes to the Instrument of Appointment or any proposed changes to the constitutional documents of any member of the Anglian Water Services Financing Group;
 - (c) promptly upon becoming aware, details of any actual or potential enquiry, investigation or proceeding commenced by any government, court, regulatory agency or authority, if such enquiry, investigation or proceeding would be reasonably likely to have a Material Adverse Effect;
 - (d) as soon as reasonably practicable after receipt, any material notice (including an enforcement notice) from any governmental authority or industry regulator (including Ofwat) received by Anglian Water;
 - (e) copies of all certificates and responses provided by Anglian Water or any member of the Anglian Water Services Financing Group to any industry regulator (including Ofwat) which would reasonably be expected to be material and adverse and which relates to the creditworthiness of Anglian Water or Anglian Water’s ability to perform its duties under the Instrument of Appointment;
 - (f) copies of all reports and information provided by the operator and/or service provider to it under any Material Agreement which would be material or adverse in relation to the creditworthiness of Anglian Water or to Anglian Water’s ability to perform its duties under the Instrument of Appointment, and Anglian Water shall use reasonable endeavours to procure that any such Material Agreements permit such reports and information to be disclosed to the Secured Creditors;
 - (g) a semi-annual Investors Report;
 - (h) such material information about the business and financial condition of Anglian Water as a Secured Creditor may reasonably and properly

request, from time to time, on the request of the Security Trustee (as directed by such Secured Creditor); and

- (i) details of any Bondholder accepting the offer of prepayment following the occurrence of an Early Redemption Event and the aggregate Early Redemption Amount payable.
- (ii) Anglian Water has further agreed to provide information regarding a UK Holdco Change of Control to the Security Trustee and the Financial Guarantor as soon as it becomes aware of any such proposal and to use all reasonable endeavours to procure that the Security Trustee and such Financial Guarantor have been given a reasonable opportunity to express views on the identity and role of any such proposed new Controlling person under a UK Holdco Change of Control.
- (iii) Anglian Water has further agreed to use all reasonable endeavours to supply any information due to, or requested by, the Director General within the time period provided for supply of such information. If no time period is specified, Anglian Water must provide the required information as soon as reasonably practicable. This is subject to action Anglian Water reasonably believes is consistent with prudent management as part of negotiation with the Director General.
- (iv) Additionally, each Obligor has undertaken to supply to the Security Trustee:
 - (a) its audited financial statements and, in the case of Anglian Water, its audited consolidated financial statements, for each of its financial years and, in the case of Anglian Water, its unaudited consolidated financial interim statements, for the first half-year of each of its financial years;
 - (b) copies of all material documents despatched by it to its shareholders or creditors generally;
 - (c) as soon as reasonably practicable after becoming aware or available, details of:
 - (A) any litigation or other proceedings (which alone or in aggregate could reasonably be expected to give rise to a claim against Anglian Water of £5,000,000 (indexed)), which are current, threatened or pending and would be reasonably likely, if adversely determined, to have a Material Adverse Effect;
 - (B) the periodic information relating to it (such as Anglian Water's annual charges scheme, a summary of Anglian Water's strategic business plan at each Periodic Review, Anglian Water's procurement plans, Anglian Water's annual drinking water quality report, Anglian Water's annual environmental report and Anglian Water's annual conservation and access report);
 - (C) any event which could reasonably be expected to give rise to an insurance claim in excess of £4,000,000 (indexed);
 - (D) any Material Entity Event (see Chapter 6.5.11, "*Material Entity Events*" below) and/or Emergency which would be reasonably likely to have a Material Adverse Effect;

- (E) any non-compliance with any law or regulation which would be reasonably likely to have a Material Adverse Effect; and
 - (F) any other event which would be reasonably likely to have a Material Adverse Effect;
- (d) such material information as is reasonably and properly requested by any Secured Creditor; and
- (e) notification of any Default or Potential Trigger Event relating to it promptly upon becoming aware of its occurrence (and the steps, if any, being taken to remedy it).
- (v) Additionally, each of Anglian Water and the Issuer has undertaken, *inter alia*:
 - (a) to supply a compliance certificate signed by two authorised signatories of the Issuer and two independent non-executive directors of Anglian Water (subject to any vacancies arising out of exceptional circumstances not in the normal course of business, in which case, the signature of only one independent non-executive director of Anglian Water will be required); such compliance certificate to be accompanied by a statement as to what the historical financial ratios which are required to be calculated under the Common Terms Agreement are, a short summary of the manner in which the historical financial ratios have been calculated and a certification of compliance in relation to projected financial ratios;
 - (b) to permit the Security Trustee to investigate the calculations contained in any accompanying statement to a compliance certificate and to call for other substantiating evidence if it certifies to Anglian Water or the Issuer that it has reason to believe that the historical ratios set out in the statement are incorrect or misleading or in the event that there is a deterioration in the historical ratios and will have the right to call for further information if it considers that Anglian Water can have no reasonable grounds for confirming that it is in compliance with all forward looking ratios; and
 - (c) to deliver to the Security Trustee promptly after any reasonable request made by the Security Trustee, a certificate signed on its behalf by two of its authorised signatories certifying that no Default or Potential Trigger Event is outstanding of which it is aware, having made all reasonable enquiries, or if it is outstanding, specifying the Default or Potential Trigger Event and the steps (if any) taken or proposed to be taken to remedy such event.
- (vi) In addition, each Obligor, in respect of information delivered electronically:
 - (a) may deliver any information under the Common Terms Agreement to a Secured Creditor by posting it on an electronic website, provided the Obligor and the Security Trustee have designated a website and the Obligor has notified the Security Trustee and each relevant Secured Creditor of the address and password for such website; and

- (b) must notify the Security Trustee if (i) the website cannot be accessed or the website or any information on it is infected for a period of 5 consecutive days, in which case the Obligor must supply the Security Trustee with all information required under the Common Terms Agreement in paper form with copies as requested by any Finance Party or (ii) if the password is changed.

6.5.5 Covenants — General

- (i) Each Obligor has undertaken, *inter alia*:
 - (a) to do all such things as are necessary to maintain its corporate status where failure would be reasonably likely to have a Material Adverse Effect or otherwise adversely affect the Security Interests of the Secured Creditors;
 - (b) to comply with its cash management obligations (if any) set out in the Common Terms Agreement;
 - (c) to ensure that the claims of Secured Creditors against it under the Finance Documents will rank (subject to certain reservations as to matters of law) prior to or at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors save for those whose claims are preferred solely by law;
 - (d) to operate and maintain, or ensure the operation and maintenance of, its business in a safe, efficient and business-like manner and in accordance with its memorandum and articles of association or other constitutional documents, Good Industry Practice (taking its Business as a whole), the Finance Documents and the UK Holdco/Anglian Water Loan and, in the case of Anglian Water, the Instrument of Appointment and the WIA;
 - (e) to comply with the terms of the Transaction Documents to which it is a party;
 - (f) to maintain and take all reasonable steps to enforce its rights and exercise its discretions under the Transaction Documents and Tier 2 Material Agreements in accordance with Good Industry Practice;
 - (g) to ensure that, save as otherwise agreed by the Security Trustee and each Financial Guarantor save for any Permitted Joint Venture, the corporate ownership structure of the Anglian Water Services Financing Group (other than the ownership or Control of Anglian Water Services Holdings Limited) remains as at the date of the Common Terms Agreement;
 - (h) so far as permitted by applicable law and regulatory requirements, to execute all such further documents and do all such further things as the Security Trustee (acting reasonably) may consider necessary to give effect to the Finance Documents;
 - (i) (A) to take all such action as the Security Trustee may reasonably require for the purpose of perfecting, protecting and preserving the rights of the Security Trustee under the Security Documents and the Security Interests

under the Security Documents; (B) to take all actions as the Security Trustee may require, following the making of any acceleration, cancellation or demand under the Intercompany Loan Arrangements or the termination of, or prepayment of the rentals relative to, the leasing of the Equipment, in each case after the occurrence of a Default for facilitating the exercise of the rights of the Security Trustee under the Security Documents and/or the realisation of any Security Interests under the Security Documents; and (C) to use all reasonable endeavours to receive acknowledgments of assignment from such counterparties as the Security Trustee may nominate;

- (j) not to incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of Anglian Water, indebtedness under Permitted Volume Trading Arrangements (Permitted Financial Indebtedness will include indebtedness incurred under the Intercompany Loan Arrangements, any Finance Document, Treasury Transactions entered into in accordance with the Hedging Policy and any further indebtedness which complies with certain conditions);
- (k) not to enter into any amalgamation, demerger, merger, consolidation or reconstruction other than (in the case of Anglian Water) a Permitted Joint Venture, or otherwise as agreed by the Security Trustee and each Financial Guarantor;
- (l) not to (A) acquire or invest, other than Permitted Acquisitions, Authorised Investments and Permitted Joint Ventures; or (B) establish any subsidiary (other than as set out in the Common Terms Agreement) or any joint venture other than a Permitted Joint Venture without the prior written consent of the Security Trustee and each Financial Guarantor;
- (m) not to, or to permit any Permitted Joint Venture to, be a creditor in respect of any Financial Indebtedness or issue any guarantee or indemnity in respect of the obligations of any other person except for (A) credit or indemnity provided under any Finance Document, (B) any loan made under the Intercompany Loan Arrangements, (C) any loan provided to Anglian Water subordinated to the Authorised Credit Facilities on terms acceptable to the Security Trustee, (D) any guarantee in the Finance Documents, (E) the UK Holdco/Anglian Water Loan, (F) single loans by Anglian Water to employees of less than £250,000 (indexed) or loans by Anglian Water to employees in aggregate less than £750,000 indexed; (G) other loans by Anglian Water in aggregate of less than £500,000 (indexed) not falling in (A) to (F) above and (H) in the case of Anglian Water Permitted Volume Trading Arrangements and, in each case (other than for paragraph (B) above), provided that no Default or Potential Trigger Event is continuing at the time any such credit or loan or guarantee is proposed to be made or issued;
- (n) not to change its memorandum or articles of association or other constitutional documents in a way which would be reasonably likely to have a Material Adverse Effect or otherwise prejudice the Security

Interests created pursuant to the Security Documents without the prior written consent of the Security Trustee;

- (o) not to propose any resolution for, or agree to any material amendments to, variation, modification, waiver, suspension, revocation or termination of any Material Agreement, save in accordance with the Outsourcing Policy, without the prior written consent of the Security Trustee;
- (p) not to enter into any Treasury Transaction other than Hedging Agreements entered into in accordance with the Hedging Policy or AWS Derivative Transactions entered into by Anglian Water in accordance with the AWS Derivative Policy;
- (q) except for a Permitted Tax Loss Transaction, not to enter, without the consent of the Security Trustee and each Financial Guarantor, into any arrangements with any other company or person (other than a taxation authority in respect of the taxation liabilities of such Obligor or any other Obligor) relating to tax;
- (r) not to compromise or settle any claim, litigation or arbitration without prior notification to the Security Trustee if any such compromise or settlement would be reasonably likely to have a Material Adverse Effect;
- (s) (A) to promptly obtain, maintain and comply with the terms of all applicable laws, regulations and orders and obtain and maintain all governmental and regulatory consents, licences, authorisations and approvals (including the Instrument of Appointment) necessary for the conduct of its business, for entry into and performance of the Finance Documents, and for the leasing of the Equipment, as a whole in accordance with Good Industry Practice and (B) to do nothing which would lead to the termination, suspension or revocation of any such consents, licences, authorisations and approvals, in each case where such failure would be reasonably likely to have a Material Adverse Effect;
- (t) to maintain separate bank accounts;
- (u) to use reasonable endeavours to comply in all material respects with all laws and regulations to which it is subject;
- (v) to pay all taxes and other outgoings prior to penalties being incurred unless payment of those taxes is being contested in good faith by appropriate means which permit the deferral of payment and/or an adequate reserve has been set aside for payment of those taxes;
- (w) not to create or allow to exist any Security Interest on the Equipment or any of its present or future revenues or assets other than Permitted Security Interests;
- (x) not to (A): (i) sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by a member of the Anglian Water Services Financing Group other than (in the case of the Issuer or Anglian Water) pursuant to a Finance Lease; (ii) sell, transfer or otherwise dispose of any of its receivables (other than

- Permitted Book Debt Disposals); or (iii) purchase any asset on terms providing for a retention of title by the vendor or on conditional sale terms or on terms having a like substantive effect to any of the foregoing except for assets acquired in the ordinary course of its business carried on in the normal course, in each case, in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset, or (B) enter into any such transaction in (A) above in circumstances where the transaction is not entered into primarily as a method of raising finance to the extent that the consideration in respect of such sales, leases, transfers or disposals is not received in cash payable in full at the time or exceeds an amount of 0.13 per cent. of RCV in aggregate at any time;
- (y) not to dispose of all or any part of the Equipment or its undertaking, revenues, business or assets other than a Permitted Disposal or Permitted Joint Venture;
 - (z) not to change its tax residence from the United Kingdom;
 - (aa) not to: (A) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so; (B) issue any shares which by their terms are redeemable or convertible or exchangeable for Financial Indebtedness; or (C) issue any share capital to any person, other than where any such action or transaction: (i) is in furtherance of a Restricted Payment and the amount of the Restricted Payment is permitted to be paid pursuant to the Finance Documents; (ii) is expressly allowed under the Finance Documents; or (iii) has received the prior written consent of the Security Trustee and each Financial Guarantor; and
 - (bb) other than as a result of Permitted Emergency Action (in which case Anglian Water shall use reasonable endeavours to ensure that all contracts entered into will be on an arm's length basis, although Anglian Water will not be required to obtain alternative competitive quotes), not to enter into any arrangement or contract with any person otherwise than on an arm's length basis save as has been disclosed or unless expressly permitted under the Finance Documents.
- (ii) Additionally, each of Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited has undertaken:
 - (a) not to: (aa) carry on or transact any business or other activity other than (A) ownership of the shares in members of the Anglian Water Services Financing Group held by it on the Effective Date; (B) the giving of guarantees in accordance with the Finance Documents entered into by it on the Effective Date; and (C) the performance of obligations required under the UK Holdco/Anglian Water Loan or the Finance Documents; (bb) own any asset or incur any liabilities except for the purposes of carrying on that business in accordance with the Finance Documents entered into by it on the Effective Date; (cc) suspend, abandon or cease to carry on its business; (dd) declare, make or pay Restricted Payments

- otherwise than as permitted under the Finance Documents and the UK Holdco/Anglian Water Loan; or (ee) take any steps to enforce any claims it may have against any other Obligor without the prior written consent of the Security Trustee;
- (b) not to make any Restricted Payments otherwise than out of monies received by it (directly or indirectly) from Anglian Water which have been properly paid by Anglian Water out of the Distributions Account or as set out under the Common Terms Agreement; and
 - (c) to make a UK Holdco Debt Service Distribution in accordance with those provisions referred to in paragraph (iv)(u)(D) below immediately once Anglian Water has made a UK Holdco Debt Service Distribution.
- (iii) Anglian Water has further undertaken to maintain on its board of directors at least three non-executive directors who are not employees or directors of any Associate (subject to any vacancies arising out of exceptional circumstances).
- (iv) Additionally, Anglian Water has undertaken, *inter alia*:
- (a) to ensure that the nature of its business is limited to the Business;
 - (b) to conduct its Regulated Business in the name of Anglian Water only and to ensure that separation from the Anglian Water Group is maintained at all times by holding Anglian Water out as a separate entity, correcting any misunderstanding as to identity and using stationery, invoices and cheques separate from any other person or entity;
 - (c) not to permit, agree to or recommend any suspension or the abandonment of all or a material part of the operation of its Business unless such suspension or abandonment is in accordance with its Instrument of Appointment;
 - (d) if it exceeds the Permitted Non-Statutory Business Limits, to dispose of or reduce all or part of its Permitted Non-Statutory Business within six months so that the Permitted Non-Statutory Business Limits are complied with at the next Calculation Date;
 - (e) to comply in all material respects with the Instrument of Appointment;
 - (f) not to agree to any amendment or variation of the Instrument of Appointment which would reasonably be expected to have a Material Adverse Effect (without the prior written consent of the Security Trustee);
 - (g) to comply with applicable relevant environmental laws and environmental approvals applicable to it, where failure to do so would be reasonably likely to have a Material Adverse Effect;
 - (h) as soon as reasonably practicable upon becoming aware of the same, notify the Security Trustee of: (A) any environmental claim that is current or, to the best of its knowledge and belief, is threatened; or (B) any facts or circumstances which will or are reasonably likely to result in an environmental claim being commenced or threatened against it, which,

in either case if substantiated, is reasonably likely either to have a Material Adverse Effect or result in any material liability for a Finance Party;

- (i) to effect and maintain those insurances in connection with its Business as are set out in the Common Terms Agreement;
- (j) to take all reasonable action to safeguard and maintain such present and future rights in accordance with intellectual property rights necessary for its Business including observing all covenants and stipulations relating thereto and obtaining all necessary registrations;
- (k) (A) to comply with the Outsourcing Policy which shall become effective on and from the Effective Date and apply it to each Outsourcing Agreement and Capex Contract entered into by Anglian Water (to the extent that it is not entered into pursuant to or under an Existing Framework Agreement) on and from the Effective Date; (B) during the period from the Effective Date until the commencement of the AMP4 Period that all outsourcing is carried out in accordance with Good Industry Practice; (C) subject to (A), to procure that any Outsourcing Agreement and Capex Contract entered into on and from the Effective Date complies with the Public Procurement Rules and the Outsourcing Policy; (D) where an Emergency is continuing, to use its best endeavours to rectify such Emergency (any Permitted Emergency Action will not breach the Outsourcing Policy); (E) to procure that on the commencement of the AMP4 Period, all Existing Framework Agreements are terminated or brought into compliance with the Outsourcing Policy; (F) not to materially alter, amend or modify any Extended Outsourcing Agreement without the consent of the Security Trustee and each Financial Guarantor; and (G) to at all times use Good Industry Practice in exercising its rights and performing its obligations under any Extended Outsourcing Agreement;
- (l) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment and under the Transaction Documents and, in respect of performance obligations which are either passed on to a Contractor or a Permitted Joint Venture or outsourced, it has retained sufficient control to discharge its obligations under the Instrument of Appointment and under the Transaction Documents;
- (m) following receipt of notice of termination of the Instrument of Appointment, Anglian Water must use its reasonable endeavours to ensure that subject to its obligations under the WIA: (A) a Transfer Scheme is agreed between Anglian Water, the transferee and the Director General by a date no less than two years prior to the expiration of such notice; and (B) any such Transfer Scheme will not be prejudicial to the interests of the Secured Creditors;

- (n) to use all reasonable endeavours to ensure that the Security Trustee is joined in the consultation process with the Director General if Anglian Water becomes subject to any Transfer Scheme;
- (o) subject to its obligations under the WIA, not to agree to any Transfer Scheme without the consent of the Security Trustee and each Financial Guarantor;
- (p) to ensure that there are no agreements in force or corporate resolutions passed which call for the present or further issue or allotment of, or grant to any person other than Anglian Water Services UK Parent Co Limited of, the right (whether conditional or otherwise) to call for the issue or allotment of any share (or equivalent) loan note or loan capital of Anglian Water (including an option or right of pre-emption or conversion);
- (q) in the event that it breaches any of its non-monetary performance obligations under the Existing Finance Lease or the New Finance Lease and such breach would be reasonably likely to have a Material Adverse Effect and has not been remedied or waived, to give notice, within 10 Business Days of becoming aware of such breach, to the Existing Finance Lessor or the New Finance Lessor, as appropriate, of such breach and prepay all applicable termination sums or rental payable under the Existing Finance Lease or the New Finance Lease, as appropriate, upon which the leasing of any and all Equipment under the Existing Finance Lease or the New Finance Lease will terminate immediately and, subject to the terms of the STID, to comply with certain clauses of the Existing Finance Lease or the New Finance Lease as if the relevant Finance Lessor had already served notice of the termination of the leasing of the relevant Equipment on Anglian Water;
- (r) in the event it breaches any of its non-monetary obligations under the Existing Finance Lease or the New Finance Lease and such breach would not be reasonably likely to have a Material Adverse Effect, to indemnify the Existing Finance Lessor or the New Finance Lessor, as appropriate, in respect of any liabilities suffered or incurred by reason of such breach and if it fails to provide such indemnification (within 60 days of receiving from the relevant Finance Lessor written notice demanding payment), to prepay all rental payments payable under the relevant Finance Lease as if such breach had had a Material Adverse Effect and paragraph (q) above applied;
- (s) except for any Existing Joint Ventures and certain joint venture proposals made by Anglian Water to which both the Security Trustee gives its consent in accordance with the procedure and on the terms set out in the Common Terms Agreement (the Security Trustee's consent only to be given if it is satisfied, inter alia, that the liabilities capable of being incurred by Anglian Water as a result of the implementation of the joint venture proposal will not be materially prejudicial to the Secured Creditors and that the net disposal of any asset or right pursuant to the relative joint venture proposal and all net revenues arising from the joint

venture proposal are paid to the Receipts Account) and the consent of each Financial Guarantor, not to be unreasonably withheld, has been given, not to enter into any joint venture or other arrangements with other persons whereby the losses and/or profits arising from any activity are incurred by Anglian Water or shared with that other person, save where those arrangements are permitted or contemplated by the Outsourcing Policy;

- (t) to execute and do all such assurances, acts and things as the Security Trustee may request for perfecting or protecting any security intended to be created under or pursuant to the Security Documents (including, for the avoidance of doubt, any security over any assets or rights which are to form part of the property pursuant to any Permitted Joint Venture); or
- (u) to only:
 - (A) pay Customer Rebates at a time when no Event of Default is subsisting and only to the extent it has funds available in the Customer Payment Account;
 - (B) pay any Distribution at a time when no Event of Default is subsisting and only to the extent it has funds available in the Distributions Account;
 - (C) transfer monies to the Distributions Account or Customer Payment Account at any time: (i) when no Default is subsisting and each representation which repeats is correct; (ii) after a duly constituted board meeting has been held approving the declaration of such Distribution; (iii) during the period of 45 days after the date upon which a compliance certificate or interim compliance certificate has been delivered (and an interim compliance certificate must (if issued) be issued within 45 days after the end of any month to which an unaudited profit and loss account has been drawn and as at which an unaudited balance sheet has been produced and must be accompanied by those financial statements and must certify the financial ratios set out therein as at the most recently occurring Calculation Date up to the date of those financial statements). Further, the amount that may be transferred shall be limited to an amount equal to the aggregate balance of the Receipts Account and the Payment Account after payment of all prior amounts in accordance with the order set out in the cash management provisions of the CTA (summarised in Chapter 6.6.5, “*Cash Management — Debt Service Payment Account*” below) on the 31 March or 30 September to which that compliance certificate relates; or (in the case of a transfer within 45 days after delivery of an interim compliance certificate) the date of the accounts to which that interim compliance certificate relates, and then only provided that:

- (a) on the day of such transfer no drawings are outstanding under the Liquidity Facilities, other than Standby Drawings;
- (b) the transfer is to take place within 45 days after delivery to the Security Trustee of a compliance certificate;
- (c) two directors of Anglian Water have certified to the Security Trustee that:
 - (i) no Trigger Event is continuing unremedied;
 - (ii) in respect of any Calculation Date falling prior to 31 March 2004, the Senior RAR is less than or equal to 0.86:1 and in respect of any Calculation Date falling after that date, the Senior RAR is less than or equal to 0.85:1 (in each case) for each Test Period in respect of the most recently occurring Calculation Date (after deducting the proposed payment from available cash);
 - (iii) no Default persists or will result from the payment and the representations which repeat are, and will, following such payment, remain correct provided that, if such Default arises as a result of a notice to terminate the Instrument of Appointment having been served, then such Default shall be deemed to be cured if an independent financial adviser shall have certified to the Security Trustee that a Transfer Scheme or other satisfactory security has been established that will not be materially prejudicial to the interests of Class A Debt Providers or Class B Debt Providers (as the case may be); and
 - (iv) to the extent that the payment is to be made to the Distributions Account to enable a Special Distribution to be made or paid, the Senior RAR and Class A RAR as adjusted to take account of that payment do not exceed levels 0.015 below those figures in paragraph (c)(ii) above (in the case of the Senior RAR) and the Trigger Event ratio level set out in paragraph (i)(b) (in the case of Class A RAR) of Chapter 6.5.7, "*Trigger Events*", respectively;
- (D) make a UK Holdco Debt Service Distribution quarterly each year. It should be noted that the UK Holdco/Anglian Water Loan was repaid in full on 29 March 2018 and there is no intention to enter into any new loan in replacement of it. The terms for such a distribution would require that the following conditions are met:

- (a) no Default is subsisting or will result from such payment and each representation which repeats is correct and will, following such payment, remain correct;
- (b) the payment is made by way of dividend declared and paid in an amount in each Financial Year equal to such amount as will ensure that Anglian Water Services Overseas Holdings Limited receives a net amount equal to the amount that it will be required to declare and pay by way of dividend to ensure that Anglian Water Services Holdings Limited receives a net payment equal to all sums due and payable by Anglian Water Services Holdings Limited to Anglian Water under the UK Holdco/Anglian Water Loan;
- (c) Anglian Water Services Overseas Holdings Limited declares, makes and pays the dividend referred to in (b) above and Anglian Water Services Holdings Limited fulfils its payment obligations then due under the UK Holdco/Anglian Water Loan on a same day basis with Anglian Water's payment referred to in (b) above;
- (d) the payment is made from the Payment Account to the Account of Anglian Water Services Overseas Holdings Limited at the Account Bank in London subject to the Account Bank having received irrevocable instructions (A) from Anglian Water Services Overseas Holdings Limited to transfer such sums immediately upon receipt to the Account of Anglian Water Services Holdings Limited at the Account Bank in London; and (B) from Anglian Water Services Holdings Limited to transfer such sums immediately upon receipt into the Account to the Payment Account; and
- (e) all transfers of monies between the Accounts referred to in (d) above occur simultaneously;
- (f) the criteria listed in paragraphs (A) to (C) above will also apply to payments of Subordinated Debt;
- (g) to comply with the obligations to provide information under any surveillance letter with a Financial Guarantor or any Authorised Credit Facility;
- (h) to ensure that a facility in an amount not less than the Maximum Early Redemption Amount to fund the payment of Early Redemption Amounts will continue to be available to be drawn by the Issuer as Permitted Financial Indebtedness under a Finance Document at all times until:
 - (i) the day after the last day on which the Early Redemption Event may occur; or

- (ii) if the Early Redemption Event occurs, the payment of all Early Redemption Amounts;
 - (i) to assist with the syndication of any Authorised Credit Facility; and
 - (j) to ensure its pension provisions comply with certain ring-fencing requirements.
- (v) Additionally, Anglian Water and the Issuer have undertaken, *inter alia*:
 - (a) to maintain a rating of the Class A Debt and Class B Debt and a shadow rating of Class A Wrapped Debt with any two of the Rating Agencies;
 - (b) to agree to co-operate with the Rating Agencies in connection with any reasonable request for information in respect of the maintenance of a shadow rating or rating and with any review of its business which may be undertaken by one or more of the Rating Agencies after the date of the Common Terms Agreement;
 - (c) to ensure that there are installed and maintained accounting, management information, financial modelling and cost control systems which are of such a standard as can produce the information required within the time set out in the Finance Documents and procure that there are maintained books of account and other records adequate to reflect fairly and accurately its financial condition, the results of its operations and to provide the reports required to be delivered pursuant to the Finance Documents;
 - (d) to authorise the Auditors to communicate directly with the Security Trustee at such time as such parties may reasonably require (and whilst any Default is outstanding at any time) regarding its accounts and operations and furnish to the Security Trustee a copy of such authorisation, subject to the Auditors' agreement to communicate at such time and upon agreed conditions;
 - (e) to inform the Security Trustee of any change to the Auditors, as soon as reasonably practicable;
 - (f) to only replace the Auditors without the prior written approval of the Security Trustee if the replacement Auditors are a firm of independent public accountants of international standing; and
 - (g) not to change its financial year end without the prior written consent of the Security Trustee such consent not to be refused if Ofwat requires the relevant financial year to be changed in which case Anglian Water will change the financial covenant calculations in such manner as the Security Trustee deems necessary to enable such calculations to continue to be calculated from the relevant financial statements of Anglian Water.
- (vi) Additionally, the Issuer has undertaken, *inter alia*:
 - (a) not to: (A) carry on any business other than the raising of funds to provide debt financing to Anglian Water for the purposes of its Business in

- accordance with the Finance Documents or any Treasury Transaction in accordance with the Hedging Policy; (B) own any assets or incur any liabilities except as required or permitted pursuant to the Finance Documents; (C) suspend, abandon or cease to carry on its business; or (D) take any steps to enforce any claims it may have against any other Obligor without the prior written consent of the Security Trustee;
- (b) to enter into the interest rate hedging arrangements contemplated in the Hedging Policy, in accordance with the terms of the Hedging Policy;
 - (c) to ensure that: (A) no more than 20 per cent. of its aggregate nominal outstanding Financial Indebtedness shall fall due for scheduled final repayment within any period of 24 consecutive months; and (B) no more than 40 per cent. (increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than five years) of its aggregate nominal outstanding Class A Debt shall fall due for scheduled repayment within the period from one Periodic Review to the next Periodic Review;
 - (d) to use all reasonable endeavours to procure the admission of all listed Bonds for trading on the London Stock Exchange, or such other stock exchange approved by the dealers under the Programme Agreement and the Bond Trustee, and to maintain such admission until none of the relevant listed Bonds is outstanding;
 - (e) upon receiving a written request from the Bond Trustee, to deliver to the Bond Trustee a certificate of the Issuer setting out, inter alia, details of the aggregate principal amount outstanding under the outstanding Bonds purchased by the Issuer and as are held by any person for the benefit of any member of the Anglian Water Services Financing Group, any Financial Guarantor or, so far as the Issuer is aware, any of their respective Affiliates, holding companies and subsidiaries;
 - (f) to send or procure to be sent (not less than three days prior to the date of publication) to the Bond Trustee for the Bond Trustee's approval, one copy of each notice to be given to the Bondholders in accordance with the Conditions and not to publish such notice without such approval and, upon publication, to send to the Bond Trustee two copies of such notice (such approval, unless so expressed, not to constitute approval for the purpose of section 21 of the FSMA of such notice as an investment advertisement (as therein defined));
 - (g) to procure that the Principal Paying Agent notifies the Bond Trustee forthwith if it does not, on or before the due date for payment in respect of the Bonds, receive unconditionally the full amount in the correct currency of the monies payable on such due date;
 - (h) to forthwith give notice to the Bondholders of payments made after their due date to the Principal Paying Agent, the Registrar or the Bond Trustee;
 - (i) not less than the number of days specified in the relevant Conditions prior to the redemption or repayment date in respect of any Bond, to give to

the Bond Trustee notice in writing of the amount of such redemption or repayment pursuant to the Conditions;

- (j) prior to giving notice to the Bondholders that it intends to redeem the Bonds pursuant to Condition 9(b) (*Early Redemption for Index reasons*), 9(c) (*Redemption for tax reasons*) or 9(d) (*Redemption at the Option of the Issuer (Issuer Call)*), to provide such information to the Bond Trustee and the Financial Guarantors as the Bond Trustee and the Financial Guarantors require in order to satisfy themselves of the matters referred to in those Conditions;
- (k) to promptly give notice to the Bond Trustee and to the Security Trustee:
 - (A) if it is required by law to effect a deduction or withholding of tax in respect of any payment due in respect of any Bonds listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007; or
 - (B) if a Hedge Counterparty is required to make a deduction or withholding of tax in respect of any payment due under the relevant Hedging Agreement; or
 - (C) if it would not be entitled to relief for tax purposes, in any jurisdiction in which it carries on business or is resident for tax purposes, for any material amount which it is obliged to pay under the Finance Documents and which is or has been assumed in the Anglian Water Business Financial Model to be available for relief for tax purposes, and in each case, take such action as may be required by the Bond Trustee and Security Trustee in respect thereof;
- (l) while any of the Bonds remain outstanding, to give notice, or procure that notice is given, to each of the Rating Agencies of:
 - (A) any proposed amendment to the Finance Documents other than ones that the Bond Trustee considers to be of a formal, minor or technical nature or made to correct a manifest error or necessary or desirable for clarification;
 - (B) the Bonds of any Series being repaid in full;
 - (C) the termination of the appointment of the Cash Manager;
 - (D) the appointment of a replacement Bond Trustee or Security Trustee or the appointment of any new or replacement Agents;
 - (E) any Default;
 - (F) the delivery of an Enforcement Notice;
 - (G) the occurrence of any Anglian Water Change of Control; and
 - (H) the occurrence of any UK Holdco Change of Control;
- (m) to observe and comply with its obligations, and use all reasonable endeavours to procure that the Agents observe and comply with all their obligations, under the Agency Agreement and procure that the Registrar maintains the Register and notify the Bond Trustee immediately if it becomes aware of any material breach or failure by an Agent in relation to the Bonds;
- (n) to give not less than 14 days' prior notice to the Bondholders of any future appointment or any resignation or removal of any Agent or of any change by any Agent of its specified office;
- (o) if, before an Interest Payment Date for any Bond, it becomes subject generally to the taxing jurisdiction of any territory or any political sub-

division thereof or any authority therein or thereof having power to tax other than or in addition to the United Kingdom, to notify (immediately upon becoming aware thereof) the Bond Trustee of such event and enter into a deed supplemental to the Bond Trust Deed, the Existing Bond Trust Deeds or the assumption agreement in relation to the USPP 2001 Bonds entered into on or about the Effective Date, with the substitution for (or, as the case may be, the addition to) the references therein to the United Kingdom of references to that other or additional territory to whose taxing jurisdiction, or that of a political subdivision thereof or any authority therein or thereof, the Issuer becomes subject as aforesaid, such supplemental deed also to modify Condition 9(c) or any equivalent provision of the Existing Bonds or the USPP 2001 Bonds so that such Condition shall make reference to that other or additional territory; and

- (p) to notify the Bond Trustee of any amendment to the Programme Agreement and not agree to any such amendment prior to the delivery of a legal opinion to the Security Trustee if so required.
- (vii) Following a STID directions request dated 21 July 2020 (the “**Covid 19 STID Proposal**”) the Financial Guarantor and the Security Trustee consented, pursuant to limb (h) of the definition of “Permitted Financial Indebtedness” in the MDA, to the incurrence of Financial Indebtedness as follows:
- (a) where a Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness, the drawing in full or in part of any Liquidity Facilities;
 - (b) if a Trigger Event is continuing or will arise as a result of the incurrence of such Financial Indebtedness, where such Financial Indebtedness is incurred for any purpose other than the Enhancement Capex Purpose or the Refinancing Purposes (each as defined below), the drawing, in full or in part (including any rollover of existing drawings), of any revolving credit facility, overdraft facility or working capital facility which is an Authorised Credit Facility, entered into by a member of the AWS Financing Group, provided that no Event of Default is continuing or would arise as a result of such drawing;
 - (c) if a Trigger Event is continuing or will arise as a result of the incurrence of such Financial Indebtedness, the incurrence of Financial Indebtedness which is for the purposes of enhancement capital expenditure (“**Enhancement Capex Purpose**”) but only to the extent that (1) such Financial Indebtedness is Permitted Enhancement Capex Financial Indebtedness; and (2) the Senior RAR is less than or equal to 0.835:1 for each Test Period in respect of the most recently occurring Calculation Date (after taking into account such incurrence); or
 - (d) if a Trigger Event is continuing or will arise as a result of the incurrence of such Financial Indebtedness, where the prior written consent of the Financial Guarantor (such consent not to be unreasonably withheld or delayed), is obtained, the incurrence of further Financial Indebtedness by

the AWS Financing Group for the purpose of refinancing any Authorised Credit Facilities or any existing Financial Indebtedness that are due to expire, mature, terminate and/or be redeemed within one year from the date of such incurrence (“**Refinancing Purposes**”), provided that the incurrence of new Financial Indebtedness for Refinancing Purposes shall not exceed an amount equal to the nominal amount outstanding in respect of the Financial Indebtedness to be refinanced plus all indexation accrued but unpaid on such Financial Indebtedness which is indexed together with any interest due and unpaid,

provided that such Financial Indebtedness referred to in paragraphs (a), (b), (c) and (d) above is incurred at such time where no Event of Default or Potential Event of Default is continuing or would arise as a result of the incurrence of such Financial Indebtedness, and satisfies conditions (ii) to (v) (inclusive), (vi) (save for any requirements in respect of Class A PMICR) and (vii) of limb (g) of the definition of “Permitted Financial Indebtedness” in the MDA.

Pursuant to the Covid 19 STID Proposal, Anglian Water agreed that where any Financial Indebtedness is incurred for Refinancing Purposes pursuant to paragraph (d) above (“**Refinancing Debt**”), the net proceeds of such Refinancing Debt shall be held in cash and/or Authorised Investments until such time as they are required in order to discharge any existing Financial Indebtedness.

For these purposes, “**Permitted Enhancement Capex Financial Indebtedness**” means Financial Indebtedness incurred by the Issuer or Anglian Water for the purposes of making enhancement capital expenditure envisaged under the applicable determination for disbursement during AMP7 (as set out in the Final Determination), as adjusted to reflect any redetermination from the Competition and Markets Authority, interim determination, or other adjustment agreed to by Ofwat or any other relevant government body and subject to any applicable judicial challenge to Anglian Water’s envisaged enhancement capex expenditure during the period.

6.5.6 Financial Covenants

- (i) Anglian Water has undertaken, *inter alia*:
 - (a) to deliver, with each compliance certificate and each Investors Report, a statement confirming that it has calculated each of the following ratios as at the Calculation Date immediately prior to the date of delivery of that compliance certificate, specifying the results of such calculations and providing a short summary of the manner in which these ratios have been calculated:
 - (A) a Class A ICR for each Test Period;
 - (B) a Senior PMICR for each Test Period;
 - (C) a Class A PMICR for each Test Period;
 - (D) a Senior Average PMICR;

- (E) a Class A Average PMICR;
 - (F) a Senior RAR for each Test Period;
 - (G) a Class A RAR for each Test Period;
 - (H) the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest;
 - (I) a Conformed Senior PMICR for each Test Period;
 - (J) a Conformed Class A PMICR for each Test Period;
 - (K) a Conformed Senior Average PMICR; and
 - (L) a Conformed Class A Average PMICR.
- (b) at each Periodic Review and on making each Interim Determination application, to apply to the Director General for a price determination which in the reasonable opinion of the Anglian Water directors would allow, at a minimum, a credit rating in the A category to be achieved and maintained for the Class A Unwrapped Debt and a shadow rating in the A category to be achieved and maintained for the Class A Wrapped Debt, in each case such credit rating or shadow credit rating to be from at least two of the Rating Agencies;
- (c) to apply to the Director General for an Interim Determination when permitted under the Instrument of Appointment (or use any other means available to apply for an Interim Determination):
- (A) in all circumstances which are appropriate in accordance with Good Industry Practice;
 - (B) if the Class A PMICR for any Test Period up to and including the Date Prior is, or is projected to be, less than 1.3:1;
 - (C) if the Senior RAR for any Test Period up to and including the Date Prior is, or is projected to be, equal to or greater than 0.9:1;
 - (D) if an event has occurred which has caused or which is likely to cause a material reduction in its current or projected Net Cash Flow; and
 - (E) if the Conformed Class A PMICR for any Test Period up to and including the Date Prior is, or is projected to be, less than 1.3:1,
- provided that any such application is consistent with prudent management; and
- (d) to levy charges to customers which, together with other available amounts, are as far as possible sufficient, within the constraints of the current price control framework, to enable Anglian Water to meet its operational, investment and financial obligations on a timely basis under the Instrument of Appointment and its obligations in respect of Financial Indebtedness.
- (ii) The Issuer has further undertaken to maintain:

- (a) Debt Service Reserve Liquidity Facilities available for drawing which (when aggregated with all amounts (including the value of any Authorised Investments) standing to the credit of the Debt Service Reserve Accounts) are not less than the amount of interest (including Lease Reserve Amounts and adjusted Lease Reserve Amounts) payable on its Class A Debt and Class B Debt for the next succeeding 12-month period; and
- (b) an O&M Reserve Facility available for drawing which when aggregated with amounts standing to the credit of the O&M Reserve Account amount to not less than 10 per cent. of Projected Operating Expenditure and Capital Maintenance Expenditure for the next succeeding 12-month period as forecast in the Anglian Water Business Financial Model.

6.5.7 Trigger Events

The Common Terms Agreement also sets out certain Trigger Events. The specific Trigger Events and the consequences which flow from the occurrence of those events (the “**Trigger Event Consequences**”, as described more particularly in Chapter 6.5.8, “*Trigger Event Consequences*” below) are summarised below.

The occurrence of any of the following events will be a Trigger Event:

(i) Financial Ratios

On any date when any of the following ratios are calculated in accordance with the Common Terms Agreement to breach the relevant level specified below (a “**Trigger Event Ratio Level**”) as at the most recently occurring Calculation Date:

- (a) the Senior RAR for any Test Period is estimated to be more than 0.9:1;
- (b) the Class A RAR for any Test Period is or is estimated to be more than 0.75:1;
- (c) the Senior PMICR for any Test Period is or is estimated to be less than 1.1:1;
- (d) the Class A PMICR for any Test Period is or is estimated to be less than 1.3:1;
- (e) the Senior Average PMICR is or is estimated to be less than 1.2:1;
- (f) the Class A Average PMICR is or is estimated to be less than 1.4:1;
- (g) the Conformed Senior PMICR for any Test Period is or is estimated to be less than 1.1:1;
- (h) the Conformed Class A PMICR for any Test Period is or is estimated to be less than 1.3:1;
- (i) the Conformed Senior Average PMICR is or is estimated to be less than 1.2:1;
- (j) the Conformed Class A Average PMICR is or is estimated to be less than 1.4:1.

(ii) Credit Rating Downgrade

Each credit rating referred to below is the “**Trigger Credit Rating**” for the relevant Class of Bonds:

- (a) the shadow credit rating of any Class A Wrapped Debt given by any two of the Rating Agencies falls to BBB, Baa2 or BBB or below or any Obligor is placed on credit watch with negative implications and it is reasonably likely that such rating given by such Rating Agencies will fall to such levels;
- (b) the credit rating of any Class A Unwrapped Debt by any two of the Rating Agencies falls to BBB, Baa2 or BBB respectively or below or any Obligor is placed on credit watch with negative implications and it is reasonably likely that such rating given by such Rating Agencies will fall to such levels;
- (c) the shadow credit rating of the Class B Wrapped Debt by any two of the Rating Agencies falls below investment grade or any Obligor is placed on credit watch with negative implications and it is reasonably likely that such rating given by such Rating Agencies will fall to such levels; or
- (d) the credit rating of the Class B Unwrapped Debt by any two of the Rating Agencies falls below investment grade or any Obligor is placed on credit watch with negative implications and it is reasonably likely that such rating given by such Rating Agencies will fall to such levels.

(iii) Debt Service Payment Account Shortfalls

The failure to maintain the required credit balance in the Debt Service Payment Account on the required day and within one Business Day of being notified of any shortfall.

(iv) Material Deviation in Projections

On any Calculation Date, the estimated actual capital expenditure over any five-year period between Periodic Reviews exceeds the capital expenditure for that period assumed by the Director General in the last Periodic Review (adjusted to take account of any subsequent Interim Determination and Out-turn Inflation) in respect of Anglian Water by 10 per cent. or more.

In each case, deviations resulting from variances in real construction prices from assumed construction prices or additional capital expenditure incurred or to be incurred in respect of items for which Anglian Water is entitled to make an application for an Interim Determination shall be ignored for the purposes of determining whether the 10 per cent. threshold deviation level has been breached.

(v) Liquidity for Capital Expenditure and Working Capital

If, as at any Calculation Date, the aggregate of: (i) Anglian Water’s operating cash flows including monies standing to the credit of the Payment Account and the Receipts Account available or forecast to be available to meet capital expenditure and working capital requirements for the next Test Period; (ii)

Authorised Credit Facilities (excluding Liquidity Facilities) available to be drawn in the next 12 month period; and (iii) all amounts standing to the credit of the Capex Reserve Account are less than Anglian Water's (a) forecast capital expenditure projected for the next 12 month period; (b) forecast working capital requirements projected for the next 12 month period; and (c) the maximum total amount of Financial Indebtedness which is or is projected to be outstanding during the next succeeding 12 month period which falls within paragraph (d) of the definition of Permitted Financial Indebtedness.

(vi) Drawdown on Debt Service Reserve Liquidity Facilities and O&M Reserve Facility

- (a) If, at any time, the aggregate of all amounts available for drawing under any Debt Service Reserve Liquidity Facility and all amounts standing to the credit of the Debt Service Reserve Accounts is less than an amount equal to the next 12 months' interest (or, in the case of the Finance Leases, Lease Reserve Amounts or adjusted Lease Reserve Amounts) payable in respect of Class A Debt and Class B Debt (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a Debt Service Reserve Liquidity Facility).
- (b) The Issuer draws down under the O&M Reserve Facility or withdraws funds from the O&M Reserve Account to pay its maintenance costs and not, in the case of the O&M Reserve Facility, just in order to fund the O&M Reserve Account.

(vii) Enforcement Order

An Enforcement Order (as defined under the WIA) is issued under Part II, Chapter 11 of the WIA against Anglian Water which would have a Material Adverse Effect if not complied with.

(viii) Circumstances leading to a Special Administration Order

Any indication arising from notices and/or correspondence issued by, or during correspondence with, the Director General or any other circumstance of which Anglian Water is aware that would reasonably be expected to lead to an application by the Director General or the Secretary of State for a Special Administration Order to be made in respect of Anglian Water.

(ix) Termination of Instrument of Appointment

The giving of a notice to terminate the Instrument of Appointment under the WIA.

(x) Event of Default

An Event of Default is continuing.

(xi) Material Entity Event

- (a) A Material Entity Event occurs: (A) in relation to a Tier 1 Material Agreement or a Contractor and/or Anglian Water under a Tier 1 Material Agreement and which continues unremedied for 60 days (other than (i) a Material Entity Event under paragraph (i) of Chapter 6.5.11, “*Material Entity Events*” below which continues unremedied for 45 days or (ii) a Material Entity Event which is capable of remedy under paragraph (ii) or (iii) of Chapter 6.5.11, “*Material Entity Events*” below which continues unremedied for 30 days) from the date from which Anglian Water could be reasonably expected to become aware of such Material Entity Event; or (B) in relation to a Tier 2 Material Agreement or a Contractor and/or Anglian Water under a Tier 2 Material Agreement which continues unremedied for six months from the date from which Anglian Water could be reasonably expected to become aware of such Material Entity Event;
- (b) During the period from the Effective Date until the commencement of the AMP4 Period, a Material Entity Event occurs in respect of a Tier 1 Material Agreement pursuant to paragraph (iv), (v), (vi), (vii) or (viii) of Chapter 6.5.11, “*Material Entity Events*” which is capable of remedy and which continues unremedied for 60 days,

unless in either case, the relevant Contractor has been replaced in accordance with the Outsourcing Policy.

(xii) Referral

A referral is made under paragraph 14.3 of Condition B in Schedule 2 (Shipwreck) to the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any adverse event.

(xiii) Audit Qualification

The Auditors qualify their report on any audited Statutory Accounts of any member of the Anglian Water Services Financing Group in a manner which causes the Security Trustee to believe that the financial ratios calculated in accordance with the Common Terms Agreement may not reflect the true position of Anglian Water.

(xiv) Adverse Governmental Legislation

The commencement of the final reading of draft legislation in the House of Lords or the House of Commons (whichever occurs later) of legislation relating to or impacting upon Relevant Undertakers (as that term is defined in the WIA) and such legislation could if enacted reasonably be expected to lead to a breach of the financial ratios referred to in paragraph (i), “*Financial Ratios*” above or cause a material deviation as set out in paragraph (iv), “*Material Deviation in Projections*” above, in each case taking into account any actions available to Anglian Water to mitigate the same.

(xv) Modification or Replacement of Instrument of Appointment

Within three months of an announcement setting out clear proposals by Ofwat for the modifications or replacement of the Instrument of Appointment which, if implemented, could reasonably be expected to have a Material Adverse Effect and a timetable for the implementation of such proposals, Anglian Water has not obtained confirmation from

Ofwat that the proposed modification or replacement is not expected to be implemented or is expected to be implemented in a form which is not reasonably expected to have a Material Adverse Effect.

(xvi) Conduct of Business

The Permitted Non-Statutory Business Limits are breached.

(xvii) Breach of Outsourcing Policy

Anglian Water fails duly to perform or comply with its obligations as required under the Outsourcing Policy (other than as a result of Permitted Emergency Action) and fails to remedy such breach within 90 days of Anglian Water becoming aware of such breach.

(xviii) No Rating Confirmation on Change of Control after Permitted Demerger

At any time after a Permitted Demerger a person acquires Control of Anglian Water Services Holdings Limited or there is any change in the identity of the person who Controls Anglian Water Services Holdings Limited and a Rating Confirmation on Change of Control has not been obtained in relation to that change of Control.

6.5.8 Trigger Event Consequences

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived by the Security Trustee, remedied in accordance with Trigger Event Remedies (see Chapter 6.5.9, “*Trigger Event Remedies*” below) or otherwise remedied to the satisfaction of the Security Trustee, the provisions set out below will apply (subject as described in section 6.5.8(A) below):

(i) No Restricted Payments

No Obligor may make Restricted Payments and, in respect of Customer Rebates, if these have not yet been implemented, Anglian Water must stop their implementation and must not declare any Customer Rebates.

(ii) Further Information and Remedial Plan

(a) Anglian Water must provide such information as to the relevant Trigger Event (including its causes and effects) as may be requested by the Security Trustee.

(b) Anglian Water must discuss with the Security Trustee its plans for appropriate remedial action and the timetable for implementation of such action. Anglian Water and the Security Trustee may agree a Remedial Plan (with the agreement of the Security Trustee not to be unreasonably withheld or delayed) and any agreed Remedial Plan must then be implemented by Anglian Water.

(iii) Independent Review

(a) The Security Trustee may (acting on the instructions of the Majority Creditors) commission an Independent Review to be undertaken on the timetable stipulated by the Security Trustee. The Independent Review will be conducted by technical advisers to the Security Trustee appointed

from time to time or such other person as the Security Trustee may decide.

- (b) The Independent Review will examine the causes of the relevant Trigger Event and recommend appropriate corrective measures.
- (c) Each of the Issuer and Anglian Water must co-operate with the person appointed to prepare the Independent Review including providing access to its books and records and personnel and facilities as may be required for those purposes.

(iv) Consultation with Ofwat

The Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plans with Ofwat at any time.

(v) Appointment of Additional Non-Executive Directors

If the relevant Trigger Event has not otherwise been remedied or waived within six months from the date of its occurrence or such longer period as the Security Trustee, each Financial Guarantor and Anglian Water may agree in a Remedial Plan, the Security Trustee will be entitled to procure the appointment of additional non-executive directors to the board of Anglian Water provided that the additional non-executive directors appointed by the Security Trustee under this paragraph do not constitute a majority of the board of Anglian Water.

(vi) Appointment of Additional Directors

No Obligor may make any additional appointments to the board of any member of the Anglian Water Services Financing Group other than to replace directors upon dismissal, retirement, sudden resignation, death or temporary vacancies unless the Security Trustee and each Financial Guarantor agrees.

In respect of any of the Trigger Event Consequences described above which requires the Security Trustee to exercise its discretion, it must do so upon instructions of the relevant Majority Creditors and any reference to reasonableness and reasonable time will be interpreted accordingly. The Security Trustee is entitled to assume that no Trigger Event has occurred unless informed otherwise.

Even if unremedied, a Trigger Event by itself will not constitute an Event of Default.

6.5.8(A) Modifications in respect of COVID-19 Events

The following were put into effect pursuant to the Covid 19 STID Proposal (with the relevant definitions set out in sub-paragraph (viii) below):

- (i) Anglian Water agreed that, notwithstanding the waiver of a COVID-19 Trigger Event (where any COVID-19 Event Certificate has been delivered to the Financial Guarantor and the Security Trustee), no Restricted Payment shall be made or declared following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived by the Security Trustee, remedied in

accordance with the Trigger Event Remedies or otherwise remedied to the satisfaction of the Security Trustee.

- (ii) Anglian Water further agreed that no Restricted Payments (other than a Permitted Debt Service Distribution) shall be made during the Restricted Period.
- (iii) The Majority Creditors directed the Security Trustee to consent to the waiver of any COVID-19 Trigger Event (and thus a Default caused solely by a COVID-19 Trigger Event or Potential COVID-19 Trigger Event) and all of the Trigger Event Consequences set out in the CTA in respect thereof, which has/have occurred, or would occur, as a result of a COVID-19 Event, provided that:
 - (a) such waiver shall not apply in respect of paragraph (g)(i) of the definition of “Permitted Financial Indebtedness” in the MDA;
 - (b) such waiver shall not apply to any Restricted Payment, as set out in Paragraph 1 (No Restricted Payments) of Part 2 (Trigger Event Consequences) of Schedule 6 (Trigger Events) of the CTA;
 - (c) such waiver shall be deemed to have been given by the Security Trustee upon the receipt by the Financial Guarantor and the Security Trustee of a signed COVID-19 Event Certificate delivered by Anglian Water, and such waiver shall only remain in force until the expiry of the COVID-19 Event Waiver Period specified therein;
 - (d) a COVID-19 Event Certificate shall cease to be effective on the expiry of the applicable COVID-19 Event Waiver Period; and
 - (e) a COVID-19 Event Waiver Period shall cease to apply if:
 - (i) at or before the end of the relevant financial year, a Debt Service Distribution Excess Amount arises (the date it arises being a “**Relevant Date**”); or
 - (ii) Anglian Water (acting in good faith and in a commercially reasonable manner) determines that a Debt Service Distribution Excess Amount will arise or has arisen (and Anglian Water shall determine whether the foregoing is the case at least monthly and if it determines that a Debt Service Distribution Excess Amount will arise or has arisen, Anglian Water shall notify the same to the Security Trustee and the Financial Guarantor, the date of such notice being a “**Relevant Date**”), and

Anglian Water has not received an amount equal to the Debt Service Distribution Excess Amount from one or more of its Associates by way of equity subscriptions by the Relevant Date.

- (iv) Following receipt by the Security Trustee of a COVID-19 Event Certificate from Anglian Water, the Security Trustee shall (acting on the instructions and on behalf of the Majority Creditors pursuant to the Covid 19 STID Proposal) promptly provide written confirmation of receipt of the relevant COVID-19 Event Certificate to Anglian Water substantially in the form provided in the

Covid 19 STID Proposal. The effectiveness of any COVID-19 Event Certificate, any COVID-19 Event Waiver Period and any waiver requested in the Covid 19 STID Proposal shall not be conditional upon the written confirmation of receipt being issued by the Security Trustee.

- (v) Upon the delivery of a COVID-19 Event Certificate to the Security Trustee and the Financial Guarantor, the Majority Creditors agree that the Security Trustee may rely absolutely and entirely on the statements made in such COVID-19 Event Certificate (without any requirement to make enquiry of such statements or liability to any person) and the Security Trustee shall waive such COVID-19 Trigger Event on the terms set out in this STID Proposal and in doing so, shall be deemed to be acting on the instructions of the Majority Creditors.
- (vi) Anglian Water may, from time to time, issue one or more COVID-19 Event Certificates in relation to any COVID-19 Event, provided that, for so long as a COVID-19 Event Waiver Period is continuing (the “**Current COVID-19 Event Waiver Period**”), a new COVID-19 Event Certificate may only be issued where the COVID-19 Event Waiver Period specified in such new COVID-19 Event Certificate starts upon the expiry of the Current COVID-19 Event Waiver Period.
- (vii) Anglian Water may terminate any COVID-19 Event Certificate still in effect by providing at least 30 days’ notice of such termination in writing to the Security Trustee and the Financial Guarantor, with the relevant COVID-19 Event Waiver Period ending on the later of the date specified in such notice or 30 days after the date of such notice.
- (viii) The following defined terms apply:

“**COVID-19 Event**” shall mean:

- (a) any reduction in revenues or Net Cash Flow; and
- (b) any requirement or request (x) by any court of competent jurisdiction or any governmental or other regulatory authority or similar body or (y) pursuant to any applicable law or regulation, each arising in response to, or as a result of, the COVID-19 pandemic (and its impact).

“**COVID-19 Event Waiver Period**” means, in relation to any COVID-19 Event Certificate, the period from, and including, the date of such COVID-19 Event Certificate to, and including, the date specified in such COVID-19 Event Certificate (or, if earlier, the first date on which such COVID-19 Event Waiver Period ends pursuant to the paragraphs of the Covid 19 STID Proposal described in paragraphs (iii)(e) or (vii) of this section 6.5.8(A)) provided such date falls no later than the Calculation Date scheduled to fall on 31 March 2021.

“**COVID-19 Trigger Event**” means any of the following Trigger Events:

- (a) the Trigger Events listed in paragraph 1 (Financial Ratios) of Schedule 6 Part 1 (Trigger Events) of the Common Terms Agreement, other than the ratios listed in limbs (i) and (ii); or

- (b) the Trigger Events listed in paragraph 14 (Adverse Governmental Legislation) of Schedule 6 Part 1 (Trigger Events) but only to the extent that such legislation could, if enacted, reasonably be expected to lead to a breach of the financial ratios referred to in limb (a) above,

in each case, to the extent that such Trigger Event has been caused (or is reasonably likely to be caused) by a COVID-19 Event which is the subject of a COVID-19 Event Certificate which has been delivered by Anglian Water to the Financial Guarantor and the Security Trustee.

“Current COVID-19 Event Waiver Period” has the meaning given to it in paragraph (vi) above of this section 6.5.8(A).

“Debt Service Distribution Excess Amount” means, in respect of any financial year of Anglian Water, an amount equal to:

- (a) the amount paid by AWS in such financial year as a Distribution pursuant to any Permitted Debt Service Distribution;
less
- (b) the actual amount paid by Osprey Holdco Limited and any of its Subsidiaries (excluding the AWS Financing Group) to meet their debt service obligations and/or administrative costs and expenses in such financial year.

“Permitted Debt Service Distribution” means, in relation to the Restricted Period, a Distribution or Distributions, made solely for the purposes of enabling Osprey Holdco Limited and any of its Subsidiaries (excluding the AWS Financing Group) to meet their debt service obligations and/or administrative costs and expenses, in an aggregate amount no greater than £100,000,000.

“Potential COVID-19 Trigger Event” means any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a COVID-19 Trigger Event.

“Restricted Period” means the period starting from the end of any COVID-19 Event Waiver Period to, and including, 30 June 2022.

6.5.9 Trigger Event Remedies

At any time when the Issuer or Anglian Water (as the case may be) believes that a Trigger Event has been remedied by virtue of any of the following, it shall serve notice on the Security Trustee to that effect, and the Security Trustee must respond within 10 days (or such longer period as it may reasonably stipulate within five Business Days of receipt of notice from the Issuer or Anglian Water (as the case may be) to certify that the Issuer or Anglian Water (as the case may be) believes the relevant Trigger Event to have been remedied) confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event shall continue to be a Trigger Event until such time as the Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

The following constitute remedies to the Trigger Events:

(i) Financial Ratios

The occurrence of a Trigger Event referred to in paragraph (i) of Chapter 6.5.7, “*Trigger Events*” above shall be remedied if, on any date when the relevant ratio or ratios are calculated in accordance with the Common Terms Agreement, such ratio or ratios come within the relevant level or levels specified below as at the most recently occurring Calculation Date:

- (a) the Senior RAR for each Test Period is or is estimated to be less than 0.9:1;
- (b) the Class A RAR for each Test Period is or is estimated to be less than 0.75:1;
- (c) the Senior PMICR for each Test Period is or is estimated to be greater than 1.1:1;
- (d) the Class A PMICR for each Test Period is or is estimated to be greater than 1.3:1;
- (e) the Senior Average PMICR is or is estimated to be greater than 1.2:1;
- (f) the Class A Average PMICR is or is estimated to be greater than 1.4:1;
- (g) the Conformed Senior PMICR for any Test Period is or is estimated to be greater than 1.1:1;
- (h) the Conformed Class A PMICR for any Test Period is or is estimated to be greater than 1.3:1;
- (i) the Conformed Senior Average PMICR is or is estimated to be greater than 1.2:1; or
- (j) the Conformed Class A Average PMICR is or is estimated to be greater than 1.4:1.

(ii) Credit Rating Downgrade

The occurrence of a Trigger Event referred to in paragraph (ii) of Chapter 6.5.7, “*Trigger Events*” above shall be remedied if the credit rating of the relevant class of debt given by any two of the Rating Agencies is above the Trigger Credit Rating or the credit watch is removed and the credit rating of the relevant class of debt given by any two of the Rating Agencies remains above the Trigger Credit Rating.

(iii) Debt Service Required Payment Account Shortfalls

The occurrence of a Trigger Event referred to in paragraph (iii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if payment of the required amount is paid into the Debt Service Payment Account.

(iv) Material Deviation in Projections

The occurrence of a Trigger Event referred to in paragraph 6.5.7(iv) of “*Trigger Events*” above will be remedied if the deviations referred to in that paragraph, on any subsequent date, are less than 10 per cent.

(v) Liquidity for Capital Expenditure and Working Capital

The occurrence of a Trigger Event referred to in paragraph (v) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if on any subsequent date the amounts referred to in paragraphs (i) to (iii) of that paragraph are in aggregate equal to or greater than the aggregate of the amounts referred to in paragraphs (a) to (c) of that paragraph.

(vi) Drawdown on Debt Service Reserve Liquidity Facility and O&M Reserve Facility

(a) The occurrence of a Trigger Event referred to in paragraph 6.5.7(vi)(a) of “*Trigger Events*” above will be remedied if the amount available for drawing under a Debt Service Reserve Liquidity Facility when aggregated with all amounts standing to the credit of the relevant Debt Service Reserve Account is restored to the required level.

(b) The occurrence of a Trigger Event referred to in paragraph (vi)(b) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if the amount available for drawing under the O&M Reserve Facility, when aggregated with all amounts standing to the credit of the O&M Reserve Account is restored to the required level.

(vii) Enforcement Order

The occurrence of a Trigger Event referred to in paragraph (vii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if Anglian Water has complied with the terms of the relevant Enforcement Order to the reasonable satisfaction of the Security Trustee or if the Enforcement Order has been effectively withdrawn or if, in the opinion of the Security Trustee (acting reasonably), the relevant fine will not have a Material Adverse Effect or that the Instrument of Appointment will not be terminated.

(viii) Circumstances leading to a Special Administration Order

The occurrence of a Trigger Event referred to in paragraph (viii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if (a) a Special Administration Order is not made within six months of the relevant Trigger Event occurring or (b) the Security Trustee is reasonably satisfied that a Special Administration Order will not be made in respect of Anglian Water.

(ix) Termination of Instrument of Appointment

The occurrence of a Trigger Event referred to in paragraph (ix) of Chapter 6.5.7, “*Trigger Events*” above will be remedied by agreement by Anglian Water to the extent such Transfer Scheme requires any implementation prior to the termination of the Instrument of Appointment of a Transfer Scheme which is reasonably satisfactory to the Security Trustee.

(x) Event of Default

The occurrence of a Trigger Event referred to in paragraph (x) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if the Event of Default is remedied to the reasonable satisfaction of the Security Trustee.

(xi) Material Entity Event

The occurrence of a Material Entity Event referred to in paragraph (xi) of Chapter 6.5.7, “*Trigger Events*” above will be remedied:

- (a) if it is remedied to the satisfaction of the Security Trustee and each Financial Guarantor;
- (b) if the Contractor has been replaced in accordance with the Outsourcing Policy; or
- (c) upon the acceptance by the Security Trustee and each Financial Guarantor of a Remedial Plan for as long as it is being complied with in all respects.

(xii) Referral

The occurrence of a Trigger Event referred to in paragraph (xii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if:

- (a) the financial ratios set out in paragraph (i) of Chapter 6.5.7, “*Trigger Events*” above are continuing to be complied with in the absence of any determination or forecast of the determination of the Director General; or
- (b) the Director General has made a determination that restores the financial ratios referred to in paragraph (a) above to the level specified in paragraph (i) of Chapter 6.5.7, “*Trigger Events*” above.

(xiii) Audit Qualification

The occurrence of a Trigger Event referred to in paragraph (xiii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if the Security Trustee is satisfied that such qualification does not affect the veracity of the financial ratios calculated in accordance with the Common Terms Agreement or Anglian Water produces a further set of audited Statutory Accounts which are not qualified.

(xiv) Adverse Governmental Legislation

The occurrence of the Trigger Event referred to in paragraph (xiv) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if the draft bill fails to become an Act of Parliament or becomes an act in a form which will not cause a breach of the financial ratios set out in paragraph (i) of Chapter 6.5.7, “*Trigger Events*” above or the financial ratios are otherwise reinstated to the Trigger Event Ratio Levels as referred to in paragraph (i) of Chapter 6.5.7, “*Trigger Events*” above or the Director General has confirmed that the capital expenditure which would otherwise have led to a material deviation as referred to in paragraph (iv) of Chapter 6.5.7, “*Trigger Events*” above is allowable under adjustments to the RCV.

(xv) Modification or Replacement of Instrument of Appointment

The occurrence of a Trigger Event referred to in paragraph (xv) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if an independent expert on behalf of the Security Trustee determines that the modifications to the Instrument of Appointment or, as the case may be, the replacement licence or licences to be

granted to Anglian Water will or do contain equivalent terms which permit Anglian Water to carry on its water and water recycling business substantially as carried on as of the Effective Date taking into account any changes in the regulatory environment since the Effective Date and in the opinion of the Security Trustee such terms will not be reasonably likely to:

- (a) have a Material Adverse Effect; or
- (b) result in a breach of the financial ratios as referred to in paragraph (i) of Chapter 6.5.7, “*Trigger Events*” above.

(xvi) Conduct of Business

The occurrence of the Trigger Event referred to in paragraph (xvi) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if, within six months of the date of the occurrence of such Trigger Event, Anglian Water disposes of all or part of the Permitted Non-Statutory Business so that the Permitted Non-Statutory Business Limits will be complied with as at, and for the period ending on, the next Calculation Date.

(xvii) Breach of Outsourcing Policy

The occurrence of the Trigger Event referred to in paragraph (xvii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if Anglian Water takes such action as necessary so that it is in compliance with the Outsourcing Policy.

(xviii) No Rating Confirmation on Change of Control after Permitted Demerger

The occurrence of a Trigger Event referred to in paragraph (xviii) of Chapter 6.5.7, “*Trigger Events*” above will be remedied if a Rating Confirmation on Change of Control is obtained or any downgrade as is referred to in the definition of “Rating Confirmation on Change of Control” which gave rise to that Trigger Event is reversed or such Trigger Event is waived by the Security Trustee and the Initial Financial Guarantor.

In respect of any of the Trigger Event remedies described above which require the Security Trustee to exercise its discretion, it must do so upon instructions of the relevant Majority Creditors, and any reference to reasonableness and reasonable time will be interpreted accordingly.

6.5.10 Events of Default

The Common Terms Agreement contains a number of events of default (the “**Events of Default**”) which will be Events of Default under each Finance Document (other than under the Hedging Agreements). Subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods, Events of Default will include (among others):

- (i) non-payment of amounts due under the Finance Documents within three Business Days of the due date;
- (ii) non-compliance with other obligations under the Finance Documents;
- (iii) material misrepresentation;

- (iv) any Financial Indebtedness not being paid when due (after the expiry of any applicable grace period) or any Financial Indebtedness being declared due and payable prior to its specified maturity as a result of an event of default;
- (v) an Insolvency Event or Insolvency Proceedings in relation to the Obligors other than Anglian Water and in relation to Anglian Water, an insolvency event or insolvency proceedings as set out further in the CTA;
- (vi) Anglian Water transferring the Instrument of Appointment without the Security Trustee's consent or Anglian Water receiving notice that the Instrument of Appointment will be revoked or terminated and a scheme of transfer not being approved by the Secretary of State or the Director General on or before the date falling two years prior to the expiration of such notice;
- (vii) the Instrument of Appointment being terminated and not replaced immediately by a further licence on equivalent terms taking into account any changes in the regulatory environment since the Effective Date;
- (viii) insufficient liquidity (from operating cash flows, the Authorised Credit Facilities and the Capex Reserve Account) to meet Anglian Water's forecast capital expenditure and working capital requirements projected for the next six-month period;
- (ix) attachment, sequestration, distress or execution involving sums in excess of £500,000 (indexed);
- (x) it becoming unlawful for any Obligor to perform its obligations under any Finance Document;
- (xi) an Anglian Water Change of Control occurs;
- (xii) Security becoming invalid, unenforceable or unlawful;
- (xiii) governmental intervention or nationalisation which would be reasonably likely to have a Material Adverse Effect;
- (xiv) an Obligor failing to comply with a judgment involving sums in excess of £500,000 (indexed);
- (xv) other than in the case of a Permitted Lease Termination, an Obligor not having legal power to perform its obligations under the Finance Documents or any obligation of any Obligor under a relevant Finance Document (other than stamp duty indemnities) ceasing to be legal, binding and enforceable and the absence of compliance has a Material Adverse Effect;
- (xvi) Anglian Water failing to comply with its obligations under the Outsourcing Policy (and such failure has a Material Adverse Effect);
- (xvii) an Obligor ceasing to carry on the Business (or any substantial part of the Business) it carries on as at the date of the Common Terms Agreement or as contemplated by the Finance Documents;
- (xviii) litigation being started against an Obligor or its assets or revenues which would be reasonably likely to be adversely determined and, if so adversely determined, would have a Material Adverse Effect;

- (xix) the shadow rating of the Class A Wrapped Bonds or the rating of the Class A Unwrapped Bonds in each case ascribed by two Rating Agencies being less than the minimum required for Investment Grade;
- (xx) the Class A ICR being less than 1.6:1, the Senior RAR being more than 0.95:1 and/or the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest is less than 1:1;
- (xxi) an Obligor amending its memorandum or articles of association (and, in the case of any amendment to Anglian Water's memorandum or articles, in a manner which is reasonably likely to have a Material Adverse Effect or diminish the Security Interest granted in favour of the Security Trustee); and
- (xxii) a Material Entity Event (as described in Chapter 6.5.11 "*Material Entity Events*" below) occurring which has a Material Adverse Effect.

In respect of each Event of Default requiring any action or discretion on the part of the relevant creditor, the Security Trustee will (save in respect of certain Entrenched Rights and Reserved Matters (see Chapter 6.3.18, "*Security Trust and Intercreditor Deed — Entrenched Rights and Reserved Matters*" above)) act in accordance with the instructions of the relevant Majority Creditors in accordance with the STID (see Chapter 6.3, "*Security Trust and Intercreditor Deed*" above).

Immediately upon the notification to the Security Trustee of an occurrence of an Event of Default, a Standstill Period will commence in accordance with the STID (see Chapter 6.3.13, "*Security Trust and Intercreditor Deed — Standstill*" above).

6.5.11 Material Entity Events

The Common Terms Agreement (subject in some cases to reservations of law and grace periods) provides that each of the following will constitute a Material Entity Event in respect of any Contractor under a Material Agreement or, as the case may be, Anglian Water, to the extent that such Material Entity Event would be reasonably likely to have a Material Adverse Effect:

- (i) failure to pay any amount in excess of £500,000 (indexed) due from the Contractor or Anglian Water unless payment is made within 15 days of an Obligor becoming aware of such failure or save if such payment is being disputed in good faith;
- (ii) any material representation or statement made or deemed to be made by a Contractor or Anglian Water in any Material Agreement is or proves to have been incorrect or misleading in any material respect when made or deemed to be made and such failure, if capable of remedy, is not remedied by the Contractor or Anglian Water within 30 days of it becoming aware that such representation was incorrect or misleading in any material respect;
- (iii) the Contractor or Anglian Water fails duly to perform or comply with any other obligation expressed to be assumed by it in any Material Agreement and such failure, if capable of remedy, is not remedied by such Contractor or Anglian Water, within 30 days of becoming aware of such breach;
- (iv) the Contractor:

- (a) ceases or suspends generally payment of its debts or publicly announces an intention to do so or is unable to pay its debts as they fall due or is deemed to be insolvent; or
- (b) commences negotiations with or makes a proposal to any one or more of its creditors concerning its solvency, with a view to the readjustment or rescheduling of any indebtedness;
- (v) an Insolvency Event or equivalent event occurs in relation to a Contractor to a Material Agreement;
- (vi) the Contractor fails to comply with or pay any sum due from it under any judgment or any order made or given by any court of competent jurisdiction when such sums exceed £500,000 (indexed) (or its equivalent) in aggregate at any time except where such judgment is being appealed in good faith to a higher court;
- (vii) any Material Agreement to which the Contractor and Anglian Water is a party or any material obligation purported to be contained therein or the security or credit enhancement intended to be effected in relation to any of the Material Agreements to which it is a party is repudiated by it or it does or causes to be done any act or thing evidencing an intention to repudiate, abandon, cancel, suspend or terminate any Material Agreement to which it is a party or the security or credit enhancement related thereto or any such material obligation or any such security or subordination effected under any of the Material Agreements to which it is a party or any Material Agreement is not or ceases to be in full force and effect or the legal validity or applicability thereof to any sums due or to become due thereunder is disaffirmed by it or on behalf of it; and
- (viii) the Contractor, Anglian Water or any provider of security or credit enhancement therefor does not have the legal power to perform any of its material obligations under the Material Agreements or, as the case may be, such security or credit enhancement or to own any material assets or to carry on any material part of its business or at any time it is or becomes unlawful for the Contractor, Anglian Water or any provider of security or credit enhancement therefor to perform or comply with any of its material obligations under any Material Agreement or any of the material obligations of the Contractor or any provider of security or credit enhancement thereunder are not or cease to be legal, valid, binding and enforceable.

6.5.12 Conditions Precedent

The conditions precedent to the issue of further Bonds under the Programme are set out in the CP Document as agreed between, *inter alios*, the Bond Trustee, the Security Trustee and the Obligors.

6.6 Cash Management

6.6.1 Accounts

In accordance with the Common Terms Agreement, Anglian Water opened and maintains the following Accounts:

- (i) the Receipts Account;
- (ii) the Payment Account;
- (iii) the Customer Payment Account;
- (iv) the O&M Reserve Account;
- (v) the Distributions Account;
- (vi) the Capex Reserve Account;
- (vii) the Tax Reserve Account; and
- (viii) the Compensation Account.

It further required the Issuer to open and maintain the following Accounts: (a) the Debt Service Payment Account; (b) the Class A Debt Service Reserve Account; and (c) the Class B Debt Service Reserve Account, and Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited to each open and maintain a chequing account.

Each of the above accounts together with any bank account of any member of the Anglian Water Services Financing Group are collectively referred to as the “**Accounts**”. Each of the Accounts is held with the Account Bank pursuant to the Account Bank Agreement. Each Obligor agreed in the Common Terms Agreement to comply with the Account Bank Agreement and the provisions of the Common Terms Agreement applying to its Accounts.

6.6.2 Receipts Account

Under the Common Terms Agreement, Anglian Water agrees to ensure that all of its revenues (excluding any interest or investment income from Authorised Investments) are paid into the Receipts Account or transferred from an existing receipts account to the Receipts Account within one Business Day of receipt. Any payment may be made directly to the Payment Account. Save for refunds of monies received incorrectly and/or compensation payments made to customers in the ordinary course of business, monies credited from time to time to the Receipts Account are transferred periodically at the discretion of Anglian Water to the Payment Account but not otherwise.

6.6.3 Payment Account

The Payment Account is the principal current account of Anglian Water through which all operating and capital expenditure or any taxes incurred by Anglian Water and (subject to the terms of the Finance Documents) payments in respect of Financial Indebtedness of the Anglian Water Services Financing Group which are not permitted to be satisfied out of monies in the Debt Service Payment Account are cleared (including any Distributions in respect of the UK Holdco/Anglian Water Loan). Operating expenditure is funded by cash transfers from the Receipts Account and, if applicable, through direct payments into the Payment Account and through drawings, as and when required and permitted by the Finance Documents, under any Authorised Credit Facility or other Permitted Financial Indebtedness. Capital expenditure is funded out of monies standing to the credit of the Payment Account or Receipts Account or, to the extent such sums are insufficient, out of cash transfers made from the Capex

Reserve Account and/or the O&M Reserve Account. On the Effective Date, the balance on the Payment Account was £50,000,000.

Under the Common Terms Agreement, Anglian Water agrees that on the opening of business on the first Business Day of each month until the Discharge Date an amount equal to 1/12th (or pro rata in the case of the first Test Period) of Anglian Water's Annual Finance Charge for the time being will be transferred from the Payment Account to the Debt Service Payment Account (the "**Monthly Payment Amount**"). If in any month Anglian Water pays an amount into the Debt Service Payment Account to meet payments of AFC Amounts falling due in such month, this will be treated as a prepayment of future Monthly Payment Amounts payable during such Test Period. Accordingly, future Monthly Payment Amounts for that Test Period will be pro rata reduced to reflect such prepayment.

The Annual Finance Charge is calculated by Anglian Water annually on 31 March of each year (or, if such day is not a Business Day, the immediately preceding Business Day) and details are included in the next following Investors Report (including any adjustments or recalculations thereto).

Anglian Water shall recalculate the Annual Finance Charge and the Monthly Payment Amount if, during the course of any Test Period, there occurs any increase (whether as a result of any increase in the rate of applicable interest, any drawing under any Authorised Credit Facility, any deferral of interest, any upwards adjustment of rentals under any Finance Lease, or otherwise) or decrease (whether as a result of any downwards adjustment of rentals under any Finance Lease or any prepayment or repayment of the debt under which the relevant liabilities arise or accrue or otherwise) and shall adjust the Monthly Payment Amount for the remaining months in the relevant Test Period accordingly.

Anglian Water is prohibited from withdrawing any monies in the Payment Account except on account of the following expenditure and then only in the following order (and provided all prior amounts under previous sub-paragraphs have been paid): (i) operating and capital expenditure of Anglian Water and taxes of any Obligor; (ii) payments to the Debt Service Payment Account in respect of the Monthly Payment Amount; (iii) by way of payment of Class A Debt required under Chapter 6.6.5, "*Debt Service Payment Account*"; (iv) for the purpose of transferring monies to the Capex Reserve Account or to the Class A Debt Service Reserve Account in respect of Class A Debt as required under Chapter 6.6.5, "*Debt Service Payment Account*" and/or the O&M Reserve Account (in each case to the extent required to prevent a breach of covenant or Trigger Event under the Common Terms Agreement); (v) by way of payment of Class B Debt required under Chapter 6.6.5, "*Debt Service Payment Account*"; (vi) for the purpose of transferring monies to the Class B Debt Service Reserve Account in respect of Class B Debt as required under Chapter 6.6.5, "*Debt Service Payment Account*" (to the extent required to prevent a breach of covenant or Trigger Event under the Common Terms Agreement); (vii) from time to time for the purpose of making payments in respect of Financial Indebtedness which are not to be satisfied out of monies in the Debt Service Payment Account (including sums due as a result of a Permitted Hedge Termination, Permitted EIB Compulsory Prepayment Event and/or a Permitted Lease Termination); (viii) to pay UK Holdco Debt Service

Distributions; or (ix) by way of transfer to the Customer Payment Account or Distributions Account provided that the conditions for making such payments as set out in the Common Terms Agreement (as summarised in paragraph (iv)(u) of Chapter 6.5.5, “*Covenants — General*” above) have been satisfied.

Provided that (i) no Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations and Permitted EIB Compulsory Prepayment Events) has occurred and (ii) no Trigger Event, no Event of Default and no Potential Event of Default is subsisting or would occur as a result of a payment following such demand, any Obligor is permitted to withdraw from sums standing to the credit of the Payment Account all amounts required to be paid upon the occurrence of a Permitted EIB Compulsory Prepayment Event for payment to the EIB in satisfaction of such Obligor’s corresponding obligation set out in paragraph (vii) of Chapter 6.6.5 (*Debt Service Payment Account*) below.

6.6.4 Capex Reserve Account and O&M Reserve Account

Anglian Water may not withdraw any monies from the Capex Reserve Account or the O&M Reserve Account except for the purpose of any transfer to the Payment Account on account of Anglian Water’s forecast capital expenditure (in the case of the Capex Reserve Account) or operating and maintenance expenditure (in the case of the O&M Reserve Account) for the quarter in which such transfer occurs. In no circumstances shall Anglian Water transfer in any quarter any monies from the Capex Reserve Account or the O&M Reserve Account to the Payment Account in excess of Anglian Water’s forecast capital expenditure or operating and maintenance expenditure (as the case may be) for that quarter.

The Issuer and Anglian Water have agreed to ensure that the proceeds of any advance under any Authorised Credit Facility for the purpose of funding capital expenditure is lent to Anglian Water under the Issuer/Anglian Water Loan Agreement and is paid directly into the Capex Reserve Account or the Payment Account.

The Issuer and Anglian Water have further agreed to ensure that the proceeds of any advance under the O&M Reserve Facility is lent to Anglian Water under the Issuer/Anglian Water Loan Agreement and is paid directly into the O&M Reserve Account or the Payment Account.

Anglian Water is not entitled to withdraw any monies credited to the O&M Reserve Account to make payment of any capital expenditure or operating and maintenance expenditure unless at the time of such withdrawal there are no funds standing to the credit of the Payment Account or the Receipts Account.

6.6.5 Debt Service Payment Account

Anglian Water has agreed in the Common Terms Agreement that (i) each transfer of or in respect of the Monthly Payment Amount from the Payment Account and (ii) upon the commencement of a Standstill Period, the aggregate amount then credited to the Customer Payment Account and the Distributions Account will be paid directly into the Debt Service Payment Account.

The Common Terms Agreement provides that, on each Payment Date, monies credited to the Debt Service Payment Account and (to the extent such amount is insufficient)

A19.3.4.7A

monies credited to the Payment Account and/or the Receipts Account shall be applied by Anglian Water and the Issuer in the following order and that Anglian Water shall repay the Intercompany Loan Arrangements to such extent as is required for the purpose of enabling the following payments (“**Permitted Payments**”) to be made in the following order of priority (the “**Payment Priorities**”):

- (i) first (to the extent there are insufficient monies standing to the credit of all other Accounts and/or available for drawing under any Liquidity Facility), in or towards satisfaction of all operating costs and budgeted maintenance costs;
- (ii) second, in or towards satisfaction of the remuneration, costs and expenses of the Security Trustee and the Bond Trustee;
- (iii) third, in or towards satisfaction of, on a pro rata basis: (a) the remuneration, costs and expenses of the Agent Bank, the USPP Paying Agent, each Paying Agent, each Registrar, each Transfer Agent, each Exchange Agent, the Listing Agent and any other agents appointed under the Agency Agreement or otherwise (each an “**Agent**”), the Account Bank under the Account Bank Agreement, each Debt Service Reserve Liquidity Facility Provider under the relevant Liquidity Facility Agreement, the O&M Reserve Facility Provider under the O&M Reserve Facility, each Authorised Credit Provider under the relevant Authorised Credit Facility, and the Cash Manager; and (b) the remuneration, costs and expenses of and premia of each Financial Guarantor pursuant to the relevant I&I Agreement;
- (iv) fourth, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue to each Debt Service Reserve Liquidity Facility Provider under the relevant Liquidity Facility Agreement; (b) all amounts of fees, interest and principal (other than Subordinated O&M Reserve Facility Amounts) due or overdue to the O&M Reserve Facility Provider under the O&M Reserve Facility; and (c) all amounts of interest and principal due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility to the extent that the Financial Indebtedness was incurred to fund a New Money Advance;
- (v) fifth, pro rata according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (subject to paragraphs (vi) and (xv) below);
- (vi) sixth, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest (including the Lease Reserve Amounts and adjusted Lease Reserve Amounts) and commitment commissions due or overdue in respect of the Class A Debt (other than Subordinated Coupon Amounts and Subordinated Authorised Loan Amounts); (b) any amounts (including termination amounts) due and payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (subject to paragraph (v) above and paragraph (xv) below); (c) all scheduled amounts payable to each Hedge Counterparty under any Currency Hedging Agreement and (following termination of a Standstill Period other than due to remedy or waiver by the

Majority Creditors of the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement (subject to paragraph (xv) below); (d) all amounts of underwriting commissions due or overdue in respect of the Class A Debt; and (e) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant I&I Agreement in respect of payments of interest on any Class A Bonds of the relevant Series guaranteed by such Financial Guarantor;

- (vii) seventh, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class A Debt (including in respect of Finance Leases, those amounts payable in respect thereof which do not fall within paragraph (vi) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provision of a Finance Lease); (b) all principal exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement; (c) any termination amounts or other sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement (subject to paragraph (vi) above and paragraph (xv) below); and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant I&I Agreement in respect of payments of principal on any Class A Bonds of the relevant Series guaranteed by such Financial Guarantor;
- (viii) eighth, pro rata according to the respective amounts thereof, in or towards satisfaction of any Make-Whole Amount due and payable on the Class A Debt and any MBIA Make-Whole Amount;
- (ix) ninth, (to the extent required under the Common Terms Agreement) in payment to the Class A Debt Service Reserve Account;
- (x) tenth, (to the extent required under the Common Terms Agreement) in payment to the O&M Reserve Account;
- (xi) eleventh, pro rata according to the respective amounts thereof, in or towards satisfaction of all amounts of: (a) interest and commitment commissions due or overdue in respect of the Class B Debt (other than any Subordinated Coupon Amounts); (b) all amounts of underwriting commissions (other than Subordinated Commissions) due or overdue in respect of the Class B Debt; and (c) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant I&I Agreement in respect of payments of interest on any Class B Bonds of the relevant Series guaranteed by such Financial Guarantor;
- (xii) twelfth, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of the Class B Debt; and (b) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant I&I Agreement in respect of payments of principal on any Class B Bonds of the relevant Series guaranteed by such Financial Guarantor;
- (xiii) thirteenth, pro rata according to the respective amounts thereof, in or towards satisfaction of any Make-Whole Amounts due and payable on the Class B Debt;

- (xiv) fourteenth, (to the extent required under the Common Terms Agreement) in payment to the Class B Debt Service Reserve Account;
- (xv) fifteenth, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) any other amounts (not included in paragraphs (vi) and (vii) above) due and/or overdue to the Finance Lessors; and (b) any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement which arises as a result of a default by such Hedge Counterparty or as a result of a downgrade in the credit rating of such Hedge Counterparty;
- (xvi) sixteenth, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Liquidity Facility Amounts due or overdue to each Liquidity Facility Provider under the relevant Liquidity Facility Agreement in respect of Class A Bonds; (b) all Subordinated O&M Reserve Facility Amounts due or overdue to the O&M Reserve Facility Provider under the O&M Reserve Facility; (c) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class A Debt; (d) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant I&I Agreement in respect of any Class A Bonds of the relevant Series guaranteed by such Financial Guarantor; and (e) any amounts payable in respect of Class A Debt not referred to in other paragraphs of the Payment Priorities;
- (xvii) seventeenth, pro rata according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Liquidity Facility Amounts due or overdue to each Liquidity Facility Provider under the relevant Liquidity Facility Agreement in respect of Class B Bonds; (b) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class B Debt; (c) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant I&I Agreement in respect of any Class B Bonds of the relevant Series guaranteed by such Financial Guarantor; and (d) any amounts payable in respect of Class B Debt not referred to in other paragraphs of the Payment Priorities;
- (xviii) eighteenth, pro rata according to the respective amounts thereof, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of any Class A Bonds;
- (xix) nineteenth, in or towards satisfaction of all Subordinated Coupon Amounts due or overdue in respect of any Class B Bonds;
- (xx) twentieth, (a) amounts to be paid into the Tax Reserve Account until the credit cash balance therein is restored to at least £40 million and (b) payment of all amounts then payable by way of reimbursement to the provider of any Letter(s) of Credit and/or any Tax Reserve Guarantee (each as defined below in Chapter 6.11.3, “*Other Transaction Documents - Deed of Indemnity*”) but only after the defaulting member of the Consortium has failed to make such payment in full and in all cases to the extent that the aggregate of the credit cash balance in the Tax Reserve Account when taken together with the amount available under any

Letter(s) of Credit and the amount guaranteed pursuant to any Tax Reserve Guarantee is restored to at least £100 million (the “**Required Amount**”); and

- (xxi) twenty-first (to the extent required in the Common Terms Agreement) shall remain in the Debt Service Payment Account.

For so long as a Standstill Event has not occurred or has occurred and has been cured, Anglian Water will, on the date which is seven Business Days prior to each Payment Date (such date, a “**Determination Date**”), determine whether the aggregate amount of monies then credited to the Debt Service Payment Account is at least equal to the aggregate Financial Indebtedness falling due and payable on such Payment Date (such aggregate amount, the “**Scheduled Debt Service**”). If the balance on the Debt Service Payment Account is less than the amount of Scheduled Debt Service, then Anglian Water will promptly transfer sums standing to the credit of the Payment Account and/or the Receipts Account to the Debt Service Payment Account. To the extent that the aggregate of all such sums paid or transferred to the Debt Service Payment Account is less than the Scheduled Debt Service, the Issuer shall promptly request a drawing under the Liquidity Facility. Any proceeds raised by the Issuer in accordance with the terms of the Finance Documents (excluding any permitted post closing events) shall be paid under the Intercompany Loan Arrangements by the Issuer to Anglian Water. Amounts raised (a) to fund capital expenditure shall be paid into the Capex Reserve Account, (b) to refinance existing Financial Indebtedness of the Issuer or Anglian Water shall be paid into the Debt Service Payment Account (and to that extent will not require a drawing on the Debt Service Reserve Liquidity Facility) and (c) for any other purposes shall be paid into the Payment Account.

Until such time as a Standstill Event has occurred and remains unremedied, all amounts payable on any Payment Date shall be paid strictly in the order referred to above, to the intent that no amounts falling to be paid under any sub-paragraph may be paid until such time as the amounts falling to be paid on the same date or earlier under each preceding sub-paragraph have been paid in full.

6.6.6 Debt Service Reserve Accounts

Anglian Water is allowed (subject to and in accordance with the order for payment specified in Chapter 6.6.5, “*Debt Service Payment Account*” above) to transfer monies standing to the credit of the Receipts Account or Payment Account to the Class A Debt Service Reserve Account or the Class B Debt Service Reserve Account, as required.

Anglian Water has agreed to procure that on any Payment Date the aggregate of (i) all amounts available for drawing under the Debt Service Reserve Liquidity Facilities; and (ii) all amounts standing to the credit of the Debt Service Reserve Accounts are equal to the next 12 months’ interest forecast to be due on the Financial Indebtedness of the Anglian Water Services Financing Group.

6.6.7 Compensation Account

- (i) The Common Terms Agreement requires Anglian Water to ensure that:
- (a) all proceeds of insurance in excess of £1,000,000 (indexed) per claim, receivable by it or to its order (other than in respect of delay in start up,

- business interruption or anticipated loss in revenue or third party claims) are paid directly into the Compensation Account; and
- (b) any such amounts which are not paid directly into the Compensation Account are paid into the Compensation Account immediately upon receipt by (or to the order of) Anglian Water; and
 - (c) any amounts required under the terms of the Common Terms Agreement to be deposited into the Compensation Account following a notice of termination from a Hedge Counterparty are so deposited.
- (ii) Subject to paragraph (iii) below, the Common Terms Agreement provides that Anglian Water may only withdraw amounts from the Compensation Account: (A) in the case of monies representing the proceeds of claims under physical loss or damage policies, for application in meeting payments which are due and payable in respect of the restoration, reinstatement or replacement of the asset lost or damaged or in payment of any Class A Debt falling due on the same day as any Permitted Lease Termination arising as a consequence of the loss of such asset; or (B) in the case of monies paid to Anglian Water's order to be paid direct to a third party on account of whose claim those insurance proceeds are payable, by way of payment to such third party; or (C) in the case of amounts referred to under paragraph (i)(c) above, in meeting termination sums due under the relevant Hedging Agreement; and/or (D) in paying to the Payment Account any amount deposited which is, at any time, in excess of the amount required to be so deposited.
- (iii) If Anglian Water has paid sums to reinstate, restore or replace effects lost or damaged or to meet claims by third parties out of monies withdrawn from the Receipts Account or Payment Account, then the Common Terms Agreement allows Anglian Water to transfer monies representing the proceeds of the claim to the Payment Account.

6.6.8 Customer Payment Account

Subject to complying with the Common Terms Agreement, Anglian Water is allowed to credit to the Customer Payment Account such amounts as are permitted to be transferred to the Customer Payment Account pursuant to the terms of the Common Terms Agreement and, in particular, pursuant to the provisions thereof dealing with Restricted Payments (see Chapter 6.5.5, "*Common Terms Agreement — Covenants — General*", above).

Anglian Water has agreed to ensure that in respect of each Financial Year in which Customer Rebates are given, the balance on the Customer Payment Account is at all times during such Financial Year equal to the Customer Payment Account Required Balance. To the extent that the balance on the Customer Payment Account is at any time greater than the Customer Payment Account Required Balance, Anglian Water shall withdraw from the Customer Payment Account an amount equal to such excess and transfer such amount to the Payment Account.

Subject to the above, Anglian Water is entitled, at any time prior to the occurrence of a Standstill Event, to apply monies credited to the Customer Payment Account in and towards settlement of a Restricted Payment that is a Customer Rebate.

6.6.9 Tax Reserve Account

Subject to complying with the terms of the Common Terms Agreement and ranking behind all payments required to be made thereunder but ahead of Distributions, the credit cash balance in the Tax Reserve Account shall be maintained at the greater of £40 million or (when taken together with the amount of any Letter(s) of Credit and/or the amount guaranteed pursuant to any Tax Reserve Guarantee) the Required Amount. The Tax Reserve Account has a credit balance of £100 million as at 31 July 2016.

Provided that no amount in respect of which a member of the Consortium is liable under the Deed of Indemnity (defined below) is outstanding and the funds standing to the credit of the Tax Reserve Account and/or the amounts available under any Letter(s) of Credit and/or any Tax Reserve Guarantee are in the aggregate equal to an amount not less than the Required Amount, amounts standing properly to the credit of the Distributions Account may be withdrawn by Anglian Water at any time for payment into the Payment Account or, provided that no Event of Default is subsisting and no such aforementioned amount is outstanding and the funds standing to the credit of the Tax Reserve Account and/or the amounts available under any Letter(s) of Credit and/or any Tax Reserve Guarantee are in aggregate equal to an amount not less than the Required Amount, for payment to any other purpose. See also Chapter 6.11.2, “*Other Transaction Documents — Tax Deed of Covenant*” and Chapter 6.11.3, “*Other Transaction Documents — Deed of Indemnity*” below.

6.6.10 Distributions Account

The Common Terms Agreement provides that Anglian Water may only transfer amounts from the Payment Account to the Distributions Account strictly in accordance with the provisions of the Common Terms Agreement (and, in particular, in accordance with the covenant dealing with payments into the Distributions Account (see Chapter 6.5.5, “*Common Terms Agreement — Covenants — General*” above)).

Anglian Water is able to withdraw amounts properly standing to the credit of the Distributions Account at any time for payment into the Payment Account or, provided no Event of Default is subsisting, for payment for any purpose.

6.6.11 Authorised Investments

The Common Terms Agreement allows Anglian Water and the Issuer to invest in certain eligible Authorised Investments such part of the amounts standing to the credit of any of the Accounts as is prudent and in accordance with certain provisions set out in the Common Terms Agreement including that deposits constituting Authorised Investments will only be permitted to the extent that the Authorised Investment is with a bank or financial institution which has agreed that: (i) the Authorised Investment is held to the order of Anglian Water; (ii) any payment in respect of the Authorised Investment will be remitted (in full and without any deduction, withholding or retention of any kind, except to the extent required by law) to the Account Bank; (iii) the Authorised Investment is subject to the Security Interests created by the Security Documents; and (iv) it will not exercise, and will hold the Authorised Investment free of, any Security Interest, right of set-off, counterclaim or other interest which it may have.

6.6.12 Cash Management during a Standstill Period

The arrangements described in Chapter 6.6.5, “*Debt Service Payment Account*” above shall continue to apply until the occurrence of a Standstill Event. The Common Terms Agreement provides that, following the occurrence of a Standstill Event and for so long as it continues unremedied and provided no Enforcement Action (other than a permitted share pledge acceleration) has occurred, the Cash Manager shall assume control of the Accounts, pay operating expenditure when it falls due and, on a monthly basis, calculate the aggregate of all payments falling to be made during the next following period of 12 months and shall calculate all net revenues received and/or expected to be received over that 12-month period. To the extent that there is a shortfall in the forecast revenues, the Cash Manager shall notionally apply those forecast revenues to each category in the order set out in Chapter 6.6.5, “*Debt Service Payment Account*” until the revenue that is forecast to be available is insufficient to meet all of the payments in any subparagraph of Chapter 6.6.5, “*Debt Service Payment Account*” above (the “**Shortfall Paragraph**”) and shall, in respect of those categories of payment falling within the Shortfall Paragraph, divide the anticipated revenues remaining pro rata between those amounts. Throughout the Standstill Period, any payments falling to be made within a category of payment falling within a Shortfall Paragraph shall be satisfied by a payment of the pro rata share of that payment so calculated and no payments falling in a category which (in accordance with the order of priority set out in Chapter 6.6.5, “*Debt Service Payment Account*” above) falls after a Shortfall Paragraph shall be made (and the balance of the payments not made shall remain outstanding).

The proceeds of enforcement of the Security which is permitted to be enforced during a Standstill Period will also be applied in accordance with the above Payment Priorities. In circumstances where such enforcement occurs during a Standstill Period or following an Enforcement Action (other than a permitted share pledge acceleration) under the STID the proceeds of enforcement will be applied in accordance with the above Payment Priorities but excluding in these circumstances payments under paragraphs (i), (ix) and (xiv) of Chapter 6.6.5, “*Debt Service Payment Account*” above.

6.7 Security Agreement

6.7.1 Security

Each Obligor has entered into the security agreement (the “**Security Agreement**”) with the Security Trustee pursuant to which they each guarantee the obligations of each other Obligor under the Finance Documents to the Security Trustee as security trustee for the Secured Creditors and each secure their property, assets and undertakings to the Security Trustee as trustee for the Secured Creditors. The creation, perfection and enforcement of such security is (in respect of the Security granted by Anglian Water) subject to the WIA, the Instrument of Appointment and requirements thereunder. As a result of the restrictions placed upon Anglian Water in respect of the giving of security and the Special Administration procedure contained in the WIA, the value, effect and enforceability of the security granted by Anglian Water is severely limited (see “*Risk Factors*” and Chapter 10, “*Regulation of the Water and Water Recycling Industry in England and Wales*” for a more detailed discussion of these issues). The Security Agreement does, to the extent applicable, incorporate the provisions of the Common Terms Agreement and the STID.

The security constituted by the Security Agreement is expressed to include:

- (i) first fixed charges over:
 - (a) the shares in Anglian Water, Anglian Water Services UK Parent Co Limited and the Issuer;
 - (b) each Obligor's right, title and interest from time to time in and to:
 - (A) any real property interests currently owned by it or acquired after the date of the Security Agreement (other than certain excluded property not exceeding in aggregate £10 million (indexed)); and
 - (B) the proceeds of disposal of any land;
 - (c) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;
 - (d) its accounts;
 - (e) any intellectual property rights owned by it (excluding immaterial information technology licence agreements);
 - (f) any goodwill and rights in relation to the uncalled capital;
 - (g) each investment;
 - (h) all shares of any person owned by the Obligor including all dividends, interest and other monies payable in respect thereof and all other rights related thereto; and
 - (i) all present and future book and other debts and all monies standing to the credit of its accounts and the debts represented thereby; and
- (ii) an assignment of each Obligor's right, title and interest from time to time in and to:
 - (a) the proceeds of any insurance policies (other than motor insurance, employer's liability insurance and any other third party liability insurance) and all rights related thereto; and
 - (b) all Transaction Documents and any other document or agreement to which an Obligor is a party (subject to certain exceptions); and
 - (c) a first floating charge of the whole of the undertaking, property, assets and rights whatsoever and wheresoever present and future of each Obligor,

except that the security does not include any Protected Land (see Chapter 10.6, "*Regulation of the Water and Water Recycling Industry in England and Wales — Protected Land*") or any of Anglian Water's other assets, property and rights to the extent, and for so long as, the taking of any such security would contravene the terms of the Instrument of Appointment and requirements thereunder or the WIA.

The security is held on trust by the Security Trustee for itself and on behalf of the Secured Creditors in accordance with and subject to the terms of the STID.

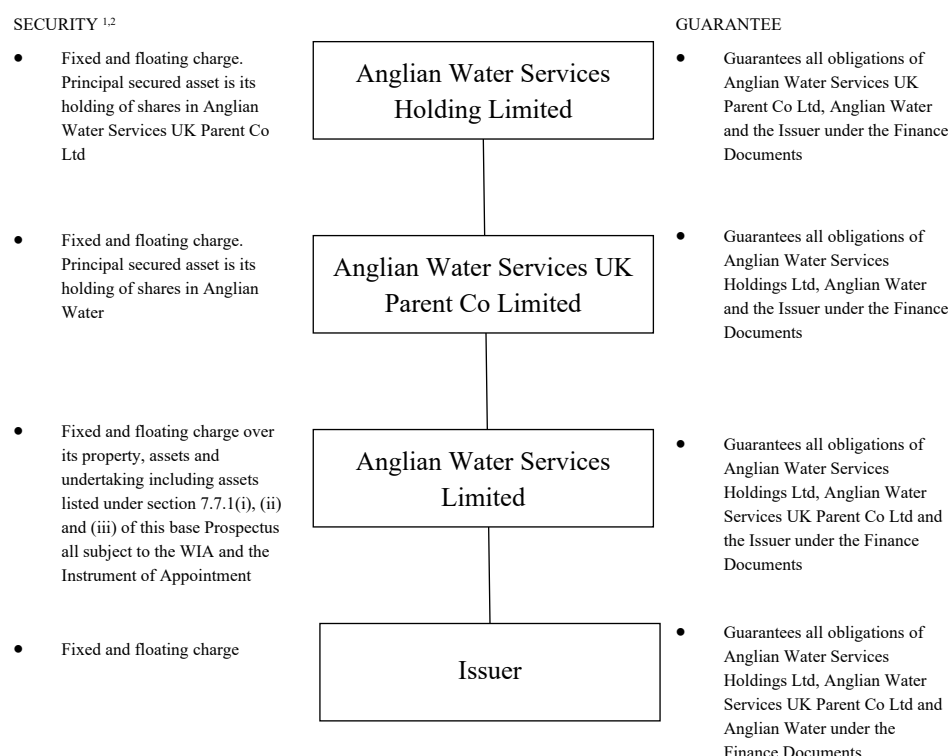
For a description of certain limitations on the ability of Anglian Water to grant security and certain limitations and restrictions on the security purported to be granted, see “*Risk Factors — Risks Relating to the Issuer — Legal considerations — Ability to Grant Security — Security*” and Chapter 10.6.1, “*Regulation of the Water and Water Recycling Industry in England and Wales — Security — Restrictions on the Granting of Security*”.

Notice of the creation of the security has not been given initially to customers or to contractual counterparties in respect of contracts (other than certain material contracts) and each charge over land as purported to be granted will take effect in equity only. Accordingly, until notice of the creation of the Security is given to the relevant customers or contractual counterparties or registration is effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, to the extent possible any such security or charge may be or become subject to prior equities and/or other legal rights arising in relation thereto.

None of Anglian Water Services Holdings Limited or Anglian Water Services UK Parent Co Limited has or is expected to have any significant assets other than the shares in their respective subsidiaries.

6.7.2 Security Structure

The following shows the security provided by the Anglian Water Services Financing Group in favour of the Security Trustee on behalf of the Secured Creditors:



Notes:

- (1) All security is granted to the Security Trustee as security trustee for the Secured Creditors.
- (2) Anglian Water Services Holdings Ltd, Anglian Water Services UK Parent Co Ltd, Anglian Water and the Issuer grant all security pursuant to the Security Agreement.

6.7.3 Additional Security following Takeover by Osprey

Following the acquisition of AWG Parent Co Ltd (then known as AWG plc) by Osprey, Anglian Water entered into a deed of assignment dated 7 December 2006 with the Security Trustee, pursuant to which Anglian Water granted security in respect of a deposit (expressed to be £100 million at 7 December 2006 and a sum of not less than £40 million at any time thereafter) in favour of the Security Trustee (as trustee for the Secured Creditors). This deposit may be used to discharge any Secured Liabilities from time to time.

6.8 Financial Guarantor Documents

6.8.1 The Bond Policies

On the Effective Date, MBIA issued in favour of the Bond Trustee (for itself and on behalf of the relevant Class A Wrapped Bondholders) a Bond Policy in respect of the Class A Wrapped Bonds in issue. As the existing MBIA commitment has been fully utilised, no information is included in this Prospectus in relation to MBIA. To the extent that MBIA or any other Financial Guarantors issue Bond Policies in respect of any further Series of Class A Wrapped Bonds and/or Class B Wrapped Bonds, such Bond Policies are expected to be issued by such Financial Guarantor(s) on terms substantially similar thereto.

Upon an early redemption of the relevant Wrapped Bonds or an acceleration of the relevant Wrapped Bonds, MBIA's obligations will continue to be to pay the Insured Amounts as they fall Due for Payment (as defined in MBIA's Bond Policy) on each Payment Date. MBIA will not be obliged under any circumstances to accelerate payment under its Bond Policies. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by MBIA will be the outstanding principal amount (or pro rata amount that has become due and payable) of the relevant Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such outstanding principal amount (and any accrued interest thereon) will not be guaranteed by MBIA or any other Financial Guarantor under any of the Bond Policies.

The Bond Trustee as party to the Bond Policies in issue has, and in respect of Bond Policies to be issued by MBIA or any other Financial Guarantor will have, the right to enforce the terms of such Bond Policies, and any right of any other person to do so is expressly excluded.

6.8.2 Insurance and Indemnity Agreements

On each relevant Issue Date in respect of the Wrapped Bonds, the Issuer and Anglian Water will enter into an insurance and indemnity agreement (each an "**I&I Agreement**") with the relevant Financial Guarantor, pursuant to which the Issuer will be obliged, *inter alia*, to reimburse such Financial Guarantor in respect of the payments

made by it under the relevant Bond Policy and to pay, *inter alia*, any premia and fees and expenses of such Financial Guarantor in respect of the provision of the relevant Bond Policy. Insofar as a Financial Guarantor makes payment under the relevant Bond Policy in respect of Insured Amounts (as defined in such Bond Policy), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders against the Issuer in respect of any payments made.

6.8.3 AWG plc Side Letter

AWG plc (now known as AWG Parent Co Ltd) and MBIA have entered into a letter agreement on the Effective Date under which AWG plc (now known as AWG Parent Co Ltd) has agreed that it will not voluntarily cease to have Control of Anglian Water Services Holdings Limited unless it has first obtained a confirmation from at least two Rating Agencies that such event will not cause the shadow rating of the Class A Wrapped Debt to be downgraded to, or below, BBB+ by Fitch and S&P or, as the case may be, Baa1 by Moody's. AWG plc (now known as AWG Parent Co Ltd) also undertook to procure (unless it is unable to do so by reason of any law, judgment, court order, regulation, directive or any regulatory or licence requirement) that any person who gains Control of Anglian Water Services Holdings Limited will enter into a letter with MBIA on equivalent terms.

6.9 Additional Resources Available

6.9.1 Existing Finance Lease and New Finance Lease

This section sets out the provisions contained in the Existing Finance Lease that Anglian Water has entered into. The Finance Documents also allow Anglian Water to enter into new Finance Leases in the future, subject to certain limits and provided that any new Finance Lessor accedes to the CTA and the STID. The New Finance Lease is on substantially the same terms as the Existing Finance Lease.

(i) Supply of Equipment

Certain leasing companies have acquired equipment and systems and Anglian Water has sold or otherwise procured the supply of certain equipment and systems to leasing companies (or in respect of Equipment which constitutes Fixtures (as defined below) has been reimbursed for capital expenditure in respect thereof), in each case for the purpose of Anglian Water leasing such equipment and systems from the leasing companies.

The Equipment acquired by or sold or supplied to such leasing companies consists mainly of plant and machinery and other equipment used in the water and water recycling operations of Anglian Water, as well as computer software systems and computer hardware. The Equipment is comprised of movable equipment (“**Movables**”) and fixed equipment (that is Equipment which is so affixed to real estate so as to become part of that real estate as a matter of law (“**Fixtures**”)).

(ii) Lease Agreements

Mercantile Leasing Company (No. 132) Limited as lessor (the “**Existing Finance Lessor**”) has leased the Equipment sold or supplied to Anglian Water

as lessee on the terms and subject to the conditions set out in a lease agreement (the “**Existing Finance Lease**”).

In relation to Fixtures, because no title passes to the Existing Finance Lessor (or if it does that title reverts to the landowner on affixation to real estate of the relevant Equipment), Anglian Water and the Existing Finance Lessor have elected to deem that ownership is in the Existing Finance Lessor and that there is a deemed lease of the Fixtures in question.

Lombard Business Leasing Limited as lessor (the “**New Finance Lessor**”) has leased the Equipment sold or supplied to Anglian Water as lessee on the terms and subject to the conditions set out in a lease agreement (the “**New Finance Lease**”).

In relation to Fixtures, because no title passes to the New Finance Lessor (or if it does that title reverts to the landowner on affixation to real estate of the relevant Equipment), Anglian Water and the New Finance Lessor have elected to deem that ownership is in the New Finance Lessor and that there is a deemed lease of the Fixtures in question.

(iii) Lease Periods

Under the Existing Finance Lease and the New Finance Lease the primary period is for 25 years from the lease commencement date with the option to extend, automatically in the case of Movables and at the relevant Finance Lessor’s discretion in the case of Fixtures for another 25 years. At 31 March 2019 no lease maturities extend beyond 3 years.

(iv) Subject to Common Terms Agreement and STID

The Existing Finance Lease has been amended so as to be subject to the CTA. In this way the representations, warranties, covenants and events of default set out in the CTA apply in respect of the Existing Finance Lessor for the Existing Finance Lease. This is also the case for the New Finance Lease. The Existing Finance Lease and the New Finance Lease are also subject to the STID which regulates the claims of the Existing Finance Lessor and the New Finance Lessor against Anglian Water and termination and enforcement rights under the relevant Finance Lease. Certain of the material terms of the Existing Finance Lease and the New Finance Lease (in addition to those incorporated from the CTA) are outlined below (see paragraph (vii), “*Anglian Water Obligations*” below).

(v) Rental

Anglian Water is obliged to make regular rental payments (“**Rental**”), annually in advance under both the Existing and New Finance Lease.

The primary period Rental payable under the Finance Leases is calculated by reference to a number of assumptions made at the time of execution of the relevant Finance Lease (including a specific assumed rate of interest) and if any such assumption proves to be incorrect, the primary rental payments under the relevant Finance Lease are adjusted to levels that seek to (or if all those rentals have been paid additional rentals or rebates of rental are made in order to) preserve the relevant Finance Lessor’s agreed after-tax rate of return on its

acquisition cost of the Equipment leased under the relevant Finance Lease. The rental payments payable during any secondary period are also set out in the relevant Finance Lease.

The assumptions set out in the Existing Finance Lease and the New Finance Lease are the type of tax and financial assumptions customarily found in leases of this kind and include, *inter alia*, matters such as the rate of corporation tax, the rate of writing down allowances, the amount of group relief on tax losses which may be claimed by the lessor and other changes in applicable law or regulation.

Anglian Water will pay any VAT (if payable) due in respect of any payments under the Existing Finance Lease and the New Finance Lease.

(vi) General Payment Provisions

Default interest is payable under the Existing Finance Lease and the New Finance Lease in respect of any late payment.

All Rental and other payments under the Existing Finance Lease and the New Finance Lease are required to be made free and clear of, and without withholding or deduction for, tax, if any, applicable to such payments unless such withholding or deduction is required by law. In that event, Anglian Water will be obliged to pay such additional amounts as will result in the receipt by the Existing Finance Lessor or the New Finance Lessor as appropriate of such amount that the Existing Finance Lessor or the New Finance Lessor, as appropriate, would have received if no such withholding or deduction had been required.

The Existing Finance Lease and the New Finance Lease provide that if the relevant Finance Lessor determines in its absolute discretion that it has received or has been granted a credit against or remission from any tax payable which is attributable to such additional amounts payable by Anglian Water then the relevant Finance Lessor shall reimburse such amount as shall leave the relevant Finance Lessor after such reimbursement in no worse position than the relevant Finance Lessor would have been in if the deduction or withholding had not been required.

(vii) Anglian Water Obligations

In addition to the representations and warranties made by Anglian Water, and the covenants applying to Anglian Water, under the CTA, the Existing Finance Lease and the New Finance Lease also impose certain customary finance lease representations, warranties and covenants on Anglian Water.

In particular, Anglian Water is required, in accordance with the Existing Finance Lease and the New Finance Lease, *inter alia*, (1) to keep the Equipment in good repair, condition and working order, (2) to ensure the Equipment is used in a skilful and proper manner, (3) to make good all damage to the Equipment and (4) to maintain third party liability and property insurances in respect of the Equipment.

A breach of any of these representations or covenants in the Existing Finance Lease or the New Finance Lease which would be reasonably likely to have a Material Adverse Effect will, to the extent not remedied or waived, oblige Anglian Water to prepay all sums due and payable under the Existing Finance Lease or the New Finance Lease, as appropriate (as outlined above, see paragraphs (iv)(i) and (r)), Chapter 6.5.5, “*Common Terms Agreement — Covenants — General*” and will be subject to the CTA and the STID. If Anglian Water does not make such prepayment in accordance with the CTA and the STID, it will constitute an Event of Default (to the extent not remedied by Anglian Water or waived (upon notice of that event to the Security Trustee) by the Existing Finance Lessor or the New Finance Lessor) with the result that the Standstill Period will automatically commence.

(viii) General Indemnities

The Existing Finance Lease and the New Finance Lease contain a general indemnity whereby Anglian Water agrees to indemnify the relevant Finance Lessor against, *inter alia*, all losses, and damages (excluding taxes), in any way associated with the transactions contemplated in the Existing Finance Lease or the New Finance Lease, as appropriate other than those arising as a result of, *inter alia*, the wilful misconduct of the relevant Finance Lessor.

The Existing Finance Lease and the New Finance Lease provide that Anglian Water shall indemnify under the Existing Finance Lease and the New Finance Lease the relevant Finance Lessor against all losses incurred or suffered by it, *inter alia*, in relation to the Equipment or as a result of failure by Anglian Water to comply with its obligations under the Existing Finance Lease or the New Finance Lease.

(ix) Tax Indemnities

Under the terms of the Existing Finance Lease and the New Finance Lease, Anglian Water is required to indemnify the relevant Finance Lessor for certain tax liabilities arising in relation thereto, either by way of variation of the Rental payment amounts (see paragraph (v), “*Rental*” above) or contractual indemnity payments.

These indemnities survive any termination of the leasing of the Equipment and the termination of the Existing Finance Lease or the New Finance Lease themselves.

(x) Additional Termination Rights under the Existing Finance Lease and the New Finance Lease

The Existing Finance Lease and the New Finance Lease contain termination rights on the part of the relevant Finance Lessor in addition to the Events of Default set out in the CTA and those outlined in paragraph (vii), “*Anglian Water Obligations*” above. These include a right to terminate following a total loss of any Equipment. In these circumstances, subject to the terms of the CTA, the STID and the Existing Finance Lease (as amended and supplemented) or the New Finance Lease (as amended and supplemented), as appropriate, the relevant Finance Lessor may terminate the leasing of the Equipment under its Finance

Lease and charge a termination sum in the circumstances outlined above, save that Anglian Water will not make any payment if (i) an Acceleration of Liabilities has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment. If Anglian Water fails or is unable to make any prepayment in accordance with the CTA and the STID, an Event of Default will arise under the CTA and upon notice of that event to the Security Trustee the Standstill Period will automatically commence.

Anglian Water may voluntarily terminate the leasing of all or part of the Equipment under the Existing Finance Lease and/or the New Finance Lease and pay, *inter alia*, all Rentals due thereunder in advance of the expiry of the relevant lease period provided that (i) no Acceleration of Liabilities has occurred and (ii) no Default Situation is subsisting or would occur as a result of such payment.

The Existing Finance Lease and the New Finance Lease provide that upon termination, a termination payment becomes payable as calculated pursuant to the financial schedule attached to the Existing Finance Lease and the New Finance Lease. The termination payment payable is calculated by a reference to a number of assumptions which if subsequently proven to be incorrect may give rise to a further payment or a rebate in the future.

In the Existing Finance Lease and the New Finance Lease, termination payments may vary according to the termination event which takes place and the date thereof. They are calculated, broadly speaking, by the production of a revised cash flow as at the date of the relevant termination based upon certain assumptions. Broadly, the termination payment will be an amount equal to the aggregate of (i) sums due and payable under the relevant Finance Lease and (ii) an amount equal to the balance of the relevant Finance Lessor's investment in the relevant Finance Lease and so as to preserve the relevant Finance Lessor's net after-tax return. Additionally the relevant Finance Lease requires a termination fee to be paid if termination occurs within a period specified therein.

(xi) Repossession of Movable on Termination

To the extent it relates to Fixtures, the Existing Finance Lease and the New Finance Lease provide that, after termination of the hiring of the Equipment for whatever reason, the relevant Finance Lessor may require Anglian Water to dismantle, dispose, or store and maintain until sold, any "Surplus Equipment" (i.e. so much of the Movable as is then no longer required to ensure that the functions of Anglian Water under the WIA may be properly carried out). Upon the termination of the hiring of any Surplus Equipment, and so long as no termination event has occurred (or, if it has occurred, is not continuing or has been remedied) Anglian Water shall at its own expense be entitled and bound to act as the exclusive sales representative of the relevant Finance Lessor for a period of one year after termination of the hiring of the Surplus Equipment and thereafter as non-exclusive sales representative to find a purchaser of the Surplus Equipment. Following a sale of any Surplus Equipment the relevant Finance Lessor shall rebate (by way of rebate of Rentals) any proceeds of sale (less the relevant Finance Lessor's termination payments and other amounts due) to Anglian Water.

(xii) Insurance and Total Loss

The Existing Finance Lease and the New Finance Lease provide that Anglian Water is to effect and maintain insurance against all risk of loss of or damage to the Equipment.

The Existing Finance Lease and the New Finance Lease provide that Anglian Water shall effect and maintain in full force and effect third party liability insurance cover in respect of all the Equipment in accordance with and to the extent and in the amounts required to comply with good and prudent water industry insurance practice in the United Kingdom.

Upon a total loss of certain items of Equipment, the leasing of such items will terminate and Anglian Water must pay a termination payment (from insurance proceeds or otherwise) within a specified number of business days following such total loss or within a certain number of business days after the date of receipt of insurance proceeds in relation to such Equipment.

Anglian Water bears the full risk of any total loss of or any damage to all or a material part of the Equipment.

(xiii) Related Guarantee

The payment obligations of Anglian Water under the Existing Finance Lease were guaranteed by Anglian Water plc (now AWG Group Ltd). These guarantees were released and discharged on or before the Effective Date.

(xiv) Capital Allowances

The Existing Finance Lessor and the New Finance Lessor constitute Secured Creditors and have the benefit of the security package which the Obligors granted under the Security Agreement. Although leading counsel has advised that section 225 of the Capital Allowances Act 2001 (“**Section 225**”) should not apply, there is a risk that the available benefit of the security package could cause Section 225 to apply to the Existing Finance Lease and the New Finance Lease. If Section 225 did apply in this way, the Existing Finance Lessor and the New Finance Lessor would not be able to claim capital allowances in relation to the capital expenditure it has incurred on the leased Equipment. Under the terms of the Existing Finance Lease and the New Finance Lease, the cost of this inability to claim capital allowances would be passed on to Anglian Water in the form of higher Rentals.

6.9.2 Authorised Loan Facilities

The Issuer has entered into the Barclays Authorised Loan Facility with an aggregate facility amount of £550,000,000 with, Barclays Bank PLC, BNP Paribas, London Branch, Crédit Industriel et Commercial, London Branch, HSBC Bank plc, Lloyds Bank plc, National Westminster Bank PLC, Bank of China Limited, London Branch, Commonwealth Bank of Australia (London Branch), ICBC (London) PLC, Scotiabank Europe PLC, Sumitomo Mitsui Banking Corporation Europe Limited, Santander UK PLC and JPMorgan Securities PLC, as Authorised Credit Providers. The Barclays Authorised Loan Facility is a revolving credit facility which is available to the Issuer

for general corporate purposes until 24 June 2024 or such later date as extended or agreed in accordance with the Barclays Authorised Loan Facility.

The Issuer has entered into the Bank of China Authorised Loan Facility with an aggregate facility amount of £50,000,000 with Bank of China Limited, London Branch as Authorised Credit Provider. The Bank of China Authorised Loan Facility is a revolving credit facility which is available to the Issuer for on-lending amounts to Anglian Water for general corporate purposes until 24 June 2024 or such later date as extended or agreed in accordance with the Bank of China Authorised Loan Facility.

The Barclays Authorised Loan Facility, the Bank of China Authorised Loan Facility, the SMBC Authorised Loan Facility and the EIB Authorised Loan Facility are together referred to as the “**Authorised Loan Facilities**”.

Drawings under the Authorised Loan Facilities are subject to various conditions precedent as set out therein, including that no Event of Default or Potential Event of Default is subsisting and each repeating representation is correct at the time of requesting and making the drawing.

Interest accrues on any drawing under the Authorised Loan Facilities (other than the EIB Authorised Loan Facility) calculated at a daily rate by reference to applicable Sterling LIBOR plus a margin and mandatory costs. Interest accrues on any drawing under the EIB Authorised Loan Facility by reference to the base rate as specified therein, plus a margin and such interest is subject to indexation in accordance with RPI or certain successor price indices, as the case may be.

The Issuer gave representations and warranties, covenants and undertakings to the Authorised Credit Providers on terms as set out, respectively, in the Common Terms Agreement.

The Events of Default under the Common Terms Agreement apply under the Authorised Loan Facilities (see Chapter 6.5, “*Common Terms Agreement*” above).

The ability of the Authorised Credit Providers to accelerate any sums owing to them under the Authorised Loan Facilities upon or following the occurrence of an Event of Default thereunder is subject to the STID.

The Issuer may enter into further Authorised Credit Facilities on terms similar to those in the Authorised Loan Facilities. Each additional Authorised Credit Provider will be given the benefit of the Security and will be required to accede to the STID and the CTA.

6.9.3 The Liquidity Facilities

There are three Liquidity Facilities in place, the Debt Service Reserve Liquidity Facilities (as defined below) and the O&M Reserve Facility (as defined below), each of which are maintained by the Issuer, the proceeds of which are on-lent to Anglian Water under the Intercompany Loan Arrangements.

The Issuer has entered into agreements (each a “**Debt Service Reserve Liquidity Facility Agreement**”), with the Liquidity Facility Providers, establishing liquidity facilities (each a “**Debt Service Reserve Liquidity Facility**”). The Issuer has

established Debt Service Reserve Liquidity Facilities in connection with Bonds and other debt issued and incurred.

Under the terms of each Debt Service Reserve Liquidity Facility Agreement, one or more Liquidity Facility Providers provide a 364-day commitment in an aggregate amount specified in each Debt Service Reserve Liquidity Facility Agreement to permit drawings to be made by the Issuer, in circumstances where Anglian Water has or will have insufficient funds available on a Payment Date to pay scheduled interest under the Intercompany Loan Arrangements, to enable the Issuer to make payments due on a Series of Bonds or other Senior Debt (a “**Liquidity Shortfall**”).

The Issuer has also entered into agreements (each an “**O&M Reserve Facility Agreement**”) with one or more Liquidity Facility Providers establishing liquidity facilities (each an “**O&M Reserve Facility**”) proceeds of which are on-lent to Anglian Water to meet Anglian Water’s operating and capital maintenance expenditure requirements to the extent that Anglian Water has insufficient funds available to it to meet these requirements.

Under the terms of the O&M Reserve Facility, one or more Liquidity Facility Providers provide a 364-day commitment in an aggregate amount specified in each such agreement.

Each Liquidity Facility Provider must be a bank which as at the relevant Issue Date has a Minimum Short-term Rating and a Minimum Long-term Rating at a level of at least “A” from Fitch and S&P and at least “A2” from Moody’s from at least two of the Rating Agencies (the “**Liquidity Facility Requisite Ratings**”).

The Liquidity Facility Provider may be replaced at any time provided that such Liquidity Facility Provider is replaced by a bank with the Liquidity Facility Requisite Ratings and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Debt Service Reserve Liquidity Facility Agreement provides that amounts repaid by the Issuer may be redrawn.

Each Liquidity Facility Agreement provides that if (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Liquidity Facility Requisite Ratings or (ii) the relevant Liquidity Facility Provider does not agree to renew such Liquidity Facility prior to the expiry of the 364-day period, the Issuer will:

- (a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Liquidity Facility Requisite Ratings (whether by way of novation of the relevant Liquidity Facility Agreement or by entering into a new Liquidity Facility Agreement with a party having the Liquidity Facility Requisite Ratings); and
- (b) if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement be entitled to require such Liquidity Facility Provider to pay into the relevant Liquidity Account or other such agreed account to which such Liquidity Facility relates, an amount equal to the affected party’s undrawn commitment under such Liquidity Facility (a “**Standby Drawing**”).

If the Issuer does not request a renewal of the Liquidity Facility from the relevant Liquidity Facility Provider, (i) above will not apply.

Unless otherwise agreed by the Issuer, the Security Trustee and each Financial Guarantor:

- (a) liquidity in respect of Class A Debt will be applied in making payments in respect of Class A Debt only and liquidity in respect of Class B Debt will be applied in making payments in respect of Class B Debt only; and
- (b) amounts repaid under a Debt Service Reserve Liquidity Facility provide liquidity for Class A Debt to the extent necessary to ensure that the amount available under Debt Service Reserve Liquidity Facilities providing liquidity for Class A Debt and the amount standing to the credit of the Class A Debt Service Reserve Account equals the next 12 months' interest forecast on Class A Debt, with any surplus providing liquidity in respect of Class B Debt.

The Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is re-rated with the Liquidity Facility Requisite Ratings or confirmation is received from each of the Rating Agencies that either (i) the terms of a replacement Liquidity Facility or (ii) the absence of any such facility, in each case, as applicable will not lead to a ratings downgrade of the Bonds from the relevant Rating Agencies. The proceeds of the Standby Drawing will be placed in an Account over which security has been granted pursuant to the terms of the Security Agreement.

Interest accrues on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by the relevant Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Issuer is also required to pay additional amounts if: (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Liquidity Facility Provider; or (ii) if the relevant Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility. Drawings under any further Liquidity Facilities will accrue interest subject to the specific terms of the relevant Liquidity Facility Agreement.

Upon the enforcement of the Security pursuant to the STID, all indebtedness outstanding under any Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

6.10 Hedging Agreements

6.10.1 Hedging Policy

The Hedging Policy provides that the Anglian Water Services Financing Group must enter into Hedging Agreements in accordance with an agreed Hedging Policy and that the only member of the Anglian Water Services Financing Group that may enter into Hedging Agreements is the Issuer, provided that the Issuer may enter into back-to-back swap arrangements with Anglian Water in respect of Hedging Agreements entered into by the Issuer to hedge the obligations of Anglian Water under the Existing Finance Lease or which are otherwise not directly linked to the raising of new debt under an Authorised Credit Facility. The Hedging Policy, *inter alia*, requires that the Anglian Water Services Financing Group enter into appropriate hedging instruments (with

hedge counterparties with appropriate credit ratings) to limit their exposure to currency and interest rate fluctuations and to inflation to a prudent level and does not regulate any AWS Derivative Transaction entered into by AWS pursuant to paragraph 20(a)(ii) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) of the CTA, which shall be regulated by the AWS Derivative Policy (as set out at Schedule 8A of the CTA (*AWS Derivative Policy and Overriding Provisions relating to AWS Derivative Transactions*)). It further requires that all Hedging Agreements are entered into or novated under an agreement in the form of the 1992 ISDA Master Agreement (Multicurrency – Cross Border) (an “**ISDA Master Agreement**”) and that the Hedging Agreements provide, *inter alia*, for “two way payments” or payments under the “*Second Method*” in the event of an early termination and set out the circumstances in which a Hedge Counterparty may designate an Early Termination Date (as defined in the relevant Hedging Agreement) with respect to the relevant Hedging Agreement. If an Early Termination Date occurs in circumstances where both the interest rate hedging transactions and currency hedging transactions are being terminated, amounts payable under interest rate hedging transactions and currency hedging transactions will be treated separately to enable the Issuer to comply with the Payment Priorities. The Anglian Water Services Financing Group is prohibited from entering into hedging transactions for the purpose of speculation or otherwise than in accordance with the agreed Hedging Policy. The Hedging Policy may only be amended by agreement between the Security Trustee and Anglian Water. Subject to such agreement being reached, the Hedging Policy will be reviewed from time to time by the Anglian Water Services Financing Group and amended (subject to Entrenched Rights and Reserved Matters and in accordance with provisions of the STID) as appropriate in accordance with market developments, Good Industry Practice and regulatory developments.

6.10.2 Hedging Agreements

Hedge Counterparties are obliged to make payments under the Hedging Agreements without any withholding or deduction of taxes, unless required by law. If any such withholding or deduction is required by law, the Hedge Counterparties are required to pay any such additional amount as is necessary to ensure that the net amount received by the Issuer is equal to the full amount the Issuer would have received had no such deduction or withholding been required. The Issuer makes payments under the Hedging Agreements subject to any withholding or deduction of taxes required by law, but is not required to pay any additional amount to any Hedge Counterparty in respect thereof. However, in either case, if a withholding or deduction is required due to any action by a taxing authority, or change in tax law after the date on which a transaction is entered into, which cannot be avoided, the Hedge Counterparty may terminate the relevant Hedging Agreement.

The Issuer has the right to terminate a Hedging Agreement, in certain circumstances, relating to the relevant Hedge Counterparty (or, if applicable, any Credit Support Provider or Specified Entity (as defined in the relevant Hedging Agreement) relating to it) including: a failure to pay amounts when due; the occurrence of an insolvency event; a breach of a term of the Hedging Agreement or any Credit Support Document (as defined in the relevant Hedging Agreement); a merger without assumption; a default under a Specified Transaction (as defined in the relevant Hedging Agreement); and in the event of Illegality (as defined in the relevant Hedging Agreement).

Other than in certain limited circumstances (set out in paragraphs 9 and 21 of Schedule 8 of the CTA), each Hedge Counterparty's rights to terminate its Hedging Agreement are limited to the following circumstances: (i) a failure by the Issuer to make payments under the Hedging Agreement when due; (ii) certain insolvency-related events with respect to the Issuer; (iii) Illegality (as defined in the relevant Hedging Agreement); (iv) where either the Hedge Counterparty or the Issuer is required to withhold for tax, which cannot be avoided ("**Tax Event**" as defined in the Hedging Agreements); and (v) a Standstill Period has ended otherwise than in accordance with Clause 13.4(a)(iii) of the STID (and in this event, termination will be automatic).

Pursuant to paragraph 21 of Schedule 8 to the CTA, but only in respect of any Hedging Agreements entered into before the Effective Date or Hedging Agreements entered into on the Effective Date which replace such Hedging Agreements, the Hedge Counterparties are entitled to exercise any right they may have to terminate such Hedging Agreement pursuant to any break clause or right of optional early termination contained in that Hedging Agreement (but not, for the avoidance of doubt, an Event of Default, Tax Event Upon Merger or Credit Event Upon Merger (as such terms are defined in the Hedging Agreement) or as a result of a change in the Instrument of Appointment or in the regulatory status of Anglian Water) provided that:

- (i) no Default is continuing or would result from such termination; and
- (ii) all amounts payable by the Issuer as a result of such termination are capable of being paid out of existing revenues of the Anglian Water Services Financing Group or otherwise out of Permitted Financial Indebtedness.

The Hedging Policy provides that the Issuer may enter into Treasury Transactions with Hedge Counterparties where each relevant Hedge Counterparty has the right to terminate the relevant Treasury Transaction on the tenth anniversary of the effective date of such Treasury Transaction and thereafter no more frequently than at five yearly intervals provided that such right of termination is exercised in accordance with paragraph 9 of Schedule 8 to the CTA. The Issuer has not and will not enter into any Treasury Transactions for a period in excess of 10 years other than to the extent that at any date the aggregate notional amount and/or currency amounts (as applicable) of relevant Treasury Transactions to which the Issuer is a party and which have unexpired terms in excess of 10 years would not exceed an amount equal to 15 per cent. of RCV in each case as computed in accordance with the Hedging Policy.

Each Hedge Counterparty is a party to (or has acceded to) the STID and the CTA and its rights (including, in particular, its rights to receive any termination payment) are subject thereto. Accordingly, any termination payment will be paid to a Hedge Counterparty in accordance with the cash management arrangements set out in the CTA and summarised in Chapter 6.6, "*Cash Management*".

In the event that the short-term unsecured and unsubordinated debt obligations of a Hedge Counterparty (or its successor, assignee or transferee) or of its Credit Support Provider (as defined in the relevant Hedging Agreement) (or the successor, assignee or transferee of any such Credit Support Provider) cease to be rated at least as high as P-1 by Moody's or A-1 by S&P or F-1 by Fitch and, as a result of such downgrade, the then current rating of the Class A Unwrapped Bonds (or if no Class A Unwrapped

Bonds are outstanding, the then current shadow rating of the Class A Wrapped Bonds, or if there are no Class A Wrapped Bonds outstanding, the then current rating of the Class B Unwrapped Bonds or, if there are no Class A Bonds and no Class B Unwrapped Bonds outstanding, the then current shadow rating of the Class B Wrapped Bonds) is downgraded or placed under review for possible downgrade by the Rating Agencies, then the relevant Hedge Counterparty will either: (i) provide collateral for its obligations, (ii) arrange for its rights and obligations under the relevant Hedging Agreement to be transferred to an appropriate third party with the required credit ratings; (iii) arrange for the appointment of a co-obligor in respect of the obligations of the relevant Hedge Counterparty or take such other action as will result in the rating of the relevant Bonds then outstanding following the taking of such action being rated no lower than the rating of the relevant Bonds immediately prior to such downgrade; or (iv) take such other action that will result in the rating of the relevant Bonds being maintained or restored to the level they would have been at immediately prior to such downgrade. If the relevant Hedge Counterparty does not take the measures described above, such failure shall constitute an Additional Termination Event with respect to the relevant Hedge Counterparty. The Issuer and the Security Trustee shall endeavour to put into place credit support documentation as may satisfy the Rating Agencies with respect to the operation and management of the collateral provided pursuant to (i) above and enter into such documents as may reasonably be requested by the relevant Hedge Counterparty in connection with the provision of such collateral.

Notwithstanding any other provision of schedule 8 of the CTA but without prejudice to paragraph 13 of schedule 8 of the CTA, if a Permitted Exchange or Permitted Tender of non-sterling denominated Bonds has reduced the currency risk of the Anglian Water Services Financing Group in respect of non-sterling denominated debt instruments, the Anglian Water Services Financing Group shall either (a) terminate any relevant existing Currency Hedging Agreement (in whole or in part) in accordance with (i) the terms of the CTA and the STID and (ii) either the terms of such Currency Hedging Agreement or consensually by the parties thereto, (b) enter into a further Currency Hedging Agreement to off-set (in whole or in part) such Currency Hedging Agreement or (c) modify any existing Currency Hedging Agreement in accordance with (i) the terms of the CTA and the STID and (ii) either the terms of such Currency Hedging Agreement or consensually by the parties thereto ((a), (b) and (c), together or separately the “**FX Swap Modification**”), provided that:

- (i) the effect of a FX Swap Modification shall be that the Anglian Water Services Financing Group would no longer be overhedged as a result of reduced currency risk in respect of non-sterling currency denominated debt instruments that have been redeemed, exchanged or cancelled pursuant to such Permitted Exchange or Permitted Tender;
- (ii) to the extent that a FX Swap Modification is funded from the proceeds of Financial Indebtedness, is by way of entry into of a further Currency Hedging Agreement or is by way of modification of a Currency Hedging Agreement (the portion of such Financial Indebtedness the proceeds of which are used to fund such FX Swap Modification or the liabilities of the Anglian Water Services Financing Group in respect of such further Currency Hedging Agreement or

modified Currency Hedging Agreement, the “**FX Swap Modification Liabilities**”):

- (a) such FX Swap Modification Liabilities shall rank *pari passu* with, or junior to, the Currency Hedging Agreement that is the subject of the FX Swap Modification; and
- (b) the Tenor of such FX Swap Modification Liabilities shall be no shorter than the Termination Date (as defined in the relevant Currency Hedging Agreement). For the purposes of this paragraph (ii)(b), “**Tenor**” means the earliest of:
 - (i) the date of legal maturity of such FX Swap Modification Liabilities;
 - (ii) in the case of such FX Swap Modification Liabilities being Bonds, the date on which the Issuer, as issuer of such Bonds, may exercise any early redemption option in accordance with the Conditions of such FX Swap Modification Liabilities; and
 - (iii) in the case of such FX Swap Modification Liabilities being Bonds, the date that such FX Swap Modification Liabilities would, in the ordinary course, be expected to be repaid in full as a result of a scheduled increase in margin or coupon or other extraordinary payment being required to keep such FX Swap Modification Liabilities outstanding;
- (iii) such FX Swap Modification shall be conducted as soon as commercially practicable for the Anglian Water Services Financing Group and no later than a period of 30 Business Days after the completion of the relevant Permitted Exchange or relevant Permitted Tender; and
- (iv) no Trigger Event, no Event of Default and no Potential Event of Default would, taking into consideration the relevant Permitted Exchange or Permitted Tender, occur as a result of such FX Swap Modification.

6.11 Other Transaction Documents

6.11.1 Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank agreed to hold the Accounts and operate them in accordance with the instructions of the Cash Manager. The Cash Manager manages the Accounts on behalf of the Anglian Water Services Financing Group pursuant to the Common Terms Agreement (see Chapter 6.6, “*Cash Management*” above).

6.11.2 Tax Deed of Covenant

Under the terms of the original Tax Deed of Covenant entered into on 30 July 2002 (the “**Original Tax Deed of Covenant**”), each Obligor gave certain representations and covenants as to its tax status and to the effect that it had not taken and, save in certain permitted circumstances, would not take any steps which might reasonably be expected to give rise to a liability to tax for an Obligor which is primarily the liability of another

person. AWG plc (now known as AWG Parent Co Ltd) covenanted and represented that it had not taken and would not take any steps that might cause the Obligors to breach such covenants and representations.

Following the acquisition of AWG Parent Co Ltd (then known as AWG plc) by Osprey, each of the parties to the Original Tax Deed of Covenant, AWGL (then known as Osprey Jersey Holdco Limited), Osprey Holdco Limited and Osprey (each of Osprey Holdco Limited and Osprey being a wholly-owned, direct and indirect (respectively), subsidiary of AWGL and, together with AWG plc (now known as AWG Parent Co Ltd) and AWGL the “**Tax Deed Covenantors**”) entered into the first replacement tax deed of covenant on 7 December 2006 (the “**First Replacement Tax Deed of Covenant**”) which, with effect from 7 December 2006, replaced the Original Tax Deed of Covenant on substantially the same terms as the Original Tax Deed of Covenant. Under the First Replacement Tax Deed of Covenant certain of the obligations of AWG plc (now known as AWG Parent Co Ltd) under the Original Tax Deed of Covenant are instead assumed by the Tax Deed Covenantors or by AWGL. In addition, there are provisions that require AWG plc (now known as AWG Parent Co Ltd) to indemnify the other Tax Deed Covenantors against any liability they may incur as a result of breaches of the covenants and representations given by the Obligors which refer to events occurring on or before 7 December 2006.

With a view to avoiding a liability to tax for an Obligor which is primarily the liability of another person, the Tax Deed Covenantors and each Obligor under the First Replacement Tax Deed of Covenant incur certain obligations in relation to specified disposal events and any change in tax residence of the Obligors. For example, the First Replacement Tax Deed of Covenant provides that if (other than in compliance with an obligation the Obligor incurs under a Finance Document or in respect of any disposal by an Obligor required in connection with the Permitted Reorganisation) an Obligor intends to dispose of any of its material assets to another person, Osprey’s parent company can be required, as a condition of that disposal, to deposit an amount in a trust account equal to the estimated tax liability (if any) arising or likely to arise in the Obligor as a result of the disposal. The money deposited could then be used to pay the tax liability of the Obligor if the Obligor failed to pay the liability itself.

6.11.3 Deed of Indemnity

In connection with the aim to avoid a liability to tax for an Obligor which is primarily the liability of another person, following the acquisition of AWG Parent Co Ltd (then known as AWG plc) by Osprey, each of the Covenantors has agreed, pursuant to the Deed of Indemnity entered into on 7 December 2006 in connection with the acquisition, that in the event that any Obligor is or becomes liable in respect of UK tax for which any member or a former member of that Covenantor’s group is primarily liable, the Covenantor shall, among others things, discharge such tax liability and/or indemnify such Obligor against any amounts paid by it in respect of such tax liability.

Anglian Water had established a Tax Reserve Account and the Tax Deed Covenantors have agreed to procure that the requisite balance is maintained in the Tax Reserve Account in addition (to the extent necessary) to procuring letters of credit (each a “**Letter of Credit**”) and/or tax reserve guarantees (each a “**Tax Reserve Guarantee**”) with an aggregate total value at all times at least equal to £100 million (of which at least

£40 million must consist of cash balances in the Tax Reserve Account and/or certain permitted investments). The Tax Reserve Account, drawings under the Letter(s) of Credit and/or calls under any Tax Reserve Guarantee may be used to meet UK tax liabilities of the Obligors arising in the circumstances described above. See also Chapter 6.6.9, “*Cash Management — Tax Reserve Account*” above.

CHAPTER 7

FORM OF THE BONDS

The Bonds of each Series will be in either bearer form, with or without interest coupons (“**Coupons**”) attached, or in registered form, without interest coupons attached. Bearer Bonds will be issued outside the United States in reliance on Regulation S and Registered Bonds will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or Regulation D under the Securities Act.

Bearer Bonds

Each Tranche of Bearer Bonds will be initially issued in the form of either a Temporary Bearer Global Bond or Permanent Bearer Global Bond as indicated in the applicable Final Terms. If the Global Bonds are stated in the applicable Final Terms to be issued in NGN form, (i) the Global Bonds will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper and (ii) the relevant clearing systems will be notified whether or not such Global Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Depositing the Global Bonds with the Common Safekeeper does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the ECB that the Eurosystem eligibility criteria have been complied with. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg as indicated in the applicable Final Terms.

Global Bonds which are issued in CGN may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Bond is in CGN form, upon the initial deposit of a Global Bond with a Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid. If the Global Bond is in NGN form, the nominal amount of the Bonds shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Bonds represented by the Global Bond and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time. Whilst any Bearer Bond is represented by a Temporary Bearer Global Bond and subject to TEFRA D selling restrictions, payments of principal, interest (if any) and any other amount payable in respect of the Bonds due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Bond if the Temporary Bearer Global Bond is not intended to be issued in NGN form, only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Bearer Global Bond is issued, interests in such Temporary Bearer Global Bond will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Bond of the same Series or (ii) for definitive Bearer Bonds of the same Series with, where applicable, Coupons and Talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive

Bearer Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Bonds. The holder of a Temporary Bearer Global Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Bond for an interest in a Permanent Bearer Global Bond or for definitive Bearer Bonds is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Bearer Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Bonds with, where applicable, Coupons and Talons attached upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default (as set out in Schedule 7 of the Common Terms Agreement (as defined in Chapter 8, “*Terms and Conditions of the Bonds*”)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the Permanent Bearer Global Bond in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Bond Trustee. The Issuer will promptly give notice to Bondholders in accordance with Condition 17 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Permanent Bearer Global Bonds and definitive Bearer Bonds which have an original maturity of more than one year and which are subject to TEFRA D selling restrictions and on all interest Coupons and Talons relating to such Bonds:

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

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

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

In the event that a Global Bond is exchanged for definitive Bonds, such definitive Bonds shall be issued in Specified Denomination(s) only. Bondholders who hold Bonds in the relevant clearing system in amounts that are not integral multiples of a Specified Denomination may need to purchase or sell, on or before the relevant Exchange Date, a principal amount of Bonds such that their holding is an integral multiple of a Specified Denomination. If the Global Bond is in NGN form, the details of such exchange shall be entered pro rata into the relevant clearing system.

In the event that Global Bonds are exchangeable for Definitive Bonds in circumstances other than the limited circumstances specified in the Global Bonds, such Global Bonds shall be issued in Specified Denomination(s) only. A Bondholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Bond in respect of such holding and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more Specified Denominations.

Registered Bonds

The Registered Bonds of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global bond in registered form, without Coupons, (a “**Regulation S Global Bond**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Bonds, beneficial interests in a Regulation S Global Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Bond will bear a legend regarding such restrictions on transfer.

The Registered Bonds of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“**QIBs**”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7)) under the Securities Act that are institutions (“**Institutional Accredited Investors**”) who agree to purchase the Bonds for their own account and not with a view to the distribution thereof. The Registered Bonds of each Tranche sold to QIBs will be represented by a global bond in registered form (a “**Rule 144A Global Bond**” and, together with a Regulation S Global Bond, the “**Registered Global Bonds**”).

Registered Global Bonds will either (i) be deposited with a custodian for, and registered in the name of a nominee of, DTC or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Bonds in fully registered form.

The Registered Bonds of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“**Definitive IAI Registered Bonds**”). Unless otherwise set forth in the applicable Final Terms, Definitive IAI Registered Bonds will be issued only in minimum specified denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Bonds will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described in Chapter 14, “*Subscription and Sale and Transfer and Selling Restrictions*”. The Rule 144A Global Bond and the Definitive IAI Registered Bonds will be

subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Bonds will, in the absence of provision to the contrary, be made to the person(s) shown on the Register (as defined in Condition 7) as the registered holder(s) of the Registered Global Bonds. None of the Obligors, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Global Bonds and the Registered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register as further described in Condition 7(d).

Interests in a Registered Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Registered Bonds without Coupons or Talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Bonds registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for the Bonds and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Bonds registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the Registered Global Bond in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Bond Trustee. The Issuer will promptly give notice to Bondholders in accordance with Condition 17 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Bond) or the Bond Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Bond and Definitive IAI Registered Bonds may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Bonds in the form of an interest in a Registered Global Bond. No beneficial owner of an interest in a Registered Global Bond will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see Chapter 14, “*Subscription and Sale and Transfer and Selling Restrictions*”.

General

Pursuant to the Agency Agreement (as defined in Chapter 8, “*Terms and Conditions of the Bonds*”), the Principal Paying Agent shall arrange that, where a further Tranche of Bonds is issued which is intended to form a single Series with an existing Tranche of Bonds at a point after the Issue Date of the further Tranche, the Bonds of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Bonds of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period applicable to the Bonds of such Tranche.

For so long as any of the Bonds is represented by a Global Bond held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Obligors and their agents as the holder of such nominal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Bonds, for which purpose the bearer of the relevant Bearer Global Bond or the registered holder of the relevant Registered Global Bond shall be treated by the Obligors and their agents as the holder of such nominal amount of such Bonds in accordance with and subject to the terms of the relevant Global Bond and the expressions “Bondholder” and “holder of Bonds” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Bonds represented by such Registered Global Bond for all purposes under the Bond Trust Deed, the Agency Agreement and such Bonds except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

So long as the Bonds are represented by a temporary Global Bond or permanent Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon.

Form of Final Terms

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS - The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”) or in the United Kingdom (the “UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.]

[Notification under Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”)] – In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).^{12]}

Final Terms dated [●]

ANGLIAN WATER SERVICES FINANCING PLC

Legal Entity Identifier (LEI): 213800DL377MH46PDY63

¹ Insert “prescribed capital market products” and “Excluded Investment Products” or, if not, amend Singapore product classification.

² Relevant Dealer(s) to consider whether it/they have received the necessary Singapore product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Bonds]
unconditionally and irrevocably
guaranteed by, *inter alios*, ANGLIAN WATER SERVICES LIMITED

under the €10,000,000,000

Global Secured Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Prospectus dated 19 October 2020 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). This document constitutes the Final Terms of the Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Prospectus [as so supplemented] in order to obtain all the relevant information. [The Prospectus [and the supplemental Prospectus] [has] [have] been published on the Issuer’s website at www.anglianwater.co.uk.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [original date] and incorporated by reference into the Prospectus dated 19 October 2020 [and the supplemental Prospectus dated [●]]. This document constitutes the Final Terms of the Bonds described herein for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”) and must be read in conjunction with the Prospectus dated 19 October 2020 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation in order to obtain all the relevant information, including the Conditions incorporated by reference in the Prospectus. [The Prospectus [and the supplemental Prospectus] have been published on the Issuer’s website at www.anglianwater.co.uk.]

- | | | | |
|---|-------|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | (i) | Issuer: | Anglian Water Services Financing Plc |
| | (ii) | Obligors: | Anglian Water Services Limited, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited |
| 2 | (i) | Series Number: | [●] |
| | (ii) | Tranche Number: | [●] |
| | | | [Not applicable/The Bonds shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [●]/the Issue Date/exchange of the Temporary Global Bond for interests in the Permanent Global Bond, as referred to in paragraph 24 below [which is expected to occur on or about ●]].] |
| | (iii) | [Nature of Bonds: | USPP Bonds] |

		Deferred Funding Date is [Applicable/Not Applicable]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Bonds admitted to trading:	Series: [●] Tranche: [●]
5	Issue Price of Tranche:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]].
6	Specified Denominations:	[●] [and integral multiples of [●] in excess thereof up to and including [●]. No Bonds in definitive form will be issued with a denomination above [●]]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[[●]/Issue Date/Not Applicable]
8	(i) Maturity Date:	[[●]/Interest Payment Date falling in or nearest to [●]]
	(ii) Instalment Dates	[[●]/Not Applicable]
9	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest]
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [US Change of Control Redemption Event] [Instalment]
11	Change of Interest Basis or Redemption/Payment Basis:	[[●]/Not Applicable]
12	Call Options:	[Issuer Call][Not Applicable][(further particulars specified below)]
13	[Date [Board] approval for issuance of Bonds obtained:	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14	Fixed Rate Bond Provisions	[Applicable/Not Applicable]
----	-----------------------------------	-----------------------------

	(i)	Rate(s) of Interest:	[●] per cent. per annum [payable in arrear on each Interest Payment Date/on each Interest Payment Date]
	(ii)	Interest Payment Date(s):	[[●] [and [●]] in each year up to and including the Maturity Date]
	(iii)	Fixed Coupon Amount(s):	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●] [Not Applicable]
	(v)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) Actual/Actual (ICMA)]
	(vi)	Determination Date[s]:	[[●] [and [●]] in each year] [Not Applicable]
	(vii)	Calculation Amount:	[●]
15		Floating Rate Bond Provisions	[Applicable/Not Applicable]
	(i)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iii)	Additional Business Centre(s):	[●]
	(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Calculation Agent):	[●]
	(vi)	Screen Rate Determination:	[Applicable][Not Applicable] – Reference Rate: [LIBOR/EURIBOR] - Relevant Financial Centre:

		[London/Brussels/specify other Relevant Financial Centre]
		– Interest Determination Date(s):
		[●]
		– Relevant Screen Page: [●]
(vii)	ISDA Determination:	[Applicable][Not Applicable]
		– Floating Rate Option: [●]
		– Designated Maturity: [●]
		– Reset Date: [●]
(viii)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
(ix)	Margin(s):	[+/-] [●] per cent. per annum
(x)	Minimum Rate of Interest:	[●] per cent. per annum
(xi)	Maximum Rate of Interest:	[●] per cent. per annum
(xii)	Day Count Fraction:	[Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA)]
16	Zero Coupon Bond Provisions	[Applicable/Not Applicable]
	(i) Accrual Yield:	[●] per cent. per annum
	(ii) Reference Price:	[●]
	(iii) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[30/360] [Actual/360] [Actual/365]
17	Index Linked Interest/Redemption Bond Provisions	[Applicable/Not Applicable]
	(i) Index/Formula:	[RPI/HICP/CPI/CPIH]
	(ii) Party responsible for calculating the principal and/or interest due:	[●]

	(iii)	Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	Condition [8(c) / 8(f)/ 8(i)] applies
	(iv)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(vi)	Additional Business Centre(s):	[●]
	(vii)	Minimum Rate of Interest:	[●] per cent. per annum
	(viii)	Maximum Rate of Interest:	[●] per cent. per annum
	(ix)	Day Count Fraction:	[30/360][Actual/Actual (ICMA)]
	(x)	Base Index Figure:	[●]
	(xi)	Reference Gilt:	[[●]/Not Applicable]
	(xii)	Settlement Date:	[[●]/Not Applicable]
	(xiii)	Rate for purposes of Condition 9(d)(ii)(2)(B) where the Index is CPI or CPIH:	[[●]/Not Applicable]
18	Dual Currency Bond Provisions		[Applicable/Not Applicable]
	(i)	Rate of Exchange/ method of calculating Rate of Exchange:	[●]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest payable:	[●]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[[●]/Condition [8(c) / 8(f)/8(i)] applies]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

19	Notice Periods for Condition 9(b):	Minimum Period [●] days Maximum Period [●] days
20	Notice Periods for Condition 9(c):	Minimum Period [●] days Maximum Period [●] days

- 21 **Issuer Call:** [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount of each Bond: [[●] per Calculation Amount] [Make-Whole Amount] [Spens Price]
- (iii) Reference Gilt: [[●]/Not Applicable]
- (iv) If redeemable in part: Minimum Redemption Amount: [●]
Maximum Redemption Amount: [●]
- (v) Notice period: Minimum Period [●] days
Maximum Period [●] days
- 22 (i) Final Redemption Amount of each Bond: [●]
- (ii) Details relating to Bonds repayable in instalments: [Applicable/Not Applicable]
- (a) Instalment Dates: [●]
- (a) Instalment Amount: [●]
- 23 Early Redemption Amount of each Bond payable on redemption for taxation reasons or on event of default and/or the method of calculating the same: [●]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

- 24 (i) Form of Bonds: [Bearer Bonds:]

[Temporary Bearer Global Bond exchangeable for a Permanent Bearer Global Bond on or after Exchange Date which is exchangeable for Definitive Bonds [only upon an Exchange Event.]]

[Temporary Bearer Global Bond exchangeable for Definitive Bonds on and after the Exchange Date.]

[Permanent Bearer Global Bond exchangeable for Definitive Bonds [only upon an Exchange Event].]
- (ii) New Global Note/held under New Safekeeping Structure: [Yes][No][Not Applicable]
- (iii) [Registered Bonds:] [Yes / No]

[Regulation S Global Bond (U.S.\$[●] nominal amount) registered in the name of a nominee for

[DTC/ a common depositary for Euroclear and Clearstream, Luxembourg].]

[Rule 144A Global Bond (U.S.\$[●] nominal amount registered in the name of a nominee for [DTC/ a common depositary for Euroclear and Clearstream, Luxembourg].]

[Definitive IAI Registered Bonds] (U.S.\$[●] nominal amount registered in the name of a nominee for [DTC/ a common depositary for Euroclear and Clearstream, Luxembourg].]

- | | | |
|----|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 25 | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | [Not Applicable/[●]] |
| 26 | Talons for future Coupons to be attached to Definitive Bearer Bonds (and dates on which such Talons mature): | [Yes. As the Bonds have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left. / No]

[Not Applicable] |

Signed on behalf of the Issuer:

By: [●]

Duly authorised

Signed on behalf of Anglian Water Services Limited:

By: [●]

Duly authorised

Signed on behalf of Anglian Water Services Holdings Limited:

By: [●]

Duly authorised

Signed on behalf of Anglian Water Services UK Parent Co Limited:

By: [●]

Duly authorised

Part B — Other Information

1 Listing

- (i) Listing: [London / None on the Issue Date. The Issuer intends to list the Bonds in London following the Issue Date.]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Bonds to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the FCA with effect from [●].]
[Application is expected to be made for the Bonds to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the FCA with effect from [●].][None on the Issue Date. The Issuer intends to apply for the Bonds to be admitted to trading on the London Stock Exchange's regulated market and listing on the official list of the FCA following the Issue Date.]
- (iii) Estimate of total expenses related to admission to trading: [●]
- (iv) All regulated markets or equivalent markets on which securities of the same class are already admitted to trading: [●]

2 Ratings

- Ratings: [The Bonds to be issued [have been/are expected to be] rated]:
- [S&P: [●]]
- [Moody's: [●]]
- [Fitch: [●]]][Not Applicable]

3 Interests of natural and legal persons involved in the offer

Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer.

[The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and perform other services for, the Issuer [and the other Obligors] and [its/their] affiliates in the ordinary course of business.]

4 Third Party Information

[Relevant Third Party Information] has been extracted from [source].

Each of the Obligors confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced inaccurate or misleading.]

5 [Reasons for the offer, estimated net proceeds and total expenses]

(i) [Reasons for the offer:] [●]

[If relevant in the applicable Final Terms, the following language shall be included].

[Net proceeds from the issue of the Series [●] Bonds (the “**Sustainable Bonds**”) will be allocated to the financing or refinancing of, and/or investment in, the Sustainable Categories (as defined below) meeting the Eligibility Criteria (as defined below)

“**Eligible Projects**” means sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment sustainable urban drainage systems and river training and other forms of flooding mitigation which meet the Eligibility Criteria.

“**Sustainable Category**” means a portfolio of one or more Eligible Projects.

“**Eligibility Criteria**” means the criteria prepared by the Issuer and/or AWS as set out in the Anglian Water/Anglian Water Services Financing Sustainability Finance Framework (available on the Issuer’s website at: www.anglianwater.co.uk).

A third party consultant will review the Eligibility Criteria published as at the date of this Prospectus, and in respect of any particular issue of Sustainable Bonds, such third party consultant will review the Sustainable Category and issue a report and/or opinion based on the Eligibility Criteria (an “**External Review**”). The External Review will be made available on the Issuer's website at www.anglianwater.co.uk.

Pending allocation of the net proceeds of an issue of Sustainable Bonds for investment in the Sustainable Category, AWS will hold such net proceeds in the Capex Reserve Account, at its discretion, in the form of cash or cash equivalent investments (as permitted under the Common Terms Agreement) pending any transfer to the Payment Account in accordance with the terms of the Common Terms Agreement. The Issuer and/or AWS will establish systems to monitor and account for the net proceeds for investment in the Sustainable Category meeting the Eligibility Criteria.

The Issuer is expected to issue a report on: (i) the Sustainable Category to which proceeds of Sustainable

		<p>Bonds have been allocated and the amounts allocated;</p> <p>(ii) the expected impact of the Sustainable Category on the environment; and (iii) the balance of unallocated cash and/or cash equivalent investments. Such report will be issued within one year from the date of an issuance of the relevant Series of Sustainable Bonds, and annually thereafter, until the net proceeds of such issuance of Sustainable Bonds have been allocated in full, and as necessary thereafter in the event of material developments. In addition, the Issuer is expected to provide regular information through its website www.anglianwater.co.uk on the environmental outcomes of the Sustainable Category.]</p>
	(ii)	<p>[Estimated net proceeds:] [●]</p> <p>(iii) [Estimated total expenses:] [●]</p>
6	<p>[Fixed Rate Bonds only YIELD</p> <p>Indication of yield: [●]</p> <p>As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]</p>	
7	<p>[Floating Rate Bonds only –</p> <p>PERFORMANCE INTEREST RATES</p> <p>[Reuters/Bloomberg/give details of electronic means of obtaining the details of performance].]</p>	
8	<p>[Index Linked Bonds only –</p> <p>PERFORMANCE OF INDEX AND OTHER INFORMATION CONCERNING THE UNDERLYING</p> <p>(i) Name of underlying index: [U.K. Retail Price Index (RPI) (all items) published by the Office for National Statistics] / [Non-revised index of Consumer Prices excluding tobacco, measuring the rate of inflation in the European Monetary Union excluding tobacco published by Eurostat (HICP)] / [U.K. Consumer Price Index (CPI) (all items) published by the Office for National Statistics] / [U.K. Consumer Price Index including owner occupiers' housing costs (CPIH) (all items) published by the Office for National Statistics]</p> <p>(ii) Information about the Index, its volatility and past and future performance can be obtained from: More information on [RPI/ HICP/CPI/CPIH], including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of [RPI/HICP/CPI/CPIH], can be found at www.statistics.gov.uk/www.epp.eurostat.ec.europa.eu/www.ons.gov.uk/economy/inflationandpriceindices]</p> <p>The Issuer [intends to provide post-issuance information [specify what information will be reported</p>	

and where it can be obtained]] [does not intend to provide post-issuance information]*.

9 **[Dual currency Bonds only — [●]]**

PERFORMANCE OF RATE[S] OF

EXCHANGE

10 **Operational information**

ISIN: [●]

Common Code: [●]

[CFI: [Not Applicable / [See [●] as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Available]

[FISN: [Not Applicable / [See [●] as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Available]

Any clearing system(s) other than Euroclear Bank SA/NV, Clearstream Banking S.A. and DTC and the relevant identification number(s): [Not Applicable/[●]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

[Intended to be held in a manner which would allow Eurosystem eligibility] [Yes. Note that the designation “yes” simply means that the Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] *[include this text for registered bonds]* and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Bonds are capable of meeting them the Bonds may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of

one of the ICSDs acting as common safekeeper) *[include this text for registered bonds]*. Note that this does not necessarily mean that the Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

11 **General**

U.S. Selling Restrictions:

Reg. S Compliance Category 2; [TEFRA C][TEFRA D][TEFRA Not Applicable]

12 **Sustainable Bonds:**

[Applicable]/[Not Applicable]

Notes

(1) Required for derivative securities.

CHAPTER 8

TERMS AND CONDITIONS OF THE BONDS

The following (other than the italicised portions) are the Terms and Conditions of the Bonds which will be incorporated by reference into each Global Bond (as defined below) and each definitive Bond, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Bonds will complete the following Terms and Conditions for the purpose of such Bonds. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Bond and definitive Bond. Reference should be made to Chapter 7, “Form of the Bonds” for a description of the content of the Final Terms which will specify which of such terms are to apply in relation to the relevant Bonds.

This Bond is one of a Series (as defined below) of Bonds issued by Anglian Water Services Financing Plc (the “**Issuer**”) constituted by a trust deed dated 30 July 2002 between the Issuer, Anglian Water Services Limited (“**AWS**”), Anglian Water Services Holdings Limited (“**AWS Holdings**”), Anglian Water Services UK Parent Co Limited (“**AWS UK Parent Co**”), MBIA Assurance S.A. (“**MBIA**”) and Deutsche Trustee Company Limited as trustee (the “**Bond Trustee**”, which expression includes the trustee or trustees for the time being of the Bond Trust Deed) (such trust deed as modified and restated by a first supplemental trust deed dated on or about 23 September 2005, a second supplemental trust deed dated on or about 2 October 2006, a third supplemental trust deed dated on or about 6 October 2011, a fourth supplemental trust deed dated on or about 12 October 2012, a fifth supplemental trust deed dated on or about 4 October 2013, a sixth supplemental trust deed dated on or about 9 October 2014, a seventh supplemental trust deed dated on or about 12 September 2016, an eighth supplemental trust deed dated on or about 23 July 2018, a ninth supplemental trust deed dated 30 September 2019 and a tenth supplemental trust deed dated on or about 19 October 2020, and as further modified and/or supplemented and/or restated from time to time, the “**Bond Trust Deed**”).

The payment of all amounts in respect of the Bonds has been secured by the Issuer and guaranteed and secured by each of AWS, AWS Holdings and AWS UK Parent Co (each, together with the Issuer, an “**Obligor**” and together, the “**AWS Financing Group**”) in the Security Agreement (as defined below).

References herein to the “**Bonds**” shall be references to the Bonds of this Series and of each Class and shall mean:

- (i) in relation to any Bonds represented by a global Bond (a “**Global Bond**”), units of the lowest Specified Denomination (as specified in the applicable Final Terms) in the Specified Currency;
- (ii) any Global Bond;
- (iii) any definitive Bonds in bearer form (“**Bearer Bonds**”) issued in exchange for a Global Bond in bearer form; and
- (iv) definitive Bonds in registered form (“**Registered Bonds**”) (whether or not issued in exchange for a Global Bond in registered form).

The Bonds (as defined below), the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement dated 30 July 2002 (such agency agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) and made between the Issuer and the other Obligors, the Bond Trustee, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the “**Principal Paying Agent**”, which expression shall include any successor principal paying agent and agent bank) and any other paying agents appointed from time to time under the Agency Agreement (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include any successor paying agents), Deutsche Bank Trust Company Americas as exchange agent (the “**Exchange Agent**” which expression shall include any successor exchange agent) and as registrar (the “**Registrar**”, which expression shall include any successor registrar) and Deutsche Bank AG, London Branch as a transfer agent (together with the Registrar, the “**Transfer Agents**”, which expression shall include any additional or successor transfer agents).

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

Any Bearer Bond the principal amount of which is redeemable in instalments (an “**Instalment Bond**”) may be issued with one or more receipts (“**Receipts**”) (and, where appropriate, Talons) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

The final terms for this Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Bond and completes these Terms and Conditions. References to the “**applicable Final Terms**” are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Bond.

Any reference to “**Bondholders**” or “**holders**” in relation to any Bonds shall mean (in the case of Bearer Bonds) the holders of the Bonds and (in the case of Registered Bonds) the persons in whose name the Bonds are registered and shall, in relation to any Bonds represented by a Global Bond, be construed as provided below. Any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “**Tranche**” means Bonds which are identical in all respects (including as to listing) and “**Series**” means a Tranche of Bonds together with any further Tranche or Tranches of Bonds which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest and the date from which interest starts to accrue.

Each Obligor has, on 30 July 2002, entered into the security agreement (the “**Security Agreement**”) with Deutsche Trustee Company Limited as security trustee (the “**Security Trustee**”), pursuant to which each Obligor guarantees the obligations of each other Obligor under the Finance Documents (as defined below) to the Security Trustee as security trustee for the Secured Creditors (as defined below) and grants certain fixed and floating charge security (the “**Security**”) to the Security Trustee for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bondholders), the

Bondholders, the USPP 2001 Bondholders, the Initial Financial Guarantor, the Existing Finance Lessor, the Existing Hedge Counterparties, the Issuer, the Initial Authorised Credit Facility Agent, the Initial Authorised Credit Facility Arrangers, the Original Lenders, the O&M Reserve Facility Provider, the Debt Service Reserve Liquidity Providers, the Account Bank, the Cash Manager, the Agent Bank, the Principal Paying Agent, the Registrar, the Exchange Agent and the Transfer Agents (each as defined in the Master Definitions Agreement) together with any receiver and any additional creditor of the AWS Financing Group which accedes to the STID (as defined below) and the Common Terms Agreement (as defined below) (together, the “**Secured Creditors**”).

The Obligors have also entered into a security and trust intercreditor deed dated 30 July 2002 (the “**STID**”) with, *inter alios*, the Security Trustee and the other Secured Creditors pursuant to which the Security Trustee holds the Security on trust for the Secured Creditors and the Secured Creditors agree to certain intercreditor arrangements.

The Issuer has entered or may enter into liquidity facility agreements (together, the “**Liquidity Facility Agreements**”) with certain liquidity facility providers (together, “**Liquidity Facility Providers**”), pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet debt service liquidity shortfalls and shortfalls in projected operating and maintenance expenditure of the AWS Financing Group.

The Issuer has entered or may enter into a bank lending facility or an authorised loan agreement (the “**Authorised Loan Agreement**”) with, *inter alios*, certain lenders who agree to make certain facilities available to the Issuer for the purposes of funding certain working capital, capital expenditure and other expenses.

The Issuer has entered or may enter into certain currency and interest-rate hedging agreements and other derivative transactions (together, the “**Hedging Agreements**”) with certain hedge counterparties (together, the “**Hedge Counterparties**”), pursuant to which the Issuer hedges certain of its currency and interest-rate obligations.

The Obligors have entered into a common terms agreement dated 30 July 2002 (the “**Common Terms Agreement**”) with, *inter alios*, the Security Trustee and the other Secured Creditors, which contains certain representations and covenants of the Issuer and the other Obligors and events of default relating to, *inter alia*, the Bonds.

The Issuer has entered into intercompany loan arrangements (the “**Intercompany Loan Arrangements**”) under which the Issuer agreed to make available loan facilities and other financial accommodation to AWS.

The Bond Trust Deed, the Bonds, the Common Terms Agreement, the Security Agreement, the STID, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Issuer/AWS Loan Agreement, the Anglian Water Loan Notes, the Bridging Facility Agreement, the Authorised Loan Agreement, the I&I Agreements and the Master Definitions Agreement and, together with the other documents referred to in the Master Definitions Agreement, the “**Finance Documents**”.

Copies of, *inter alia*, the Bond Trust Deed, the Common Terms Agreement, the Security Agreement, the STID, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Bridging Facility Agreement, the Authorised Loan Agreement, the I&I Agreements and the Master Definitions Agreement are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and any other Paying Agents and Transfer Agents (such Paying Agents and the Transfer Agents being together referred to as the

“**Agents**”). Copies of the applicable Final Terms are obtainable during normal business hours at the specified office of each of the Agents.

The Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Bond Trust Deed, the Common Terms Agreement, the Security Agreement, the STID and the applicable Final Terms and to have notice of those provisions of the Agency Agreement and the other Finance Documents which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement, the Bond Trust Deed, the Security Agreement, the Common Terms Agreement and the STID.

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

Any reference in these Conditions to a matter being “**specified**” means as the same may be specified in the applicable Final Terms.

1 Classes, Form, Denomination and Title

(a) Classes of Bonds

Each Series of Bonds belongs to one of two classes of Bonds (each a “**Class**”). The available Classes of Bonds will be “Class A Bonds” and “Class B Bonds”.

(b) Form and Denomination

The Bonds are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Bonds, serially numbered, in the currency (the “**Specified Currency**”) and the denominations (the “**Specified Denomination(s)**”) provided that in the case of any Bonds which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Regulation, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Bonds). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Bearer Bonds may not be exchanged for Registered Bonds and vice versa.

So long as the Bonds are represented by a temporary Global Bond or permanent Global Bond and the relevant clearing system(s) so permit, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon.

This Bond may be a Fixed Rate Bond, a Floating Rate Bond, a Zero Coupon Bond, an Index Linked Interest Bond, a Dual Currency Interest Bond, an Instalment Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Bond may be an Index Linked Redemption Bond, a Dual Currency Redemption Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

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

(c) **Title**

Subject as set out below, title to the Bearer Bonds, Coupons, Receipts and Talons (if any) will pass by delivery and title to the Registered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and each of the other Obligors, the Bond Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Bond or Coupon and the registered holder of any Registered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Bond, without prejudice to the provisions set out in the next succeeding paragraph and no person will be liable for treating such holder.

For so long as any of the Bonds are represented by a Global Bond held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking S.A. (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Obligors, the Security Trustee, the Bond Trustee and the Agents as the holder of such nominal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Bonds, for which purpose the bearer of the relevant Bearer Global Bond or the registered holder of the relevant Registered Global Bond shall be treated by the Issuer, the Obligors, the Security Trustee, the Bond Trustee and any Agent as the holder of such nominal amount of such Bonds in accordance with and subject to the terms of the relevant Global Bond and the expressions “**Bondholder**” and “**holder of Bonds**” and related expressions shall be construed accordingly.

For so long as The Depository Trust Company (“**DTC**”) or its nominee is the registered owner or holder of a Registered Global Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Bonds represented by such Registered Global Bond for all purposes under the STID, the Bond Trust Deed, the Agency Agreement and the Bonds except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Bonds which are represented by a Global Bond will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

2 Transfers of Registered Bonds

(a) Transfers of interests in Registered Global Bonds

Transfers of beneficial interests in Registered Global Bonds will be effected by DTC, Euroclear, Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Bonds in definitive form or for a beneficial interest in another Registered Global Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Bond registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Bond, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

(b) Transfers of Registered Bonds in definitive form

Subject as provided in paragraph (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Bond for registration of the transfer of the Registered Bond (or the relevant part of the Registered Bond) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Bond in definitive form of a like aggregate nominal amount to the Registered Bond (or the relevant part of the Registered Bond) transferred. In the case of the transfer of part only of a Registered Bond in definitive form, a new Registered Bond in definitive form in respect of the balance of the Registered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Transfers of Registered Bonds in definitive form may also be made:

- (i) to a transferee who takes delivery also through an interest in a Regulation S Global Bond, upon receipt by the Registrar of a written confirmation substantially in the form set out in the Agency Agreement, amended as appropriate (a “**Transfer Certificate**”)

from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

- (ii) to a transferee who takes delivery of such interest through a Legended Bond:
 - (A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
 - (B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Registered Bonds in definitive form transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Bonds which are the subject of such a transfer to be represented by the appropriate Registered Global Bond, where applicable.

Upon the transfer, exchange or replacement of Registered Bonds in definitive form, or upon specific request for removal of the Legend on such Bond, the Registrar shall deliver only Registered Bonds in definitive form or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(c) Registration of transfer upon partial redemption

In the event of a partial redemption of Bonds under Condition 9, the Issuer shall not be required to register the transfer of any Registered Bond, or part of a Registered Bond, called for partial redemption.

(d) Costs of registration

Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) Transfers of interests in Regulation S Global Bonds

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Bond to a transferee in the United States or who is a U.S. person will only be made (i) upon receipt by the Registrar of a Transfer Certificate, copies of which are available from the specified office of the Registrar or any Transfer Agent, from the transferor of the Bond or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A or (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Bond in global or definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Bonds registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

(f) Transfers of interests in Rule 144A Global Bonds

Transfers of Rule 144A Global Bonds or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Bond, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Bond registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Bonds being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Rule 144A Global Bond where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Rule 144A Global Bonds, or upon specific request for removal of the Legend on such Bond, the Registrar shall deliver only Rule 144A Global Bonds or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) Exchanges and transfers of Registered Bonds generally

Holders of Registered Bonds in definitive form, other than Institutional Accredited Investors, may exchange such Bonds for interests in a Registered Global Bond of the same type at any time.

(h) Definitions

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Bonds, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“IAI Investment Letter” means a letter from an Institutional Accredited Investor in or substantially in the form set out in the Agency Agreement;

“Institutional Accredited Investor” means **“accredited investors”** (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;

“Legended Bond” means Registered Bonds in definitive form that are issued to Institutional Accredited Investors and Registered Bonds (whether in definitive form or represented by a Registered Global Bond) sold in transactions to QIBs in accordance with the requirements of Rule 144A;

“QIB” means a **“qualified institutional buyer”** within the meaning of Rule 144A;

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Bond” means a Registered Global Bond representing Bonds sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Bond” means a Registered Global Bond representing Bonds sold to QIBs pursuant to Rule 144A; and

“Securities Act” means the United States Securities Act of 1933, as amended.

3 Status of the Bonds and Guarantees

(a) Status of Class A Bonds

This Condition 3(a) is applicable only in relation to Bonds which are specified as being Class A Bonds.

The Bonds and any relative Coupons are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 and rank *pari passu* without any preference among themselves.

(b) Status of Class B Bonds

This Condition 3(b) is applicable only in relation to Bonds which are specified as being Class B Bonds.

The Bonds and any relative Coupons are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4, are subordinated to the Class A Bonds and rank *pari passu* without any preference among themselves.

(c) Guarantees by the Obligors

The obligations of the Obligors under the Finance Documents are unconditionally and irrevocably guaranteed by each other Obligor pursuant to the Security Agreement. Each such guarantee constitutes a direct and unconditional obligation of such Obligor secured in the manner described in Condition 4.

4 Security, Priority and Relationship With Secured Creditors

(a) Security

Under the Security Agreement, each Obligor guarantees the obligations of each other Obligor under the Finance Documents to the Security Trustee for itself and on behalf of the Secured Creditors (including, without limitation, Bondholders) and secures such obligations upon the whole of its property, undertaking and assets, subject to certain specified exceptions and, in the case of Anglian Water Services, to the terms of the Instrument of Appointment (as defined below) and any requirements thereunder or the Act (as defined below). There is no intention to create further security for the benefit of the holders of Bonds issued after the first Series. Each further Series of Bonds issued by the Issuer and any additional creditor of the Issuer acceding to the STID will share in the Security.

In these Conditions:

the “**Act**” means the United Kingdom Water Industry Act 1991 (as amended); and

“**Instrument of Appointment**” means the instrument of appointment dated 1989 under which the Secretary of State for the Environment appointed Anglian Water Services as a water and wastewater undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

(b) Relationship among Bondholders and with other Secured Creditors

The Bond Trust Deed contains provisions detailing the Bond Trustee’s obligations to consider the interests of the Bondholders as regards all powers, trusts and authorities, duties and discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 19).

The STID provides that the Security Trustee (except in relation to its Reserved Matters and Entrenched Rights and subject to certain exceptions) will act on instructions of the Majority Creditors (as defined in the Master Definitions Agreement) (including the Bond Trustee as trustee for and representative of the Bondholders) (other than the USPP Bondholders) and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) 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, enforce its rights with respect to the Security, 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 Secured Creditor (including the Bond Trustee as trustee for the Bondholders or any individual

Bondholder), provided that the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured to its satisfaction.

(d) 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 to make payments in accordance with the Payment Priorities (as set out in the Common Terms Agreement).

(e) Bond Trustee and Security Trustee not liable for security

The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the Security Documents whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

5 Issuer Covenants

(a) Common Terms Agreement

So long as any of the Bonds remain outstanding, the Obligors have agreed to comply with the covenants as set out in Schedule 5 of the Common Terms Agreement.

The Bond Trustee is entitled to rely absolutely on a certificate of any two directors of the Issuer or any other Obligor in relation to any matter relating to the Covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

The Covenants include, subject, in some cases, to certain materiality qualifications, exceptions and reservations as to matters of law, covenants as to how Anglian Water Services will carry on its business, including restrictions upon each Obligor's ability to dispose of its assets, create security, grant guarantees, incur further financial indebtedness and amend any Material Agreement. Details of the covenants to be given by the Obligors, and those to be given by Anglian Water Services and the Issuer are summarised in Chapter 6, "*Financing Structure*", under Chapter 6.5.4, "*Information — Covenants*", Chapter 6.5.5, "*Covenants — General*" and Chapter 6.5.6, "*Financial Covenants*".

The Common Terms Agreement also prescribes the manner in which Anglian Water Services must manage its cash resources and the order in which it must pay its liabilities. See Chapter 6, "*Financing Structure*" under Chapter 6.5, "*Common Terms Agreement*" and Chapter 6.6, "*Cash Management*".

(b) Bondholder Remuneration (USPP Bonds)

This condition 5(b) is applicable only in relation to Bonds which are specified as being USPP Bonds in the applicable Final Terms.

The Issuer and AWS will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of the Bonds issued under such Final Terms (the “**Relevant Bondholder**”) as consideration for or as an inducement to the entering into by any waiver or amendment of any of the terms and provisions in the applicable Final Terms unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, rateably to each Relevant Bondholder then outstanding even if such Relevant Bondholder did not consent to such waiver or amendment.

6 Interest

(a) Interest on Fixed Rate Bonds and Index Linked Bonds

Each Fixed Rate Bond and Index Linked Bond bears interest on its outstanding nominal amount (or if it is an Index Linked Bond, adjusted for indexation in accordance with Condition 8) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

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

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

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms, such interest shall be calculated (i) in the case of Bonds other than Index Linked Bonds, by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention and (ii) in the case of Index Linked Bonds, on an actual/actual basis in line with the method used by the Debt Management Office for the United Kingdom Index-linked Gilt Market.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest, in accordance with this Condition 6(a):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (A) in the case of Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

- (B) in the case of Bonds where the Accrual Period is longer than the Determination Period, during which the Accrual Periods ends, the sum of:
- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if “**30/360**” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360;
- (iii) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 361 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 360);
- (iv) if “**Actual/365**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (v) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (vi) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (vii) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

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

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

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] - [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

In these Terms and Conditions:

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

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

(b) Interest on Floating Rate Bonds

(i) Interest Payment Dates

Each Floating Rate Bond bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

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

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

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

- (1) in any case where Specified Periods are specified in accordance with Condition 6(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply, *mutatis mutandis*, or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, “**Business Day**” means a day which is both:

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

(ii) **Rate of Interest**

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

(A) **ISDA Determination for Floating Rate Bonds**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Associations, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Bonds, published by the International Swaps and Derivatives Association, Inc. (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day as specified in the applicable Final Terms.

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

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

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

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

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

Subject to Condition 6(b)(iii) below, if the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or, in the case of (2) above, fewer than three offered quotations appear, in each case as at the Specified Time on the Interest Determination Date in question, the Calculation Agent shall request each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent.

Subject to Condition 6(b)(iii) below, if on any Interest Determination Date one only or none of the Reference Banks provides the Calculation Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Calculation Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if

any) or, if fewer than two of the Reference Banks provide the Calculation Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Calculation Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

"**EURIBOR**" means the euro-zone inter-bank offered rate.

"**LIBOR**" means the London inter-bank offered rate.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Issuer or as may be specified in the Final Terms.

(iii) **Benchmark Discontinuation**

(A) **Independent Adviser**

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 6(b)(iii)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 6(b)(iii)(D)). In making such determination, the Independent Adviser appointed pursuant to this Condition 6(b)(iii) shall act in good faith and in a commercially reasonable manner. In the absence of bad faith, fraud or negligence, the Independent Adviser shall have no liability whatsoever to the Issuer, the Bond Trustee, the Paying Agents, the Bondholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 6(b)(iii).

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate and, in either case, an Adjustment Spread (if

any) and any Benchmark Amendments, in accordance with this Condition 6(b)(iii)(A) the date five Business Days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Bonds in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 6(b)(iii)(A).

(B) Successor Rate or Alternative Rate

If the Independent Adviser, determines that:

- (i) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Bonds (subject to the operation of this Condition 6(b)(iii)); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Bonds (subject to the operation of this Condition 6(b)(iii)).

(C) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(D) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 6(b)(iii) and the Independent Adviser, determines (i) that amendments to these Conditions and/or the Bond Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (provided that the amendments do not, without the consent of the Calculation Agent, impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions attached to it) (such amendments, the “**Benchmark Amendments**”) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition

6(b)(iii)(E), without any requirement for the consent or approval of Bondholders, vary these Conditions and/or the Bond Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Bond Trustee of a certificate signed by two Directors of the Issuer pursuant to Condition 6(b)(iii)(E), the Bond Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Bondholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Bond Trust Deed), and for the avoidance of doubt, the Bond Trustee shall not be liable to any party for any consequences thereof, provided that the Bond Trustee shall not be obliged so to concur if in the opinion of the Bond Trustee doing so would impose more onerous obligations upon it, increase its duties or responsibilities, or expose it to any additional liabilities against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction, or reduce or amend the protective provisions afforded to the Bond Trustee in these Conditions or the Bond Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 6(b)(iii)(D), the Issuer shall comply with the rules of any stock exchange on which the Bonds are for the time being listed or admitted to trading.

(E) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 6(b)(iii) will be notified promptly by the Issuer to the Bond Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 17, the Bondholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Bond Trustee of the same, the Issuer shall deliver to the Bond Trustee a certificate signed by two Directors of the Issuer:

- (I) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 6(b)(iii); and
- (II) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Bond Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the

Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Bond Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Bond Trustee, the Calculation Agent, the Paying Agents and the Bondholders.

(F) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 6(b)(iii)(A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 6(ii)(B) will continue to apply unless and until the Issuer determines that a Benchmark Event has occurred.

Notwithstanding any other provision of this Condition 6(b)(iii), if in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 6(b)(iii), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(G) Definitions:

As used in this Condition 6(b)(iii):

“Adjustment Spread” means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied)
- (iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

“Alternative Rate” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 6(b)(iii)(B) is

customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Bonds.

“Benchmark Amendments” has the meaning given to it in Condition 6(b)(iii)(D).

“Benchmark Event” means:

- (1) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (2) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (3) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (4) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Bonds; or
- (5) the administrator of that Original Reference Rate or its supervisor publicly announces that such administrator is insolvent; or
- (6) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Bondholder using the Original Reference Rate;

provided that in the case of sub-paragraphs (2), (3), (4) and (5), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

“Independent Adviser” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own cost under Condition 6(b)(iii)(A).

“Original Reference Rate” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Bonds.

“Relevant Nominating Body” means, in respect of a benchmark or screen rate (as applicable):

- (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority

which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

- (2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“Successor Rate” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(iv) Minimum Rate of Interest and/or Maximum Rate of Interest

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

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

(v) Determination of Rate of Interest and Calculation of Interest Amounts

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

The Calculation Agent will calculate the amount of interest (the **“Interest Amount”**) payable on the Floating Rate Bonds in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(b):

- (A) if “Actual/365” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (B) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (D) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (E) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (x) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (y) the last day of the Interest Period is the last day of the month of February in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (F) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

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

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

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

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

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

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

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

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

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

(vi) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and the other Obligors, the Principal Paying Agent, the Bond Trustee and any stock exchange or other relevant authority on which the relevant Floating Rate Bonds are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 17 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Bonds are for the time being listed or by which they have been admitted to listing and to the Bondholders in accordance with Condition 17. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for general business in London.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of

this Condition 6(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of manifest error) be binding on the Issuer, the Obligors, the Bond Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Obligors, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(viii) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Period, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation of two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as the Issuer determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) Interest on Dual Currency Interest Bonds

The rate or amount of interest payable in respect of Dual Currency Interest Bonds shall be determined in the manner specified in the applicable Final Terms.

(d) Accrual of interest

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

(e) Deferral of interest on Class B Bonds

This Condition 6(e) is applicable only in relation to Bonds which are specified as being Class B Bonds.

In the case of Class B Bonds only, if, on any Interest Payment Date, prior to delivery of an enforcement notice under Condition 12, there are insufficient funds available to pay any accrued interest on such Class B Bonds, such accrued interest will be treated as not having fallen due and will be deferred in accordance with the cash management provisions contained in Schedule 12 of the Common Terms Agreement (“**Deferred Interest**”) until the earlier of (i) the next succeeding Interest Payment Date for those Class B Bonds on which the Issuer has,

in accordance with the cash management provisions contained in Schedule 12 of the Common Terms Agreement, sufficient funds available to pay such Deferred Interest (including any interest accrued thereon) and (ii) the date on which all the Class A Debt (as defined in the Master Definitions Agreement) is repaid in full. Interest will continue to accrue on such Deferred Interest at the Rate of Interest otherwise payable on unpaid principal of such Class B Bonds.

(f) Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts

As soon as practicable after the Specified Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (as specified in the applicable Final Terms) (an “**Instalment Amount**”), obtain any quote or make any determination or calculation, the Calculation Agent will determine the Interest Rate and calculate the Interest Amount for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Conditions 8(b) (*Application of the Index Ratio (RPI)*) or 8(e) (*Application of the Index Ratio (HICP)*) or 8(h) (*Application of the Index Ratio (CPI and CPIH)*), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount or any Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Principal Paying Agent or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange as soon as practicable after its determination. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent pursuant to this Condition 6 or Condition 8 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

7 Payments

(a) Method of payment

Subject as provided below:

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

Payments will be subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise

imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

(b) Presentation of definitive Bearer Bonds, Receipts and Coupons

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

Payments of instalments of principal (if any) in respect of definitive Bearer Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7(a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 7(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Bond to which it appertains. Receipts presented without the definitive Bearer Bond to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Bonds in definitive bearer form (other than Dual Currency Bonds, Index Linked Bonds or Long Maturity Bonds (as defined below)) should be presented for payment together with all unmatured Coupons and Receipts, if applicable, appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 11) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Bond, Dual Currency Bond, Index Linked Bond or Long Maturity Bond in definitive bearer form becomes due and repayable, unmatured

Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Bond**” is a Fixed Rate Bond (other than a Fixed Rate Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Bond shall cease to be a Long Maturity Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Bond.

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

(c) Payments in respect of Bearer Global Bonds

Payments of principal and interest (if any) in respect of Bonds represented by any Global Bond in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Bonds and otherwise in the manner specified in the relevant Global Bond against presentation or surrender, as the case may be, of such Global Bond at the specified office of any Paying Agent outside the United States. If the Global Bond is a CGN, a record of each payment made against presentation or surrender of any Global Bond in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Bond by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made. If the Global Bond is a NGN, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Bonds recorded in the records of the relevant clearing system and represented by the Global Bond will be reduced accordingly. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

(d) Payments in respect of Registered Bonds

Payments of principal in respect of each Registered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Bond appearing in the register of holders of the Registered Bonds maintained by the Registrar (the “**Register**”) at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, “**Designated Account**” means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and “**Designated Bank**” means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the

Specified Currency is Australian dollars, New Zealand dollars or Canadian dollars, shall be Sydney, Auckland and Toronto, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Bond (in definitive form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Bond appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Bond on redemption will be made in the same manner as payment of the principal amount of such Registered Bond.

Holders of Registered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Bond as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Bonds.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Bond in registered form in respect of Bonds denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

All payments in respect of Bonds represented by a Registered Global Bond will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means any day on which the relevant clearing system is open for business, which for Euroclear and Clearstream, Luxembourg is Monday to Friday inclusive except 25 December and 1 January.

None of the Issuer or the other Obligors, the Bond Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

The holder of a Global Bond shall be the only person entitled to receive payments in respect of Bonds represented by such Global Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the

beneficial holder of a particular nominal amount of Bonds represented by such Global Bond must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Bond.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Bond will be made at the specified office of a Paying Agent in New York City if:

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

(f) Payment Day

If the date for payment of any amount in respect of any Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “**Payment Day**” means :

- (i) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars, New Zealand dollars or Canadian dollars, shall be Sydney, Auckland and Toronto, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (ii) in the case of any payment in respect of a Registered Global Bond denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Bond) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) Interpretation of principal and interest

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

- (i) any additional amounts which may be payable with respect to principal under Condition 10 or under any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Bond Trust Deed or the applicable Final Terms;
- (ii) the Final Redemption Amount of the Bonds;

- (iii) the Early Redemption Amount of the Bonds;
- (iv) the Optional Redemption Amount(s) (if any) of the Bonds;
- (v) in relation to Zero Coupon Bonds, the Amortised Face Amount (as defined in Condition 9(e));
- (vi) in relation to Instalment Bonds, the Instalment Amounts (as set out in the applicable Final Terms); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Bonds.

Any reference in these Conditions to interest in respect of the Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 or under any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Bond Trust Deed or the applicable Final Terms.

8 Indexation

The provisions of this Condition 8 apply only if the applicable Final Terms specify the Bonds as Index Linked Bonds.

- (a) **Where RPI is specified as the Index or Index Figure (each as defined below) in the applicable Final Terms, the following Conditions 8(a) to 8(c) will apply. Where HICP is specified as the Index or Index Figure (each as defined below) in the applicable Final Terms, the following Conditions 8(d) to 8(f) will apply. Where CPI or CPIH is specified as the Index or Index Figure (each as defined below) in the applicable Final Terms, the following Conditions 8(g) to 8(i) will apply. Definitions (RPI)**

In these Terms and Conditions:

“**Base Index Figure**” means, subject as provided in Condition 8(c) below, the base index figure as specified in the applicable Final Terms;

“**Calculation Date**” means any Interest Payment Date, the Maturity Date or any other date on which principal falls due;

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

“**Index**” or “**Index Figure**” means, subject as provided in Condition 8(c) below, RPI (for all items) published by the Office for National Statistics (January 1987 = 100) (currently contained in the Monthly Digest of Statistics), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the “Index Figure applicable” to a particular month shall, subject as provided in Condition 8(c) below, be calculated in accordance with the following formula:

$$IFA = RPI_{m-t} + \left(\frac{\text{Day of Calculation Date} - 1}{\text{Days in month of Calculation Date}} \right) \times (RPI_{m-(t-1)} - RPI_{m-t})$$

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

“**Reference Gilt**” means the reference gilt specified in the applicable Final Terms; and

“**RPI^{m-t}**” means the Index Figure for the first day of the month that is t months prior to the month in which an Interest Payment Date occurs where it has a value of 1 to 24 as specified in the applicable Final Terms.

(b) Application of the Index Ratio (RPI)

Each payment of interest and principal in respect of the Bonds shall be the amount provided in or determined in accordance with these Conditions, multiplied by the Index Ratio applicable to the month in which such payment falls to be made and rounded to four decimal places (0.00005 being rounded upwards).

(c) Changes in circumstances affecting the Index (RPI)

- (i) If at any time and from time to time the Index shall be changed by the substitution of a new base therefor, then with effect from, and including, the calendar month in which such substitution takes effect:
 - (A) the definition of “**Index**” and “**Index Figure**” shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, such other date or month as may have been substituted therefor under this paragraph (i)); and
 - (B) the new Base Index Figure shall be the product of the then-existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
- (ii) If the Index Figure normally published in any month relevant for determining the Index Figure (the “**relevant month**”) is not published on or before the fourteenth Business Day before the date (the “**date for payment**”) on which such payment is due, the Index Figure applicable to such month shall be:
 - (A) such substitute index figure (if any) as the Bond Trustee shall agree to have been published by the United Kingdom Debt Management Office for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury stock selected by the Bond Trustee on the advice of a gilt-edged market maker or other adviser selected by it in its sole discretion having consulted with the Issuer (but without responsibility or liability to the Issuer) (the “**Indexation Adviser**”); or
 - (B) if no such determination is made by the Indexation Adviser within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to paragraph (A) above before the date for payment).

Where the provisions of sub-paragraph (ii) above apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to paragraph (B) above, the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

- (x) in relation to a payment of principal or interest in respect of such Bond other than upon redemption in full of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to, respectively, the shortfall or excess of the

amount of the relevant payment made on the basis of the Index Figure applicable by virtue of paragraph (B) above either below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and

- (y) in relation to a payment of principal or interest upon redemption in full of a Bond, no subsequent adjustment to amounts paid will be made.

(iii)

(A) If:

- (x) the Bond Trustee has been notified by the Principal Paying Agent that the Index has ceased to be published; or
- (y) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee, acting solely on the advice of the Indexation Adviser, be materially prejudicial to the interests of the Bondholders,

the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

- (B) If the Issuer and the Bond Trustee fail to reach such agreement within 20 Business Days following the giving of such notice by the Bond Trustee, a bank or other person in London shall be appointed by the Issuer and the Bond Trustee, or, failing agreement on such appointment within 20 Business Days following the expiry of the 20 day period referred to above, by the Bond Trustee (in each case, such bank or other person so appointed being referred to as the “**Expert**”), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert, the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

- (C) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee may determine, and notify to the Issuer, as appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer and the other Obligors, the Bond Trustee, the Financial Guarantors, the other Secured

Creditors and the Bondholders and the Issuer shall give notice to the Bondholders in accordance with Condition 17 of such amendments as promptly as practicable following such notification.

Where HICP (as defined in Condition 8(d) below) is specified as the Index or Index Level (each as defined in condition 8(d) below) in the applicable Final Terms, the following Conditions 8(d) to 8(f) will apply:

(d) Definitions (HICP)

“Base Index Level” means the base index level as specified in the applicable Final Terms;

“Index” or **“Index Level”** means (subject as provided in Condition 8(g)) the Non-revised Index of Consumer Prices excluding tobacco or relevant Successor Index (as defined in Condition 8(f)(ii)), measuring the rate of inflation in the European Monetary Union excluding tobacco, expressed as an index and published by Eurostat (the **“HICP”**). The first publication or announcement of a level of such index for a calculation month (as defined in Condition 8(f)(i)) shall be final and conclusive and later revisions to the level for such calculation month will not be used in any calculations. Any reference to the Index Level which is specified in these Conditions as applicable to any day (**“d”**) in any month (**“m”**) shall, subject as provided in Condition 8(f) below, be calculated as follows:

$$I_d = HICP_{m-t} \left(\frac{nbd}{q_m} \right) \times (HICP_{m-(t-1)} - HICP_{m-t})$$

where:

I_d is the Index Level for the day d

HICP_{m-t} is the level of HICP for month m-t where t has a value of 1 to 24 as specified in the applicable Final Terms

nbd is the actual number of days from and excluding the first day of month m to but including day d; and

q_m is the actual number of days in month m,

provided that if Condition 8(g) applies, the Index Level shall be the Substitute Index Level determined in accordance with such Condition;

“Index Business Day” means a day on which the TARGET2 System is operating;

“Index Determination Date” means, in respect of any date for which the Index Level is required to be determined, the fifth Index Business Day prior to such date;

“Index Ratio” applicable to any date means the Index Level applicable to the relevant Index Determination Date divided by the Base Index Level and rounded to the nearest fifth decimal place, 0.000005 being rounded upwards;

“Related Bond” means an inflation-linked bond selected by the Calculation Agent that is a debt obligation of one of the governments (but not any government agency) of France, Italy, Germany or Spain and which pays a coupon or redemption amount which is calculated by reference to the level of inflation in the European Monetary Union with a maturity date which falls on (a) the same day as the Maturity Date, (b) the next longest maturity date after the Maturity Date if there is no such bond maturing on the Maturity Date, or (c) the next shortest

maturity before the Maturity Date if no bond defined in (a) or (b) is selected by the Calculation Agent. The Calculation Agent will select the Related Bond from such of those inflation-linked bonds issued on or before the relevant Issue Date and, if there is more than one such inflation-linked bond maturing on the same date, the Related Bond shall be selected by the Calculation Agent from such of those bonds. If the Related Bond is redeemed the Calculation Agent will select a new Related Bond on the same basis, but selected from all eligible bonds in issue at the time the originally selected Related Bond is redeemed (including any bond for which the redeemed originally selected Related Bond is exchanged).

(e) Application of the Index Ratio (HICP)

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio applicable to the date on which such payment falls to be made.

(f) Changes in Circumstances Affecting the Index (HICP)

(i) Delay in publication of Index

(a) If the Index Level relating to any month (the “**calculation month**”) which is required to be taken into account for the purposes of the determination of the Index Level for any date (the “**Relevant Level**”) has not been published or announced by the day that is five Business Days before the date on which such payment is due (the “**Affected Payment Date**”), the Calculation Agent shall determine a Substitute Index Level (as defined below) (in place of such Relevant Level) by using the following methodology:

- (1) if applicable, the Calculation Agent will take the same action to determine the “**Substitute Index Level**” for the Affected Payment Date as that taken by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Bond;
- (2) if (1) above does not result in a Substitute Index Level for the Affected Payment Date for any reason, then the Calculation Agent shall determine the Substitute Index Level as follows:

Substitute Index Level = Base Level x (Latest Level / Reference Level) Where:

“**Base Level**” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Level is being determined;

“**Latest Level**” means the latest level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) prior to the month in respect of which the Substitute Index Level is being calculated; and

“**Reference Level**” means the level of the Index (excluding any flash estimates) published or announced by Eurostat (or any successor entity which publishes such index) in respect of the month that is 12 calendar months prior to the month referred to in “Latest Level” above.

- (b) If a Relevant Level is published or announced at any time after the day that is five Business Days prior to the next Interest Payment Date, such Relevant Level will not be used in any calculations. The Substitute Index Level so determined pursuant to this Condition 8(f)(i) will be the definitive level for that calculation month.
- (ii) Cessation of publication: If the Index Level has not been published or announced for two consecutive months or Eurostat announces that it will no longer continue to publish or announce the Index then the Calculation Agent shall determine a successor index in lieu of any previously applicable Index (the “**Successor Index**”) by using the following methodology:
 - (a) if at any time (other than after an Early Termination Event (as defined below) has been designated by the Calculation Agent pursuant to paragraph (e) below) a successor index has been designated by the Calculation Agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Bond, such successor index shall be designated the “Successor Index” for the purposes of all subsequent Interest Payment Dates, notwithstanding that any other Successor Index may previously have been determined under paragraphs (b), (c) or (d) below; or
 - (b) if a Successor Index has not been determined under paragraph (a) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), and a notice has been given or an announcement has been made by Eurostat (or any successor entity which publishes such index) specifying that the Index will be superseded by a replacement index specified by Eurostat (or any such successor), and the Calculation Agent determines that such replacement index is calculated using the same or substantially similar formula or method of calculation as used in the calculation of the previously applicable Index, such replacement index shall be the Index from the date that such replacement index comes into effect; or
 - (c) if a Successor Index has not been determined under paragraphs (a) or (b) above (and there has been no designation of an Early Termination Event pursuant to paragraph (e) below), the Calculation Agent shall ask five leading independent dealers to state what the replacement index for the Index should be. If between four and five responses are received, and of those four or five responses, three or more leading independent dealers state the same index, this index will be deemed the “Successor Index”. If three responses are received, and two or more leading independent dealers state the same index, this index will be deemed the “Successor Index”. If fewer than three responses are received or two or more leading independent dealers do not state the same index, the Calculation Agent will proceed to paragraph (d) below;
 - (d) if no Successor Index has been determined under paragraphs (a), (b) or (c) above on or before the fifth Index Business Day prior to the next Affected Payment Date the Calculation Agent will determine an appropriate alternative index for such Affected Payment Date, and such index will be the “Successor Index”;

- (e) if the Calculation Agent determines that there is no appropriate alternative index, the Issuer and the Bondholders shall, in conjunction with the Calculation Agent, determine an appropriate alternative index. If the Issuer and the Bondholders, in conjunction with the Calculation Agent, do not reach agreement on an appropriate alternative index within a period of ten Business Days, then an **“Early Termination Event”** will have occurred and the Issuer will redeem the Bonds pursuant to Condition 9(b).
- (iii) **Rebasing of the Index:** If the Calculation Agent determines that the Index has been or will be rebased at any time, the Index as so rebased (the **“Rebased Index”**) will be used for the purposes of determining each relevant Index Level from the date of such rebasing; provided, however, that the Calculation Agent shall make such adjustments as are made by the calculation agent (or any other party performing the function of a calculation agent (whatever such party’s title)) pursuant to the terms and conditions of the Related Bond to the levels of the Rebased Index so that the Rebased Index levels reflect the same rate of inflation as the Index before it was rebased. Any such rebasing shall not affect any prior payments made.
- (iv) **Material Modification Prior to Interest Payment Date:** If, on or prior to the day that is five Business Days before an Interest Payment Date, Eurostat announces that it will make a material change to the Index then the Calculation Agent shall make any such adjustments to the Index consistent with adjustments made to the Related Bond.
- (v) **Manifest Error in Publication:** If, within thirty days of publication, the Calculation Agent determines that Eurostat (or any successor entity which publishes such index) has corrected the level of the Index to remedy a manifest error in its original publication, the Calculation Agent will notify (i) the Issuer, the Bond Trustee and the relevant Bondholders of (A) that correction, and (B) the amount that is payable as a result of that correction and (ii) take such other action as it may deem necessary to give effect to such correction.

Where CPI or CPIH is specified as the Index or Index Figure (each as defined below) in the applicable Final Terms, the following Conditions 8(g) to 8(i) will apply:

(g) Definitions (CPI and CPIH)

In these Terms and Conditions:

“Base Index Figure” means, subject as provided in Condition 8(i) below, the base index figure as specified in the applicable Final Terms;

“Calculation Date” means any Interest Payment Date, the Maturity Date or any other date on which principal falls due;

“IFA” means the Index Figure applicable;

“Index” or **“Index Figure”** means, subject as provided in Condition 8(i) below, (i) if U.K. Consumer Price Index is specified in the applicable Final Terms, the Consumer Price Index (**“CPI”**) (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any) or (ii) if U.K. Consumer Price Index including owner occupiers’ housing costs is specified in the applicable Final Terms, the CPI including owner occupiers’ housing costs (**“CPIH”**) (for all items) published by the Office

for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any).

Where CPI is specified as the Index in the applicable Final Terms, any reference to the Index Figure applicable to any Calculation Date shall, subject to Condition 8(i) below, be calculated in accordance with the following formula:

$$IFA = CPI_{m-t} + \frac{(\text{Day of Calculation date} - 1)}{(\text{Days in month of Calculation Date})} \times (CPI_{m-(t-1)} - CPI_{m-t})$$

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

Where:

“**CPI_{m-t}**” means the Index Figure for the first day of the month that is t months prior to the month in which the Calculation Date occurs where t has a value of 1 to 24 as specified in the applicable Final Terms;

Where CPIH is specified as the Index in the applicable Final Terms, any reference to the Index Figure applicable to any Calculation Date shall, subject to Condition 8(i) below, be calculated in accordance with the following formula:

$$IFA = CPIH_{m-t} + \frac{(\text{Day of Calculation date} - 1)}{(\text{Days in month of Calculation Date})} \times (CPIH_{m-(t-1)} - CPIH_{m-t})$$

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

Where:

“**CPIH_{m-t}**” means the Index Figure for the first day of the month that is t months prior to the month in which the Calculation Date occurs where t has a value of 1 to 24 as specified in the applicable Final Terms;

“**Indexed Benchmark Gilt**” means the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange whose average maturity most closely matches that of the Bonds as a gilt-edged market maker or other adviser selected by the Issuer (an “**Indexation Adviser**”) shall determine to be appropriate; and

“**Index Ratio**” applicable to any Calculation Date means the Index Figure applicable to such Calculation Date divided by the Base Index Figure and rounded to five decimal places (0.000005 being rounded upwards).

(h) Application of the Index Ratio (CPI and CPIH)

Each payment of interest and principal in respect of the Bonds shall be the amount provided in or determined in accordance with these Conditions, multiplied by the Index Ratio applicable to the Calculation Date for such payment rounded to five decimal places (0.000005 being rounded upwards).

(i) Changes in circumstances affecting the Index (CPI and CPIH)

(i) *Changes in Circumstances Affecting the Index: change in base:* If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with

effect from the month from and including that in which such substitution takes effect or, as the case may be, from the first date from and including that on which such substitution takes effect:

- (A) the definition of "**Index**" and "**Index Figure**" in Condition 8(g) shall be deemed to refer to the new date, month or year as applicable in substitution for 2015 (or, as the case may be, to such other date, month or year as applicable as may have been substituted therefor); and
 - (B) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.
- (ii) *Changes in Circumstances Affecting the Index: delay in publication of the Index:* If the Index Figure relating to any month (the "**relevant month**") which is required to be taken into account for the purposes of determining the Index Figure for any date (the "**relevant figure**") has not been published on or before the 14th business day before the date on which such payment is due (the "**date for payment**"), the Calculation Agent shall determine a substitute index figure (the "**Substitute Index Figure**") as follows:

Substitute Index Figure=Base Figure ×(Latest Figure/Reference Figure) where:

"**Base Figure**" means the level of the Index published or announced by the National Office of Statistics (or any successor entity which publishes the Index) in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Figure is determined;

"**Latest Figure**" means the latest level of the Index published or announced by the National Office of Statistics (or any successor entity which publishes the Index) prior to the month in respect of which the Substitute Index Figure is being calculated; and

"**Reference Figure**" means the level of the Index published or announced by the National Office of Statistics (or any successor entity which publishes the Index) in respect of the month that is 12 calendar months prior to the month referred to in the definition of Latest Figure above.

- (iii) *Application of Changes:* If:
- (a) an Index Figure having been applied pursuant to paragraph (ii) above, the Index Figure relating to the relevant month, is subsequently published while a Bond is still outstanding; or
 - (b) within 30 days of publication, the National Office of Statistics (or any successor entity which publishes the Index) corrects the level of the Index to remedy a manifest error in its original publication,

then:

- (a) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the

basis of the Substitute Index Figure applicable by virtue of paragraph (ii) above or the Index Figure as originally published, as applicable, above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the 14th business day before the date for payment; and

- (b) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(iv)

(A) If:

- (x) the Bond Trustee has been notified by the Calculation Agent that the Index has ceased to be published; or
- (y) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee, acting solely on the advice of the Indexation Advisor, be materially prejudicial to the interests of the Bondholders,

the Bond Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Bond Trustee together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

- (B) If the Issuer and the Bond Trustee (acting solely on the advice of the Indexation Advisor) fail to reach such agreement within 20 Business Days following the giving of such notice by the Bond Trustee, a bank or other person in London shall be appointed by the Issuer and the Bond Trustee, or, failing agreement on such appointment within 20 Business Days following the expiry of the 20 day period referred to above, by the Bond Trustee (acting solely on the advice of the Indexation Advisor) (in each case, such bank or other person so appointed being referred to as the “**Expert**”), to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert, the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.
- (C) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Bond Trustee (acting solely on the advice on the Expert) may determine, and notify to the Issuer, as appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such

notification and binding upon the Issuer and the other Obligor, the Bond Trustee, the Financial Guarantors, the other Secured Creditors and the Bondholders and the Issuer shall give notice to the Bondholders in accordance with Condition 17 of such amendments as promptly as practicable following such notification.

9 Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Bond (including each Index Linked Redemption Bond and Dual Currency Redemption Bond) will be redeemed by the Issuer at its Final Redemption Amount (subject, in the case of Index Linked Redemption Bonds, to adjustments for indexation in accordance with Condition 8) specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) Early Redemption for Index reasons

If RPI is specified as the Index or Index Figure in the applicable Final Terms and the Index Figure fails to be determined for three consecutive months other than on the basis provided in Condition 8(c)(ii) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased and no amendment or substitution of the Index shall have been advised by the Indexation Adviser to the Issuer, the Issuer may, on any Interest Payment Date upon which the circumstances described above are continuing, having given not more than the maximum period nor less than the minimum period of notice specified in the applicable Final Terms to the Bond Trustee, the Security Trustee, the Majority Creditors and the holders of Index Linked Bonds in accordance with Condition 17 (which notice shall be irrevocable) redeem all, but not some only, of the Index Linked Bonds at their Early Redemption Amount, together with interest accrued up to and including the date of redemption.

If HICP is specified as the Index or Index Level in the applicable Final Terms and if an Early Termination Event as described under Condition 8(f)(ii)(e) has occurred, the Issuer will, upon giving not more than the maximum period nor less than the minimum period of notice specified in the applicable Final Terms to the holders of Index Linked Bonds in accordance with Condition 17, redeem all, but not some only, of the Index Linked Bonds at their Early Redemption Amount together with interest accrued but unpaid up to and including the date of redemption.

If CPI or CPIH is specified as the Index or Index Figure in the applicable Final Terms and the Index Figure fails to be determined for three consecutive months other than on the basis provided in Condition 8(i)(ii) and the Bond Trustee has been notified by the Calculation Agent that publication of the Index has ceased, the Issuer will, upon giving not more than the maximum period nor less than the minimum period of notice specified in the applicable Final Terms to the holders of Index Linked Bonds in accordance with Condition 17, redeem all, but not some only, of the Index Linked Bonds at their Early Redemption Amount together with interest accrued but unpaid up to and including the date of redemption.

(c) Redemption for tax reasons

If the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, (i) in respect of Bonds other than those specified in the applicable Final Terms as USPP Bonds, become obliged to deduct or withhold from any payment of interest or principal (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 any political subdivision thereof, or any other authority thereof, or (ii) in respect of Bonds specified in the applicable Final Terms as USPP Bonds, become obliged to pay additional amounts as described under Condition 10(b) (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision thereof, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Bonds, then the Issuer may, in order to avoid the relevant deduction or withholding (in the case of Bonds which are not USPP Bonds) or additional payment obligation (in the case of USPP Bonds), use its reasonable endeavours to arrange substitution of a company incorporated in another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender or creditor under the Intercompany Loan Arrangements upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 18). If the Issuer is unable to arrange a substitution as described above and, as a result, the relevant deduction, withholding or additional payment obligation (as the case may be) is continuing then the Issuer may, except as otherwise provided in the applicable Final Terms, upon giving not more than the maximum period nor less than the minimum period of notice specified in the applicable Final Terms to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders by the publication of a notice of redemption, in accordance with Condition 17, redeem all (but not some only) of the Bonds on any Interest Payment Date at their Early Redemption Amount plus accrued but unpaid interest thereon.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Bond Trustee, and make available at its specified office to the Bondholders, a certificate signed by two Directors of the Issuer 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. The Bond Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of such conditions precedent in which event they shall be conclusive and binding on the Bondholders, the Receiptholders and the Couponholders.

Bonds redeemed pursuant to this Condition 9(c) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption (adjusted, in the case of Index Linked Bonds, for indexation in accordance with Condition 8 (the Index Ratio for this purpose being that applicable pursuant to (in the case of RPI being the applicable Index or Index Figure) Condition 8(c)(ii)(B), (in the case of HICP being the applicable Index or Index Level) Condition 8(d) or (in the case of CPI or CPIH being the applicable Index or Index Figure) Condition 8(g), in each case, up to and including the date of redemption)).

(d) Redemption at the option of the Issuer (Issuer Call)

This Condition 9(d) applies to Bonds which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons), such option being referred to as an “**Issuer Call**”. The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 9(d) for full information on any Issuer Call. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount, any minimum or maximum amount of Bonds which can be redeemed and the applicable notice periods.

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

- (i) not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Bondholders in accordance with Condition 17; and
- (ii) not less than 15 days before the giving of the notice referred to in (i) above, notice to the Principal Paying Agent and the Bond Trustee and, in the case of a redemption of Registered Bonds, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption and, in the case of the USPP Bonds (as defined in Condition 9(i) below), such notice shall be accompanied by a certificate of a Director of the Issuer as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of redemption) together with details of such computation), redeem all or some only of the Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of the USPP Bonds, the Optional Redemption Amount shall be the outstanding nominal amount of the USPP Bond plus the Make-Whole Amount, if any.

In the case of a partial redemption of Bonds, the Bonds to be redeemed (“**Redeemed Bonds**”) will be selected individually by lot, in the case of Redeemed Bonds represented by definitive Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Bonds represented by a Global Bond, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Bonds represented by definitive Bonds, a list of the serial numbers of such Redeemed Bonds will be published in accordance with Condition 17 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Bonds represented by definitive Bonds or represented by a Global Bond shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Bonds as the aggregate nominal amount of definitive Bonds outstanding and Bonds outstanding represented by such Global Bond, respectively, bears to the aggregate nominal amount of the Bonds outstanding, in each case on the Selection Date, provided that, such first mentioned amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination and the aggregate

nominal amount of Redeemed Bonds represented by a Global Bond shall be equal to the balance of the Redeemed Bonds. No exchange of the relevant Global Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (d) and notice to that effect shall be given by the Issuer to the Bondholders in accordance with Condition 17 at least five days prior to the Selection Date.

Where Spens Price is specified in the applicable Final Terms as being the Optional Redemption Amount, the Optional Redemption Amount in respect of each Bond shall be the higher of the following:

- (i) its outstanding nominal amount (adjusted, in the case of Index Linked Bonds, for indexation in accordance with Condition 8 (the Index Ratio for this purpose being that applicable pursuant to (in the case of RPI being the applicable Index or Index Figure) Condition 8(c)(ii)(B), (in the case of HICP being the applicable Index or Index Level) Condition 8(d) or (in the case of CPI or CPIH being the applicable Index or Index Figure) Condition 8(g), in each case, up to and including the date of redemption); and
- (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to: (1) (in the case of RPI or HICP being the applicable Index or Index Figure) the Gross Redemption Yield at 3.00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such United Kingdom Government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate and (2) (in the case of CPI or CPIH being the applicable Index or Index Figure) the sum of (A) if a Reference Gilt is specified in the applicable Final Terms, the Gross Redemption Yield at 3.00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such United Kingdom Government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee), determine to be appropriate; and (B) such rate as may be specified in the applicable Final Terms.

For the purposes of paragraph (ii) above, “**Gross Redemption Yield**” means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication “*Formulae for Calculating Gilt Prices from Yields*” page 4, Section One, Price/Yield Formulae: “*Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date*” (published 8 June 1998) (as amended or supplemented from time to time), provided that, for the purpose of calculating the Gross Redemption Yield on Index Linked Bonds in respect of which HICP, CPI or CPIH is specified as the applicable Index, any references to RPI (or the U.K. Retail Price Index) therein shall be read and construed as references to HICP, CPI or CPIH (as applicable) if HICP, CPI or CPIH is not covered by such publication; “**Reference Date**” means the date which is two Business Days prior to the despatch of the notice of redemption under this paragraph (d), as the case may be; and “**Reference Gilt**” means the reference gilt specified in the applicable Final Terms.

Where the Global Bond is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Bonds, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, the nominal amount of the Bonds represented by such Global Bond shall be adjusted accordingly.

(e) Early Redemption Amounts

For the purpose of paragraphs (b) and (c) above and following an Event of Default (save as may otherwise be provided in these Conditions), each Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Bond (other than a Zero Coupon Bond with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Bond is denominated), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount (adjusted, in the case of Index Linked Bonds, for indexation in accordance with Condition 8 (the Index Ratio for this purpose being that applicable pursuant to (in the case of RPI being the applicable Index or Index Figure) Condition 8(c)(ii)(B), (in the case of HICP being the applicable Index or Index Level) Condition 8(d) or (in the case of CPI or CPIH being the applicable Index or Index Figure) Condition 8(g), in each case, up to and including the date of redemption)); or
- (ii) in the case of a Zero Coupon Bond, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

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

where:

“**RP**” means the Reference Price;

“**AY**” means the Accrual Yield expressed as a decimal; and

“**y**” is the Day Count Fraction specified in the applicable Final Terms which will be either 30/360 in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Bond becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Bond becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Bond to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Bond becomes due and repayable and the denominator will be 365).

(f) Purchases

The Obligors may at any time purchase Bonds (provided that, in the case of definitive Bearer Bonds, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise provided that the Obligors will not and will not permit any Affiliate to purchase or otherwise acquire, directly or indirectly, any of the outstanding USPP Bonds except pursuant to an offer to purchase made by such Obligor or an Affiliate pro rata to the holders of the USPP Bonds at the time outstanding upon the same terms and conditions to each such holder of the USPP Bonds. Any such offer to the holders of the USPP Bonds shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 30 Business Days. If the holders of more than 25 per cent. of the nominal amount of the USPP Bonds then outstanding accept such offer, the Issuer shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of USPP Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. If purchases are made by tender, tenders must be available to all Bondholders alike.

(g) Cancellation

Bonds which are redeemed will forthwith be cancelled (together with all unmatured Coupons, Receipts and Talons attached thereto or surrendered therewith at the time of redemption). All Bonds so cancelled and any Bonds purchased and cancelled pursuant to paragraph (f) above (together with all unmatured Coupons, Receipts and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(h) Late payment on Zero Coupon Bonds

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

- (i) the date on which all amounts due in respect of such Zero Coupon Bond have been paid; and
- (ii) five days after the date on which the full amount of the monies payable in respect of such Zero Coupon Bond has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Bondholders in accordance with Condition 17.

(i) U.S. Private Placement Holders

This Condition 9(i) is applicable only in relation to Bonds which are specified as being USPP Bonds in the applicable Final Terms.

- (i) *Make-Whole Amount with respect to Non-Swapped Bonds*

The term “**Make-Whole Amount**” means, with respect to any Non-Swapped Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled

Payments with respect to the Called Principal of such Non-Swapped Bond over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount with respect to any Non-Swapped Bond, the following terms have the following meanings:

“Applicable Percentage” means 0.50 per cent. in the case of a computation of the Make-Whole Amount.

“Called Principal” means, with respect to any Non-Swapped Bond, the principal of such Non-Swapped Bond that is to be prepaid pursuant to Condition 9(c) (*Redemption for Tax Reasons*) or Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), as the context requires.

“Discounted Value” means, with respect to the Called Principal of any Non-Swapped Bond that is to be prepaid pursuant to Condition 9(c) (*Redemption for tax reasons*) or Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), as the context requires, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Non-Swapped Bond is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Non-Swapped Bond” means any Bond other than a Swapped Bond. **“Reinvestment Yield”** means:

- (a) with respect to the Called Principal of any Non-Swapped Bond (for GBP Bonds linked to UK Treasury securities), the sum of (x) the Applicable Percentage plus (y) the yield to maturity implied by (i) the gross redemption yield as published in the *Financial Times* on the second Business Day preceding the Settlement Date for actively traded UK Treasury securities having a maturity equal to or closest to the Remaining Average Life of such Called Principal (the **“Reference Stock”**) as of such Settlement Date, or (ii) if (a) the *Financial Times* is not published on that day, or (b) there is a manifest error in the published figures or (c) the calculation in the *Financial Times* ceases to be in keeping with the Formula for the Calculation of Redemption Yields indicated by the Joint Index and Classification Committee of the Faculty of Actuaries as reported in the Journal of the Institute of Actuaries Volume 105, Part I, 1978, Page 18 (the **“Formula”**), the gross redemption yield calculated on the basis of the arithmetic mean (to three decimal places 0.0005 rounded down) of the mid market price for the Reference Stock on a dealing basis by three authorised leading market makers in the gilt-edged market as at or about 11.00 am on the second Business Day preceding the Settlement Date according to the Formula; or
- (b) with respect to the Called Principal of any Non-Swapped Bond (for U.S. \$ Bonds linked to U.S. Treasury securities), the sum of (x) the Applicable Percentage plus

(y) the yield to maturity implied by the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities (“**Reported**”) having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on-the-run U.S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Non-Swapped Bond.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then “**Reinvestment Yield**” means, with respect to the Called Principal of any Non-Swapped Bond, the Applicable Percentage over the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Non-Swapped Bond.

“**Remaining Average Life**” means, with respect to any Called Principal, the number of years obtained by dividing (x) such Called Principal into (y) the sum of the products obtained by multiplying (1) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (2) the number of years, computed on the basis of a 360-day year composed of twelve 30-day months that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“**Remaining Scheduled Payments**” means, with respect to the Called Principal of any Non-Swapped Bond, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided

that if such Settlement Date is not a date on which interest payments are due to be made under the terms of such Non-Swapped Bond, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Condition 9(c) (*Redemption for Tax Reasons*), Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*), Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*).

“Settlement Date” means, with respect to the Called Principal of any Non-Swapped Bond, the date on which such Called Principal is to be prepaid pursuant to Condition 9(c) (*Redemption for Tax Reasons*), Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), as the context requires.

(ii) *Make-Whole Amount with respect to Swapped Bonds*

The term **“Make-Whole Amount”** means, with respect to any Swapped Bond, an amount equal to the excess, if any, of the Swapped Bond Discounted Value with respect to the Swapped Bond Called Notional Amount related to such Swapped Bond over such Swapped Bond Called Notional Amount, provided that the Make-Whole Amount may not in any event be less than zero. All payments of Make-Whole Amount in respect of any Swapped Bond shall be made in U.S. Dollars. For the purposes of determining the Make-Whole Amount with respect to any Swapped Bond, the following terms have the following meanings:

“New Swap Agreement” means any cross-currency swap agreement pursuant to which the holder of a Swapped Bond is to receive payment in U.S. Dollars and which is entered into in full or partial replacement of an Original Swap Agreement as a result of such Original Swap Agreement having terminated for any reason other than a non-scheduled prepayment or a repayment of such Swapped Bond prior to its scheduled maturity, provided that such cross-currency swap agreement must be in form and substance (including commercial terms) satisfactory to the Issuer. The terms of a New Swap Agreement with respect to any Swapped Bond do not have to be identical to those of the Original Swap Agreement with respect to such Swapped Bond.

“Original Swap Agreement” means, with respect to any Swapped Bond, (x) a cross-currency swap agreement and annexes and schedules thereto (an **“Initial Swap Agreement”**) that is entered into on an arm’s length basis by the original purchaser of such Swapped Bond (or any affiliate thereof) in connection with the issuance of the Swapped Bonds and the purchase of such Swapped Bond and relates to the scheduled payments by the Issuer of interest and principal on such Swapped Bond, under which the holder of such Swapped Bond is to receive payments from the counterparty thereunder in U.S. Dollars and which is more particularly described in the Schedule (*Initial Swap Agreement*) to the IAI Investment Letter entered into by the relevant holder of a Swapped Bond, (y) any Initial Swap Agreement that has been assumed (without any waiver, amendment, deletion or replacement of any material economic term or provision thereof) by a holder of a Swapped Bond in connection with a transfer of such Swapped Bond and (z) any Replacement Swap Agreement; and a **“Replacement Swap Agreement”** means, with respect to any Swapped Bond, a cross-

currency swap agreement and annexes and schedules thereto with payment terms and provisions (other than a reduction in notional amount, if applicable) identical to those of the Initial Swap Agreement with respect to such Swapped Bond that is entered into on an arm's length basis by the holder of such Swapped Bond in full or partial replacement (by amendment, modification or otherwise) of such Initial Swap Agreement (or any subsequent Replacement Swap Agreement) in a notional amount not exceeding the outstanding principal amount of such Swapped Bond following a non-scheduled prepayment or a repayment of such Swapped Bond prior to its scheduled maturity. Any holder of a Swapped Bond that enters into, assumes or terminates an Initial Swap Agreement or Replacement Swap Agreement shall within a reasonable period of time thereafter deliver to the Issuer a description of such Initial Swap Agreement or Replacement Swap Agreement, assumption or termination related thereto.

“Swap Agreement” means, with respect to any Swapped Bond, an Original Swap Agreement or a New Swap Agreement, as the case may be.

“Swapped Bond” means any Bond that as of the Funding Date is subject to a Swap Agreement. A “Swapped Bond” shall no longer be deemed a “Swapped Bond” at such time as the related Swap Agreement ceases to be in force in respect thereof and, in the case of an Original Swap Agreement which has terminated, a New Swap Agreement is not entered into in replacement thereof.

“Swapped Bond Applicable Percentage” means 0.50 per cent. in the case of a computation of the Make-Whole Amount.

“Swapped Bond Called Notional Amount” means, with respect to any Swapped Bond Called Principal of any Swapped Bond, the payment in U.S. Dollars due to the holder of such Swapped Bond under the terms of the Swap Agreement to which such holder is a party, attributable to and in exchange for such Swapped Bond Called Principal and assuming that such Swapped Bond Called Principal is paid on its scheduled maturity date, provided that if such Swap Agreement is not an Initial Swap Agreement, then the “Swapped Bond Called Notional Amount” in respect of such Swapped Bond shall not exceed the amount in U.S. Dollars which would have been due to the holder of such Swapped Bond under the terms of the Initial Swap Agreement to which such holder was a party (or if such holder was never party to an Initial Swap Agreement, then the last Initial Swap Agreement to which the most recent predecessor in interest to such holder as a holder of such Swapped Bond was a party), attributable to and in exchange for such Swapped Bond Called Principal and assuming that such Swapped Bond Called Principal is paid on its scheduled maturity date.

“Swapped Bond Called Principal” means, with respect to any Swapped Bond, the principal of such Swapped Bond that is to be prepaid pursuant to Condition 9(c) (*Redemption for tax reasons*) or Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), as the context requires.

“Swapped Bond Discounted Value” means, with respect to the Swapped Bond Called Notional Amount of any Swapped Bond that is to be prepaid pursuant to Condition 9(c)

(*Redemption for tax reasons*) or Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), as the context requires, the amount obtained by discounting all Swapped Bond Remaining Scheduled Swap Payments corresponding to the Swapped Bond Called Notional Amount of such Swapped Bond from their respective scheduled due dates to the Swapped Bond Settlement Date with respect to such Swapped Bond Called Notional Amount, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Swapped Bond is payable) equal to the Swapped Bond Reinvestment Yield with respect to such Swapped Bond Called Notional Amount.

“Swapped Bond Reinvestment Yield” means, with respect to the Swapped Bond Called Notional Amount of any Swapped Bond, the sum of (x) Swapped Bond Applicable Percentage plus (y) the yield to maturity implied by the yields reported, as of 10.00 A.M. (New York City time) on the second Business Day preceding the Swapped Bond Settlement Date with respect to such Swapped Bond Called Notional Amount, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on the Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities (**“Reported”**) having a maturity equal to the Swapped Bond Remaining Average Life of such Swapped Bond Called Notional Amount as of such Swapped Bond Settlement Date.

If there are no such U.S. Treasury securities Reported having a maturity equal to such Swapped Bond Remaining Average Life, then such implied yield to maturity will be determined by (A) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (B) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on the run U.S. Treasury securities with the maturity closest to and greater than the Swapped Bond Remaining Average Life closest to and less than such Swapped Bond Remaining Average Life. The Swapped Bond Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Swapped Bond.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then **“Swapped Bond Reinvestment Yield”** means, with respect to the Swapped Bond Called Notional Amount of such Swapped Bond, the Swapped Bond Applicable Percentage over the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Swapped Bond Called Notional Amount, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Swapped Bond Remaining Average Life of such Swapped Bond Called Notional Amount as of such Swapped Bond Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Swapped Bond Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Swapped Bond Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Swapped Bond Remaining

Average Life. The Swapped Bond Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Swapped Bond.

“Swapped Bond Remaining Average Life” means, with respect to any Swapped Bond Called Notional Amount, the number of years obtained by dividing (x) such Swapped Bond Called Notional Amount into (y) the sum of the products obtained by multiplying (1) the principal component of each Swapped Bond Remaining Scheduled Swap Payments with respect to such Swapped Bond Called Notional Amount by (2) the number of years computed on the basis of a 360 day year composed of twelve 30-day months that will elapse between the Swapped Bond Settlement Date with respect to such Swapped Bond Called Notional Amount and the scheduled due date of such Swapped Bond Remaining Scheduled Payments.

“Swapped Bond Remaining Scheduled Swap Payments” means, with respect to the Swapped Bond Called Notional Amount relating to any Swapped Bond, all payments due to the holder of such Swapped Bond in U.S. Dollars under the terms of the Swap Agreement to which such holder is a party which correspond to all payments of the Swapped Bond Called Principal of such Swapped Bond corresponding to such Swapped Bond Called Notional Amount and interest on such Swapped Bond Called Principal (other than that portion of the payment due under such Swap Agreement corresponding to the interest accrued on the Swapped Bond Called Principal to the Swapped Bond Settlement Date) that would be due after the Swapped Bond Settlement Date in respect of such Swapped Bond Called Notional Amount if no payment of such Swapped Bond Called Principal were made prior to its originally scheduled payment date, provided that if such Swapped Bond Settlement Date is not a date on which interest payments are due to be made under the terms of such Swapped Bonds, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Swapped Bond Settlement Date and required to be paid on such Swapped Bond Settlement Date pursuant to Condition 9(c) (*Redemption for tax reasons*), Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*), Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*).

“Swapped Bond Settlement Date” means, with respect to the Swapped Bond Called Notional Amount of any Swapped Bond Called Principal of any Swapped Bond, the date on which such Swapped Bond Called Principal is to be prepaid pursuant to Condition 9(c) (*Redemption for tax reasons*), Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), as the context requires.

(iii) *Swap Breakage*

If any Swapped Bond is (i) not funded on the Interest Commencement Date (other than due to a holder being unable or unwilling to fund on such date when all conditions precedent to such holder’s funding obligations having been satisfied) or (ii) prepaid pursuant to Condition 9(c) (*Redemption for tax reasons*) or Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or has become or is declared to be immediately due and payable pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), then (a) any resulting Net Loss in connection therewith shall be reimbursed to the holder of such Swapped Bond by the Issuer in U.S. Dollars upon

any such prepayment or repayment of such Swapped Bond and (b) any resulting Net Gain in connection therewith shall be deducted (i) from the Make-Whole Amount, if any, or any principal or interest to be paid to the holder of such Swapped Bond by the Issuer upon any such prepayment of such Swapped Bond pursuant to Condition 9(c) (*Redemption for tax reasons*) or Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*) or (ii) from the Make-Whole Amount, if any, to be paid to the holder of such Swapped Bond by the Issuer upon any such repayment of such Swapped Bond pursuant to Condition 12(a) (*Events of Default*) or Condition 12(d) (*Automatic Acceleration*), provided that, in either case, the Make-Whole Amount in respect of such Swapped Bond may not in any event be less than zero. Each holder of a Swapped Bond shall calculate reasonably and in good faith its own Net Loss or Net Gain, as the case may be, and Swap Breakage Amount in U.S. Dollars upon the prepayment or repayment of all or any portion of such Swapped Bond, and such calculations as reported to the Issuer in reasonable detail shall be binding on the Issuer absent demonstrable error.

As used in this Condition 9(i) with respect to any Swapped Bond that is prepaid or accelerated: “**Net Loss**” means the amount, if any, by which the Swapped Bond Called Notional Amount exceeds the sum of (x) the Swapped Bond Called Principal plus (or minus in the case of an amount paid) (y) the Swap Breakage Amount received (or paid) by the holder of such Swapped Bond; and “**Net Gain**” means the amount, if any, by which the Swapped Bond Called Notional Amount is exceeded by the sum of (x) the Swapped Bond Called Principal plus (or minus in the case of an amount paid) (y) the Swap Breakage Amount received (or paid) by such holder. For purposes of any determination of any “Net Loss” or “Net Gain,” the Swapped Bond Called Principal shall be determined by the holder of the affected Swapped Bond reasonably and in good faith by converting Sterling into U.S. dollars at the current Sterling/U.S. dollar exchange rate, as determined as of 10:00 A.M. (New York City time) on the day such Swapped Bond is prepaid or accelerated as indicated on the applicable screen of Bloomberg Financial Markets and any such calculation shall be reported to the Issuer in reasonable detail and shall be binding on the Issuer absent demonstrable error.

As used in this Condition 9(i), “**Swap Breakage Amount**” means, with respect to the Swap Agreement associated with any Swapped Bond, in determining the Net Loss or Net Gain, the amount that would be received (in which case the Swap Breakage Amount shall be positive) or paid (in which case the Swap Breakage Amount shall be negative) by the holder of such Swapped Bond as if such Swap Agreement had terminated due to the occurrence of an event of default or an early termination under the ISDA 1992 Multi-Currency Cross Border Master Agreement or ISDA 2002 Master Agreement, as applicable (the “**ISDA Master Agreement**”); provided, however, that if such holder (or its predecessor in interest with respect to such Swapped Bond) was, but is not at the time, a party to an Original Swap Agreement but is a party to a New Swap Agreement, then the Swap Breakage Amount shall mean the lesser of (x) the gain or loss (if any) which would have been received or incurred (by payment, through off-set or netting or otherwise) by the holder of such Swapped Bond under the terms of the Original Swap Agreement (if any) in respect of such Swapped Bond to which such holder (or any affiliate thereof) was a party (or if such holder was never a party to an Original Swap Agreement, then the last Original Swap Agreement to which the most recent predecessor in interest to such holder as a holder of a Swapped Bond was a party) and

which would have arisen as a result of the payment of the Swapped Bond Called Principal on the Swapped Bond Settlement Date and (y) the gain or loss (if any) actually received or incurred by the holder of such Swapped Bond, in connection with the payment of such Swapped Bond Called Principal on the Swapped Bond Settlement Date, under the terms of the New Swap Agreement to which such holder (or any affiliate thereof) is a party. The holder of such Swapped Bond will make all calculations related to the Swap Breakage Amount reasonably and in good faith and in accordance with its customary practices for calculating such amounts under the ISDA Master Agreement pursuant to which such Swap Agreement shall have been entered into and assuming for the purpose of such calculation that there are no other transactions entered into pursuant to such ISDA Master Agreement (other than such Swap Agreement).

The Swap Breakage Amount shall be payable in U.S. Dollars.

(iv) *Deferred Funding Date*

(a) *On the Documentation Closing Date*

The Definitive IAI Registered Bonds in respect of the Bonds (the “**Relevant Definitive IAI Registered Bonds**”) shall be delivered by, or on behalf of, the Issuer to a professional legal firm or to a Relevant Dealer (the “**Escrow Agent**”) to be held in escrow for the holders of the Bonds until the Funding Date, provided that:

- (i) no holder of the Bonds or the Issuer shall have any entitlement to receive any Relevant Definitive IAI Registered Bond except in accordance with this Condition 9(i) (iv); and
- (ii) the Escrow Agent delivers to the Issuer, promptly upon receipt of such Relevant Definitive IAI Registered Bonds and in any event, no later than 4.00 p.m. (London time) a letter substantially in the form agreed between the Escrow Agent and the Issuer, confirming, among other things, receipt by the Escrow Agent of such Relevant Definitive IAI Registered Bonds.

(b) *On the Funding Date*

Each holder of the Relevant Definitive IAI Registered Bond shall, on or prior to the Funding Date, credit to the account of the Relevant Dealer (as notified by the Relevant Dealer to each such holder prior to the Funding Date) payment in respect of the Bonds.

The Relevant Dealer shall by no later than 10.00 a.m. (London time), or any later time that has been agreed in writing by the parties (the “**Funding Deadline**”), on the Funding Date, credit to the account of the Issuer (as notified by the Issuer to the Relevant Dealer prior to the Documentation Closing Date) in the Specified Currency and in immediately available cleared funds an amount equal to the Aggregate Nominal Amount of the Bonds as specified in the applicable Final Terms.

Promptly following receipt of the Aggregate Nominal Amount of the Bonds, the Issuer shall deliver a letter to the Escrow Agent:

- (i) confirming receipt of such amount; and

- (ii) giving instructions to the Escrow Agent to release the Relevant Definitive IAI Registered Bonds to the respective holders of the Bonds.

(c) *Return of Relevant Definitive IAI Registered Bonds*

If the Issuer has not received the Aggregate Nominal Amount of the Bonds by 8.00 p.m. (London time), or any later time that has been agreed in writing by the parties, on the Funding Date:

The Escrow Agent shall:

- (i) promptly deliver each Relevant Definitive IAI Registered Bond in respect of the Bonds to the Issuer; and
- (ii) promptly notify (a) the Issuer, (b) the Registrar, (c) the Bond Trustee and the Security Trustee that each Relevant Definitive IAI Registered Bond has so been returned, and

the Issuer shall procure that the Registrar, following receipt of the notification to it by the Escrow Agent in Condition 9(i)(iv)(c)(ii) above, cancel each Relevant Definitive IAI Registered Bond and update the Register accordingly.

(d) *No obligation to release and deliver the Relevant Definitive IAI Registered Bonds by the Escrow Agent*

In no circumstance will the Escrow Agent be obliged to release and deliver the Relevant Definitive IAI Registered Bonds to any holder of the Bonds unless each of the following conditions are met and are continuing:

- (i) the Relevant Dealer has received payment in respect of the Aggregate Nominal Amount of the Bonds from all the relevant holders of the Bonds on or before the Funding Deadline; and
- (ii) the Issuer has received an amount equal to the Aggregate Nominal Amount of the Bonds in an account in its name.

(e) *No Liability*

No Liability and no Secured Liability shall arise on the part of the Issuer or any other Obligor or shall be owed by the Issuer or any Obligor to the holder of a Relevant Definitive IAI Registered Bond (including, without limitation, under Final Terms or any Finance Document to which a holder of the Relevant Definitive IAI Registered Bond is a party) until the Funding Date, provided that the steps set out in Condition 9(i)(iv)(b) are satisfied.

(f) *Definitions*

For the purposes of this paragraph (iv):

“**Aggregate Nominal Amount**” has the meaning given to it in applicable Final Terms;

“**Documentation Closing Date**” means the day prior to the Issue Date;

“**Funding Date**” means the Interest Commencement Date;

“**Liability**” has the meaning given to it in the Master Definitions Agreement;

“**Obligor**” has the meaning given to it in the Master Definitions Agreement;

“**Relevant Dealer**” means in the case of an issue of Bonds, a Dealer agreeing to act as an escrow agent for the Bonds;

“**Register**” has the meaning given to it in the Master Definitions Agreement; and

“**Secured Liability**” has the meaning given to it in the Master Definitions Agreement; and

“**Specified Currency**” means the currency specified in the applicable Final Terms.

(j) Redemption by Instalments

Unless previously redeemed or purchased and cancelled as provided in this Condition 9 (*Redemption and Purchase*), each Bond which provides for Instalment Dates (as specified in the relevant Final Terms) and Instalment Amounts (as specified in the relevant Final Terms) will be partially redeemed on each Instalment Date at the applicable Instalment Amount (subject, in the case of Index Linked Redemption Bonds, to adjustments for indexation in accordance with Condition 8) specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency. In the case of any early redemption in part in accordance with Condition 9(d) (*Redemption at the option of the Issuer (Issuer Call)*), the principal amount redeemed (prior to any adjustments for indexation, if applicable) shall reduce *pro rata* the principal amount of each Instalment Amount (prior to any adjustments for indexation, if applicable) falling due after the relevant redemption date.

10 Taxation

(a) Bonds (other than USPP Bonds)

This Condition 10(a) shall apply in relation to Bonds which are not specified as being USPP Bonds in the applicable Final Terms.

All payments of principal and interest in respect of the Bonds, Receipts and Coupons by the Issuer and the other Obligors or by any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or any Financial Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the other Obligors, or else any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor shall make 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 or the other Obligors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the relevant Financial Guarantor will be obliged to make any additional payments to the Bondholders, the Receiptholders or the Couponholders in respect of such withholding or deduction. Except as otherwise provided in the applicable Final Terms, the Issuer or the other Obligors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the relevant Financial Guarantor 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.

Notwithstanding any other provisions of the Terms and Conditions of the Bonds, any amounts to be paid on the Bonds by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA withholding.

(b) **USPP Bonds**

This Condition 10(b) shall apply in relation to Bonds which are specified as being USPP Bonds in the applicable Final Terms.

All payments of principal and interest in respect of the Bonds by the Issuer and the other Obligors or by any Paying Agent, the Registrar, the Bond Trustee or the Security Trustee will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In that event the Issuer or, as the case may be, any other Obligor shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(i) **Other connection**

held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the United Kingdom, other than the mere holding of the Bond; or

(ii) **Surrender more than 30 days after the Relevant Date**

presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Definitive IAI Registered Bond representing such Bond for payment on the last day of such period of 30 days.

As used herein:

“**Relevant Date**” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Definitive IAI Registered Bond representing such Bond being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

“**Tax Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

Any reference in the Conditions to principal, premium and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking which may be given in addition to or substitution for it under the Bond Trust Deed.

Notwithstanding any other provisions of the Terms and Conditions of the Bonds, any amounts to be paid on the Bonds by or on behalf of the Issuer, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

11 Prescription

The Bonds (whether in bearer or registered form), Coupons and Receipts will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined below) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

As used herein, the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the monies payable has not been duly received by the Bond Trustee or the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such monies having been so received, notice to that effect is duly given to the Bondholders in accordance with Condition 17.

12 Events of Default

The Events of Default relating to the Bonds are set out in Schedule 7 of the Common Terms Agreement.

Following the notification of an Event of Default, the STID provides for a Standstill Period to commence and for restrictions to apply to all Secured Creditors. (See Chapter 6.3, “*Financing Structure — Security Trust and Intercreditor Deed*” for details of the extension and termination of the Standstill and for details of the relevant Instructing Groups permitted to instruct the Security Trustee during a Standstill). The Common Terms Agreement also contains various Trigger Events that will, if they occur, (amongst other things) permit the Majority Creditors to commission an Independent Review, require Anglian Water Services to discuss its plans for appropriate remedial action and prevent the AWS Services Financing Group from making further Restricted Payments.

(a) Events of Default

If any Event of Default (as defined in the Master Definitions Agreement) occurs and is continuing, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the Bond Trust Deed and the STID), having certified in writing that in its opinion the happening of such event is materially prejudicial to the interests of the Bondholders and shall upon the Bond Trustee being so directed or requested, (i) by an Extraordinary Resolution (as defined in the Bond Trust Deed) of holders of the relevant Series of Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the relevant Series of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds and subject, in each case, to being indemnified and/or secured to its satisfaction, give notice to the Issuer and the Security Trustee that the Bonds of the relevant Series are, and they shall immediately

become, due and repayable, at their respective Early Redemption Amounts plus accrued and unpaid interest thereon.

(b) Confirmation of no Event of Default

The Issuer shall provide written confirmation to the Bond Trustee, on an annual basis, that no Event of Default or other matter which is required to be brought to the Bond Trustee's attention pursuant to the terms of the Finance Documents has occurred.

(c) Enforcement of Security

If the Bond Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Bonds of any Series, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting on the instructions of the Majority Creditors.

(d) Automatic Acceleration

In the event of the acceleration of the Secured Liabilities (other than a Permitted Acceleration as set out in the STID), the Bonds of each Series shall automatically become due and repayable at their respective Early Redemption Amounts plus accrued and unpaid interest thereon or as specified in the applicable Final Terms.

13 Recourse Against Issuer

No Bondholder, Receiptholder or Couponholder is entitled to take any action against the Issuer or against any assets of the Issuer to enforce its rights in respect of the Bonds or to enforce any of the Security unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails, is unable or neglects to do so within 60 days and such failure, neglect or inability is continuing.

14 Replacement of Bonds, Coupons, Receipts and Talons

Should any Bond, Coupon, Receipt or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable terms and stock exchange requirements at the specified office of the Principal Paying Agent (in the case of Bearer Bonds or Coupons) or the Registrar (in the case of Registered Bonds) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

15 Agents

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in the applicable Final Terms.

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

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Bonds) and a Transfer Agent (in the case of Registered Bonds) with a specified office in such place

as may be required by the rules and regulations of the relevant stock exchange or, as the case may be, other relevant authority; and

- (c) so long as any of the Registered Global Bonds payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Bondholders in accordance with Condition 17.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the other Obligors and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Bondholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

16 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bond to which it appertains) a further Talon, subject to the provisions of Condition 11.

17 Notices

All notices regarding the Bearer Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Bonds are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Bond Trustee shall approve.

All notices regarding the Registered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fifth day after mailing (or as specified in the applicable Final Terms) and, in addition, for so long as any Registered Bonds are listed on a stock exchange or admitted to listing by any other relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Bonds are issued, there may, so long as any Global Bonds representing the Bonds are held in their entirety on behalf of Euroclear and/or Clearstream,

Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Bonds and, in addition, for so long as any Bonds are listed on a stock exchange or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Bonds on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together (in the case of any Bond in definitive form) with the relative Bond or Bonds, with the Principal Paying Agent (in the case of Bearer Bonds) or the Registrar (in the case of Registered Bonds). Whilst any of the Bonds are represented by a Global Bond, such notice may be given by any holder of a Bond to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

18 Meetings of Bondholders, Modification, Waiver and Substitution

(a) Decisions of Majority Creditors

The STID contains provisions dealing with the manner in which matters affecting the interests of the Secured Creditors (including the Bond Trustee and the Bondholders) will be dealt with. Bondholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (and additionally in a Default Situation decisions made pursuant to the Emergency Instructions Procedures). (For details see Chapter 6.3, “*Financing Structure*” – “*Security Trust and Intercreditor Deed*”, under 6.3.6, “*Class A Debt Instructing Group*”, 6.3.7, “*Class B Debt Instructing Group*”, 6.3.19, “*Entrenched Rights*”, 6.3.20, “*Reserved Matters*” and 6.3.9, “*Emergency Instruction Procedure*” of Chapter 6 “*Financing Structure*”).

In the circumstances which do not relate to Entrenched Rights or Reserved Matters of the Bondholders (as set out in the STID), prior to a Default Situation, the Bond Trustee shall be entitled to vote as the DIG Representative of holders of Bonds (other than the USPP Bonds) on intercreditor issues (“**Intercreditor Issues**”) but shall not be entitled to convene a meeting of any one or more Series of Bondholders to consider the relevant matter. To the extent that a Default Situation has occurred and is subsisting, the Bond Trustee may vote on Intercreditor Issues in its absolute discretion or shall vote in accordance with a direction by those holders of such outstanding Class A Bonds (other than USPP Bonds) or, if there are no Class A Bonds outstanding, Class B Bonds (i) by means of an Extraordinary Resolution of the relevant Series of Bonds or (ii) (in respect of a DIG Proposal to terminate Standstill) as requested in writing by the holders of at least one quarter of the Outstanding Principal Amount of the relevant Series of Class A Bonds, or if there are no Class A Bonds outstanding, Class B Bonds. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured to its satisfaction.

Whilst a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an emergency instruction

procedure. The Security Trustee will be required to act upon instructions contained in an emergency notice (an “**Emergency Instruction Notice**”). An Emergency Instruction Notice must be signed by DIG Representatives (the “**EIN Signatories**”) representing 66⅔ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or following repayment in full of the Class A Debt, the Qualifying Class B Debt after, inter alia, excluding the proportion of Qualifying Debt in respect of which the Bond Trustee is the DIG Representative and in respect of which the Bond Trustee has not voted. The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that, unless such action is taken within the time frame specified in the Emergency Instruction Notice, the interests of the EIN Signatories will be materially prejudiced.

(b) Meetings of Bondholders, Modification and Waiver

The Bond Trust Deed contains provisions for convening meetings of the Bondholders (including by means of audio or video conference call) to consider any matter affecting their interests, including the modification of the Bonds, the Coupons, the Receipts or any of the provisions of the Bond Trust Deed and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID), subject to the terms of the STID and subject to the provisions concerning ratification and/or meetings of particular combinations of Series of Bonds as set out in Condition 19(b) and the Bond Trust Deed) be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond 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 Bond Trustee or the Issuer, and shall be convened by the Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds 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 not less than 50 per cent. in nominal amount of the relevant Bonds for the time being outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the nominal amount of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5 of the Third Schedule to the Bond Trust Deed (the “**Basic Terms Modifications**”) in respect of the holders of any particular Series of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Series of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond 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 Bondholders.

For the avoidance of doubt, the requirements set out in this Condition 18 do not apply to amendments to the Conditions and/or the Bond Trust Deed that are made pursuant to Condition 6(b)(iii)(D).

(c) Modification, consent and waiver

As more fully set out in the Bond Trust Deed (and subject to the conditions and qualifications therein), the Bond Trustee may, without the consent of the Bondholders of any Series, concur with the Issuer or any other relevant parties in making (i) any modification of these Conditions, the Bond Trust Deed, or any Finance Document which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) (except as mentioned in the Bond Trust Deed and subject to the terms of the STID) any other modification and granting any consent under or waiver or authorisation of any breach or proposed breach of these Conditions, the Bond Trust Deed, or any such Finance Document or other document which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders of that Series. In addition, the Bond Trustee shall be obliged to concur with the Issuer to effect any Benchmark Amendments in the circumstances and as otherwise set out in Condition 6(b)(iii)(D) without the consent or approval of the Bondholders. Any such modification, consent, waiver or authorisation shall be binding on the Bondholders of that Series, and the holders of all relevant Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Series as soon as practicable thereafter.

The Bond Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is not materially prejudicial to the Bondholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Bonds.

(d) Substitution of the Issuer

As more fully set forth in the STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Issuer, without reference to the Bondholders, to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series and subject to the Class A Wrapped Bonds continuing to carry the unconditional guarantee of the relevant Financial Guarantor.

19 Bond Trustee Protections

(a) Trustee considerations

Subject to the terms of the STID and Condition 19(b), in connection with the exercise, under these Conditions, the Bond Trust Deed or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the relevant Series of Class A Bonds, or if there are no Class A Bonds outstanding, the relevant Series of the Class B Bonds then outstanding provided that, if the Bond Trustee considers, in its sole opinion, that there is a conflict of interest between the holders of one or more Series of Bonds, it shall consider the interests of the holders of the Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds outstanding with the shortest dated maturity and will not have regard to the consequences of such exercise for the holders of other Series of Bonds or for individual Bondholders 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 Bond Trustee shall not be entitled to require from the Issuer or any Financial Guarantor, nor shall any Bondholder be entitled to claim from the Issuer, any Financial Guarantor or the Bond Trustee,

any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) Exercise of rights by Bond Trustee

Except as otherwise provided in these Conditions and/or the Bond Trust Deed, when exercising any rights, powers, trusts, authorities and discretions relating to or contained in these Conditions or the Bond Trust Deed (other than in determining or in respect of any Entrenched Right or Reserved Matter relating to the Bonds or any other Basic Terms Modification), the Bond Trustee shall act only in accordance with the provisions of the Bond Trust Deed and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting. The Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Series of Bonds. Subject as provided in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed and the Conditions in accordance with the directions of the relevant Series of Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (i) (a) (in respect of the matters set out in Condition 12 and Condition 18(a) only) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Series of Bonds outstanding or (b) been so directed by an Extraordinary Resolution of the relevant Series of Bondholders and (ii) been indemnified and/or furnished with security to its satisfaction.

(c) Decisions under STID binding on all Bondholders

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Bond Trustee and the Bondholders, decisions of the Majority Creditors and (in a Default Situation) decisions made pursuant to the Emergency Instructions Procedures will bind the Bond Trustee and the Bondholders in all circumstances.

20 Indemnification and Exoneration of the Bond Trustee and Security Trustee

(a) Indemnification of the Bond Trustee

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings or any other action or steps against the Issuer, any Financial Guarantor and/or any other person unless indemnified and/or secured to its satisfaction. The Bond Trustee or any of its affiliates is entitled to enter into business transactions with the Issuer, any Financial Guarantor, the other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

(b) 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 so instructed in writing to act by the Majority Creditors or the Secured Creditors (or their representatives) (as appropriate) and if indemnified and/or furnished with security to its satisfaction.

(c) Directions, Duties and Liabilities

Neither the Security Trustee nor the Bond 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 the Secured Creditors (or their representatives) (as appropriate), 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 Bond Trustee pursuant to the STID, any Finance Document or any ancillary document.

(d) Reliance and Exoneration

The Bond Trust Deed and the STID contain various protective provisions which exclude or limit the liability of the Bond Trustee and the Security Trustee, including, without limitation, provisions which allow the Bond Trustee and the Security Trustee to obtain and rely and act on advice from legal or other expert advisors and to rely and act on certificates provided by directors of the Issuer and/or the Obligors.

21 Further Issues

The Issuer shall be at liberty from time to time without the consent of the Bondholders, the Receiptholders or the Couponholders to create and issue further bonds having terms and conditions the same as the Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Bonds.

22 Contracts (Rights of Third Parties) Act 1999

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

23 Governing Law

The Bond Trust Deed, the Security Agreement, the Common Terms Agreement, the STID, the Agency Agreement, the Bonds, the Receipts and the Coupons and any other Finance Documents and any non-contractual obligations arising out of or in connection with the Bond Trust Deed, the Agency Agreement, the Bonds, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

24 Submission to jurisdiction

- (a) Subject to Condition 24(b) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Bond Trust Deed, the Security Agreement, the Common Terms Agreement, the STID, the Agency Agreement, the Bonds, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Bond Trust Deed, the Security Agreement, the Common Terms Agreement, the STID, the Agency Agreement, the Bonds, the Receipts and/or the Coupons (a “**Dispute**”) and accordingly each of the Issuer, the Bond Trustee, the Security Trustee and any Bondholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) To the extent allowed by law, the Bondholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.
- (c) The registered office of AWS is Lancaster House, Lancaster Way, Ermine Business Park, Huntingdon, Cambridgeshire, PE26 6XU.

CHAPTER 9

USE OF PROCEEDS

The net proceeds from each issue of Bonds will be on-lent to Anglian Water under the terms of the Issuer/Anglian Water Loan Agreement as part of the Intercompany Loan Arrangements to be applied by Anglian Water for its general corporate purposes. See Chapter 6.1, “*Financing Structure – The Anglian Water Services Financing Group*”.

If, in respect of an issue of Bonds, there is a particular use of proceeds, this will be stated in the applicable Final Terms.

Where the applicable Final Terms denote a Series of Bonds as Sustainable Bonds” (“**Sustainable Bonds**”), the allocation of net proceeds from such issue of Bonds will be to the financing and/or refinancing of, and/or investment in, the Sustainable Categories (as defined below) meeting the Eligibility Criteria (as defined below).

For the purposes of this Chapter:

“**Eligible Projects**” means sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment sustainable urban drainage systems and river training and other forms of flooding mitigation which meet the Eligibility Criteria.

“**Sustainable Categories**” means a portfolio of one or more Eligible Green Projects.

“**Eligibility Criteria**” means the criteria prepared by the Issuer and/or AWS as set out in the Anglian Water/Anglian Water Services Financing Sustainability Finance Framework (available on the Issuer’s website at: www.anglianwater.co.uk).

A third party consultant will review the Eligibility Criteria published as at the date of this Prospectus, and in respect of any particular issue of Sustainable Bonds, such third party consultant will review the Sustainable Category and issue a report and/or opinion based on the Eligibility Criteria (an “**External Review**”). The External Review will be made available on the Issuer's website at www.anglianwater.co.uk.

Pending allocation of the net proceeds of an issue of Sustainable Bonds for investment in the Sustainable Category, AWS will hold such net proceeds in the Capex Reserve Account, at its discretion, in the form of cash or cash equivalent investments (as permitted under the Common Terms Agreement) pending any transfer to the Payment Account in accordance with the terms of the Common Terms Agreement. The Issuer and/or AWS will establish systems to monitor and account for the net proceeds for investment in the Sustainable Category meeting the Eligibility Criteria.

The Issuer is expected to issue a report on: (i) the Sustainable Category to which proceeds of Sustainable Bonds have been allocated and the amounts allocated; (ii) the expected impact of the Sustainable Category on the environment; and (iii) the balance of unallocated cash and/or cash equivalent investments. Such report will be issued within one year from the date of an issuance of the relevant Series of Sustainable Bonds, and annually thereafter, until the net proceeds of such issuance of Sustainable Bonds have been allocated in full, and as necessary thereafter in the event of material developments. In addition, the Issuer is expected to provide regular information through its website www.anglianwater.co.uk on the environmental outcomes of the Sustainable Category.

For the avoidance of doubt, any External Review and the Anglian Water/Anglian Water Services Financing Sustainability Finance Framework referred to above are not incorporated into, and do not form part of, this Prospectus.

CHAPTER 10

REGULATION OF THE WATER AND WATER RECYCLING INDUSTRY IN ENGLAND AND WALES

10.1 Water and Water Recycling Regulation Generally

10.1.1 Background

The current structure of the water and water recycling industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. Before this, as a consequence of the Water Act 1973 there were ten regional public sector Water Authorities supplying water and water recycling services and 29 privately owned statutory water companies supplying water only. Under the Water Act 1989, the functions of the Water Authorities relating to water supply (except in areas where those functions were carried out through statutory water companies) and water recycling services, together with the majority of the Water Authorities' property, rights and liabilities, were transferred to ten companies appointed as water and water recycling undertakers in England and Wales. As at August 2020 Ofwat recognised eleven large regional companies providing water and sewerage services, six regional companies providing water services only (following some recent consolidation) and nine local companies providing water or sewerage or both (together the **"Regulated Companies"**) as well as 41 water supply and/or sewerage licensees offering regulated retail services to non-household customers (some of which only supply a sole principal) and one infrastructure provider. The provisions of the Water Act 1989 are now contained mainly in the consolidated WIA which itself has been substantially amended by the Water Industry Act 1999, the Water Act 2003, the FWM Act 2010, the Water Act 2014 and to a lesser extent by various other statutory provisions. References in this section to statutes are to the WIA, as amended, unless otherwise stated. The Water Act 2014 introduced a new, more liberalised market structure and vested more powers and responsibilities in Ofwat. These included market reform measures intended to increase competition in the water sector. In particular, it introduced a revised water supply licensing regime to open up retail and wholesale competition in relation to the supply to all non-household customers in England. It also facilitates bulk supply agreements and mains connections agreements and revised and extended the rules relating to charges imposed by water undertakers. The Water Act 2014 also strengthened Ofwat's enforcement powers by extending the period of time for which companies are liable to receive financial penalties. Finally, the Act reformed the special water merger regime, by introducing an enhanced discretion on the CMA not to refer water mergers to a second phase investigation and enabling the CMA to accept undertakings in lieu of a reference. Before making such a decision, the CMA must consult with Ofwat. Since this change, a small number of mergers have been considered under the new regime, with the Severn Trent/Dee Valley merger, which was cleared on 22 December 2016, being the first.

The most visible impact of the Water Act 2014 has been the non-household retail market which opened to competition in April 2017. This new market structure provides a choice for occupiers of any (not just large) non-household premises to choose their provider as far as a retail service (for both water supply and sewerage) is concerned. These providers, or "water supply and/or sewerage licensees", comprise not only the

original twelve licensees that served large-use customers before April 2017, but many new entrants.

On 31 October 2016, the Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016 entered into force (“**Exit Regulations**”). The Exit Regulations permitted water and sewerage undertakers whose areas are wholly or mainly in England to apply to the Secretary of State for permission to exit the non-household retail market in their area of appointment. Subject to the approval of the Secretary of State, the undertaker would exit the retail market by transferring its non-household retail business to one or more water supply and/or sewerage licensees and would thereafter be prohibited from providing retail services to any new non-household customers that arise in its area of appointment.

The Exit Regulations also introduced provisions that set out how the non-household retail market should operate in an exit area. These in particular ensure that customers in exit areas are never left without a licensee and provide customer protections that are broadly equivalent to those they would have been provided if the undertaker had not exited the retail market.

On 31 March 2017, Anglian Water exited the non-household retail market in accordance with the Exit Regulations, and transferred its non-household retail business for fair value to AWB(N), an associated company outside of the AWS Financing Group. On 31 August 2017, Anglian Venture Holdings Limited (the parent company of AWB(N)) agreed to transfer its shares in AWB(N) to a joint venture company – Wave Ltd. At the same time, the joint venture partner – Northumbrian Water Group Limited – also transferred its non-household business (NWG Business Limited) to Wave Ltd. Anglian Water continues to make wholesale supplies of water and water recycling services to Wave Ltd for onwards sale to non-household customers of Wave Ltd, as well as to other water supply and/or sewerage licensees operating in its area of appointment.

10.1.2 Regulatory Framework

The activities of Regulated Companies are principally regulated by the provisions (as amended) of the WIA, the Water Resources Act 1991 and regulations made under these Acts and the conditions of their licences (also referred to as ‘Instruments of Appointment’). Under the WIA, the Secretary of State has a duty to ensure that at all times there is an appointee for every area of England and Wales. Appointments may be made by the Secretary of State or by Ofwat in accordance with a general authorisation given by the Secretary of State.

Ofwat is the economic regulator for the water and water recycling industry and is responsible for, *inter alia*, setting limits on charges and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat of financial and non-financial information (the ‘annual performance report’) to enable Ofwat to assess their activities. The two principal quality regulators are the Drinking Water Inspectorate (“**DWI**”) which is appointed by the Secretary of State for the Environment, Food and Rural Affairs (“**DEFRA**”) and the Environment Agency (“**EA**”). The DWI’s principal task is to ensure that Regulated Companies in England and Wales are fulfilling their statutory requirements under the

WIA and the Water Quality Regulations for the supply of wholesome drinking water. The DWI is part of DEFRA and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. It carries out technical audits of each water undertaker. This includes an assessment (based on information supplied by the company) of the quality of water in each supply zone, arrangements for sampling and analysis, and progress made on achieving compliance with regulatory and EU requirements. The EA was established under the Environment Act 1995 and is responsible, in England, for the protection and improvement of the environment. Its duties include the management and regulation of water abstractions from, and discharges to, controlled waters. Controlled waters include coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater.

The description given in this document relates to the structure and regulations that apply in England. Although the structure of the water and water recycling industry is the same in Wales, different regulations sometimes apply. There are different structures and different regulatory frameworks for water and water recycling services in the remainder of the United Kingdom (Scotland and Northern Ireland).

10.2 Ofwat and the Secretary of State

Each of the Secretary of State and Ofwat has a primary duty under the WIA to exercise and perform its powers and duties under the WIA and the Water Act 2014 in the manner it considers best calculated to:

- (a) further the consumer objective to protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- (b) ensure that the functions of Regulated Companies are properly carried out throughout England and Wales;
- (c) ensure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions;
- (d) ensure that the activities authorised by the licence of a water supply licensee or sewerage licensee (see Chapter 10.9.2, “*The Water Act 2003*” below) and any statutory functions imposed on it are properly carried out; and
- (e) secure the long-term resilience of water supply and sewerage systems against environmental pressures, population growth and changes in consumer behaviour.

10.3 Licences

10.3.1 General

Under the WIA, each Regulated Company is appointed as a water and/or sewerage undertaker pursuant to an instrument of appointment. The instrument of appointment is commonly referred to as a licence (and is referred to as such herein). Each Regulated Company is regulated through the conditions of its licence as well as under the WIA. Each Regulated Company’s licence specifies the geographic area served by the company and imposes a number of conditions on the licence holder that relate to limits on charges, information reporting requirements, the provision of information to

customers, and other matters. The main provisions of Anglian Water's Licence are typical of those of other licences. In addition to the conditions regulating price controls (see Chapter 10.7, "*Economic Regulation*", below), Anglian Water's Licence imposes prohibitions on undue discrimination and undue preference in charging. Other matters covered by conditions in the Licence include: the provision of information to customers; "ring-fencing" of the appointed business from non-regulated companies; restrictions on disposal of land; asset management plans; the provision of information to Ofwat; and payments to customers for supply interruptions because of drought. Ofwat is responsible for monitoring compliance with licence conditions and, where necessary, enforcing compliance through procedures laid down in the WIA (see Chapter 10.4, "*Enforcement Powers*" below).

The Water Act 2003 introduced new forms of licences that were required to be held by new entrants on the water supply side of the industry engaged in common carriage or retail activities (see Chapter 10.9.2, "*The Water Act 2003*" below). Major changes have been introduced under the Water Act 2014. It replaced the regime for licensed water supply with a similar regime of water supply licensing, but also introduced a similar regime for sewerage licensing – see above. Consequently, Ofwat has published and implemented an updated series of changes to all Regulated Companies' licences. These are discussed in greater detail in paragraph 10.3.4. Ofwat also introduced a standard form of licence for retailers.

Since the implementation of the Water Act 2014, regulation of charging has been increasingly effected by way of charging rules (provided for by statute), rather than by statute itself or Regulated Companies' licences. This has led to an arguably less prescriptive regime that is principles-based, rather than mechanistic. Further discussion is set out in paragraphs 10.7.6 and 10.10.5.

10.3.2 Termination of a Licence

There are certain circumstances provided for in the WIA under which a Regulated Company could cease to hold a licence for all or part of its area:

- (a) Regulated Company could consent to the making of a replacement appointment or variation, which changes its appointed area, in which case Ofwat has the authority to appoint a new licence holder;
- (b) under Condition O of the licence, where the Secretary of State has given the Regulated Company at least 25 years' notice and that period of notice has expired;
- (c) under the provisions of the Special Administration regime, the Special Administrator may transfer the business and licence to a successor (see Chapter 10.5, "*Special Administration Orders*" below); or
- (d) by the granting of an "inset" appointment (or NAV) over part of a Regulated Company's existing appointed area to another Regulated Company (see below).

Before making an appointment or variation replacing a Regulated Company, Ofwat or the Secretary of State must consider any representations or objections made. Where the Secretary of State or Ofwat makes such an appointment or variation, in determining what provision should be made for the fixing by the new Regulated Company of charges, it is the duty of the Secretary of State or Ofwat to ensure, so far as may be

consistent with their duties under the WIA, that the interests of the members and creditors of the existing Regulated Company are not unfairly prejudiced as regards the terms on which the new Regulated Company could accept transfers of property, rights and liabilities from the existing Regulated Company.

A NAV can be granted to a company seeking to provide water and/or water recycling services on an unserved site, or to premises using more than 50 megalitres of water within an existing Regulated Company's area, or where the incumbent Regulated Company consents to the variation. Inset appointments may be granted to any existing or new Regulated Company, but not to a licensed water supplier.

The inset mechanism continues alongside the non-household retail market, but is quite different in its operation. Whereas water supply and sewerage licensees have no threshold requirements to serve customers and operate solely at the non-household retail level, new appointees operate on the same level as undertakers and can therefore serve household customers within their area of appointment but (if not seeking to supply a previously unserved area) must meet the threshold requirement above. The retail regime is described in more detail at Chapter 10.9.3, "*The Water Act 2014*".

10.3.3 Modification of a Licence

Conditions of a licence may be modified in accordance with the procedures laid down in the WIA.

Subject to a power of veto by the Secretary of State of certain proposed modifications, Ofwat may modify the conditions in a licence with the consent of the Regulated Company concerned. Before making the modifications, Ofwat must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections which Ofwat must consider.

Under the existing licence modification regime, in the absence of consent from the Regulated Company concerned, Ofwat may secure a licence modification either (i) pursuant to a modification reference to the Competition and Markets Authority ("**CMA**") on public interest grounds or (ii) in limited circumstances where a specific power is provided for in primary legislation.

A modification reference requires the CMA to investigate and report on whether matters specified in the reference operate, or may be expected to operate, against the public interest and, if so, whether the adverse public interest effect of those matters could be remedied or prevented by modification of the conditions of the licence. In determining whether any particular matter operates or may be expected to operate against the public interest, the CMA is to have regard to the matters in relation to which duties are imposed on the Secretary of State and Ofwat.

If the CMA finds that any such matter does operate or may be expected to operate against the public interest, its report will state whether any effects adverse to the public interest could be remedied or prevented by modification of the licence. If the CMA so concludes, Ofwat must then make such modifications to the licence as appear to it necessary to remedy or prevent the adverse effects specified in the report whilst having regard to the modifications specified therein and after giving due notice and consideration to any representations and objections.

If it appears to the CMA that the proposed modifications are not requisite for the purpose of remedying or preventing the adverse effects specified in its report, the CMA has the power to substitute its own modifications which are requisite for such purpose.

In March 2019, DEFRA consulted on proposals, *inter alia*, to amend the licence modification regime so that Ofwat would have the power to modify a licence without the consent of the Regulated Company, subject to consultation and a right of veto on the part of the Secretary of State. Regulated Companies would have a right to appeal the modification to the CMA on specified grounds. In January 2020, the Government introduced the Environment Bill, clause 78 of which would, if passed, insert a new provision to this effect into the WIA.

Under the Environment Bill the CMA may allow an appeal only to the extent that it is satisfied that the decision appealed against was wrong on one or more of the following grounds:

- (a) that in making the licence modification Ofwat failed properly to have regard to, or give appropriate weight to, its duties, strategic priorities and objectives;
- (b) that the decision was based, wholly or partly, on an error of fact;
- (c) that the modifications fail to achieve, in whole or in part, the effect stated by Ofwat;
- (d) that Ofwat did not follow the required procedure for consulting on the licence modification; or
- (e) that the decision was otherwise wrong in law.

It is also possible for primary legislation to confer on Ofwat the power to modify the licences of a Regulated Company (without the consent of the Regulated Company) albeit that this is usually a time limited power and any licence modification must usually be made in accordance with, and as a direct consequence of, a provision of such primary legislation. Section 55 of the Water Act 2014 provides for modification of a licence where necessary and expedient as a consequence of a provision made by or under Part 1 of the Water Act 2014. The power of Ofwat to modify a licence pursuant to Section 55 of the Water Act 2014 is limited to a period of two years beginning with the day on which the provision in question came into force. To date, licence modifications permitted pursuant to primary legislation have only occurred in relation to Conditions R and S. A modification reference may also be required in the event of a direction from the Secretary of State to the effect that, *inter alia*, in his view, the modifications should only be made, if at all, following a reference to the CMA.

The CMA (and the Secretary of State in certain circumstances) also has the power, among others, to modify the conditions of the licence after an investigation under its merger or market investigation powers under the Enterprise Act if it concludes that matters investigated in relation to water or sewerage services were anti-competitive or, in certain circumstances, against the public interest.

10.3.4 Principal Licence Conditions recently modified

Separate Price Controls

Condition B provides the legal mechanism for the periodic review of price controls, interim price reviews and references to the CMA.

Following a series of modifications to Condition B for price controls commencing 1 April 2020 or later, Ofwat is able to set separate price controls for Water Resources Activities, Bioresources Activities and the remaining wholesale activities, known as Network Plus Water Activities and Network Plus Wastewater Activities. The Network Plus price controls must adopt the form of price control previously used for wholesale activities i.e. a limit, in the form of CPIH plus or minus K, on the change in the charges to be levied and/or the revenue allowed to the regulated business. Controls for Water Resources Activities and Bioresources Activities must include an annual adjustment to reflect any percentage change in CPIH, but Ofwat is otherwise free to determine the form of the control. Price controls for Network Plus, Water Resources and Bioresources activities are required to be set for a consecutive periods of 5 years.

In respect of household retail prices, Ofwat may set multiple controls, which need not be linked to indexation and may be set for different periods of up to a maximum of five years.

Outcome Delivery Incentives

In the Business Plan submitted to Ofwat for the period 2015 – 2020, Anglian Water proposed an outcome delivery incentive in respect of its performance in managing leakage. The proposal was for its price adjustments (rewards or penalties, as the case may be, according to Anglian Water's performance in respect of leakage) to be made within the AMP6 Period as opposed to after the end of the period, which is the norm for ODI adjustments. This was agreed by Ofwat, but required a further amendment to be made to Condition B, which was made to Anglian Water's licence on 1 May 2015 and came into effect on 1 June 2015.

For AMP7, Ofwat modified the licences of all Regulated Companies to permit within-AMP ODI adjustments.

Modification on undue discrimination/preference and use of information provisions

In November 2018, Condition E was modified to: (i) prohibit Regulated Companies from showing undue preference towards or undue discrimination against themselves, other Regulated Companies, water supply and/or sewerage licensees or unlicensed third parties in relation to the provision of certain water and sewerage services; and (ii) place restrictions on the circumstances in which Companies can externally disclose or internally use information they were provided with in relation to the submission of bids to provide certain services or agreements for the adoption of infrastructure. The modifications are intended to facilitate the development of new wholesale markets, the NAV market and the self-lay market by removing any unfair commercial advantages and ensuring a level playing field for new entrants.

Mandatory transparency and governance objectives

Ofwat first introduced its board leadership, transparency and governance principles in 2014 and, following consultation, updated them in January 2019. In August 2019, following a consultation, Ofwat implemented licence modifications to require Regulated Companies to meet the objectives on board leadership, transparency and

governance (which were set out in the licence) and to explain how they are meeting those objectives. The objectives as set out in the licence are: (i) that the board of the Regulated Company establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it services, (ii) that the Regulated Company has an effective board with full responsibility for all aspects of the Regulated Company's business for the long term; (iii) that the board's leadership and approach to transparency and governance engenders trust in the Regulated Company and ensures accountability for their actions; and (iv) that the board and its committees are competent, well run, and have sufficient independent membership.

Inset appointments

Whenever an inset appointment is granted the licence of the incumbent company is formally amended to either exclude the area which is henceforth to be served by another company or to extend the incumbent's area of supply. For example, in April 2019 an amendment was made to exclude the Clipstone Park site in Leighton Buzzard to Independent Water Networks Ltd (IWNL) via an inset appointment (water only). A list of all modifications made to Anglian Water's licence since 2007 relating to inset appointments is included in Chapter 11.

Revenue Forecasting Incentive (RFI)

As described above, the central plank of the water industry's economic regulation of wholesale services is a cap on the revenue that may be collected by Regulated Companies. Those companies set charges each year by reference to the cap they have been given for that year, with an appropriate increase or reduction to reflect the disparity between the actual revenue previously collected and the appropriate previous revenue cap. It is important that companies forecast expected revenue accurately in order to avoid unstable bill variations from year to year. Accordingly, Ofwat introduced a financial incentive to accurate forecasting as a temporary licence modification in 2015, and this was codified into a permanent modification in November 2019.

Ring-fencing

As discussed in Chapter 5, in July 2020 Ofwat introduced modifications designed to harmonise the ring-fencing provisions in Regulated Companies' licences. The modification had little overall effect on Anglian Water's position, designed as it was principally to bring other companies up to the standards to which Anglian Water was already held, and to make a small number of substantive changes, including:

- (a) technical modifications to the treatment of credit ratings;
- (b) a new obligation to inform Ofwat if Anglian Water's Board becomes aware of arrangements in progress that may lead to a change of Ultimate Controller;
- (c) a new obligation to enforce Ultimate Controller undertakings given to Anglian Water if Ofwat so directs;
- (d) a new obligation to inform Ofwat if Anglian Water's Board becomes aware of any circumstance that may materially affect its ability to carry out the Regulated Activities; and

- (e) requiring Anglian Water to maintain at all times an Investment Grade Issuer Credit Rating (previously it had to make ‘all reasonable endeavours’ to do so).

10.3.5 Water Supply

Water supplied for domestic purposes or food production purposes must be wholesome at the time of supply, which entails compliance with the Water Supply (Water Quality) Regulations 2016 (the “**Water Quality Regulations**”). As of 11 July 2018, the Water Quality Regulations were amended by the Water Supply (Water Quality) (Amendment) Regulations 2018, in order to bring them in line with changes made to the Drinking Water Directive (Council Directive 98/83/EC). In certain circumstances, the standards set in the regulations have been relaxed. Where standards or relaxed standards are not being met, the Secretary of State is under a duty to take enforcement action against the supplier. However, Regulated Companies may submit undertakings, Regulation 28 Notices or apply for an authorised departure to the Secretary of State detailing steps designed to secure or facilitate compliance with those standards. The Secretary of State is not required to take enforcement action for breaches of the Water Quality Regulations if satisfied with the undertakings, or if satisfied that the breaches are of a trivial nature, or if general duties preclude taking enforcement action. The Secretary of State has stated that, except in certain very limited circumstances, it is unlikely that enforcement action will be taken against Regulated Companies which are complying with the terms of their undertakings or Notices. Under the WIA, it is a criminal offence for a Regulated Company to supply water which is unfit for human consumption.

Since 1988, Anglian Water has implemented an extensive investment programme to ensure compliance. During AMP6, the Drinking Water Inspectorate has assessed Anglian Water’s Mean Zonal Compliance measure with drinking water standards to remain at 99.95 per cent or better for all five years.

On 6 July 2016, the EU Parliament adopted the Directive on security of network and information systems (the “**NIS Directive**”). The NIS Directive provides legal measures to protect essential services and infrastructure by improving the security of Network and Information systems. The Government implemented the NIS Directive through the NIS Regulations 2018 (the “**NIS Regulations**”), which came into force on 19 May 2018. The DWI is the competent authority for the purposes of the NIS Regulations. Drinking water supply and distribution has been designated as an essential service for the purposes of the NIS Regulations and Anglian, as a supplier of potable water to 200,000 or more people, will be required to comply with its requirements. In sum, operators of essential services are required to notify the DWI of any incident that has affected the network and information systems which has had a significant impact on the continuity of the essential service. This will include occurrences where the operator of essential services has identified any interference with electronic systems, operational technology or information technology which has impacted on the supply, quality or sufficiency of water. Anglian has not made such a notification to the DWI.

10.3.6 Water recycling Services

Each Regulated Company that is a water recycling undertaker has a general duty as such to provide, improve, extend and maintain a system of public sewers capable of draining its region effectively, and to make provision for the emptying of sewers and

for dealing effectively with their contents. It also has specific water recycling duties, including a duty to comply with a sewer requisition provided certain conditions are met, a duty to provide sewers otherwise than by requisition, and a duty to permit private drains and sewers to be connected to its public sewers.

Under the Environmental Permitting (England and Wales) Regulations 2016 (as amended) “**EP Regulations 2016**”, it is a criminal offence for a person to cause or knowingly permit any poisonous, noxious or polluting matter or trade or sewage effluent to enter controlled waters (including most rivers and other inland and coastal waters) other than in accordance with the terms of an environmental permit. As regards water recycling, environmental permits are in place in respect of substantially all known discharges by Anglian Water of polluting matter. All of Anglian Water’s water recycling treatment works are capable of complying with the conditions of their permits.

10.4 Enforcement Powers

Where the Secretary of State (via the DWI) or Ofwat is satisfied that a Regulated Company is contravening, or has contravened and is likely to do so again, or is likely to contravene, a condition of its licence or a relevant statutory or other requirement, either the Secretary of State or Ofwat (whichever is the appropriate enforcement authority) must make a final enforcement order to secure compliance with that condition or requirement, save that, where it appears to the Secretary of State or Ofwat more appropriate to make a provisional enforcement order, that party may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or Ofwat shall have regard to the extent to which any person is likely to sustain loss or damage as a consequence of such breach before a final enforcement order is made. The Secretary of State or Ofwat will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance with the condition or requirement that is in breach.

There are exemptions from the Secretary of State’s and Ofwat’s duty to make an enforcement order or to confirm a provisional enforcement order where:

- the contraventions were, or the apprehended contraventions are, of a trivial nature;
- the company has given, and is complying with, a Section 19 undertaking to take all appropriate steps to secure or facilitate compliance with the condition or requirement in question; or
- duties in the WIA preclude the making or confirmation of the order.

Section 19 undertakings create obligations that are capable of direct enforcement by the Secretary of State or by Ofwat (with the consent or authorisation of the Secretary of State) under section 18 of the WIA. Accordingly, the main implication of a Regulated Company assuming such an undertaking is that any future breach of the specific commitments contained in the undertaking is enforceable in its own right (without the need for further grounding on general statutory or licence provisions).

The WIA also confers powers on Ofwat or the Secretary of State to impose financial penalties on Regulated Companies and the licensees introduced by the Water Act 2003, as amended by the Water Act 2014. In certain circumstances, Ofwat and the Secretary of State have the power to fine such a company up to 10 per cent. of its turnover from the preceding 12 months,

including if it fails to comply with its licence conditions, standards of performance or other obligations. The penalty must also be reasonable in all the circumstances. A penalty may not be imposed later than five years from the contravention or failure except when a notice under section 22A(4) of the WIA (indicating the amount of the proposed penalty and the circumstances giving rise to a penalty) or under section 203(2) of the WIA (requiring the Regulated Company to provide information in relation to the contravention or failure) is served during that period. Where a final or provisional order has been made in respect of a contravention or failure, a penalty cannot be imposed unless a notice under section 22A(4) is served within 3 months of the final order or confirmation of the provisional order, or within 6 months of the provisional order if it is not confirmed.

Ofwat consulted on its updated enforcement strategy on 23 March 2016. Ofwat reported that “having reviewed the consultation responses received, on balance, Ofwat has not made any major revisions to the guidance document at this point in time”. On the back of this consultation, Ofwat published its updated enforcement strategy in January 2017. Ofwat’s stated strategy is based on a risk based approach to enforcement. It aims to be a regulator which is more outcomes and relationships focused. Although it is willing to use all powers vested in it under relevant legislation to secure compliance, it will usually pursue informal regulatory action with companies first and then resort to formal regulatory action where this does not achieve the desired outcome.

10.5 Special Administration Orders

(a) Circumstances

The WIA contains provisions enabling the Secretary of State, or Ofwat with the consent of the Secretary of State, to secure the general continuity of water supply and water recycling services. In certain specified circumstances, the Court may, on the application of the Secretary of State or, with his consent, Ofwat, make a Special Administration Order in relation to a Regulated Company and appoint a Special Administrator. These circumstances include where:

- there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide water recycling services or of a final or confirmed provisional enforcement order and, in either case, the breach is serious enough to make it inappropriate for the Regulated Company to continue to hold its licence;
- the Regulated Company is, or is likely to be, unable to pay its debts;
- in a case in which the Secretary of State has certified that it would be appropriate, but for section 25 of the WIA, for him to petition for the winding-up of the Regulated Company under section 124 of the Insolvency Act, it would be just and equitable, as mentioned in that section, for the Regulated Company to be wound up if it did not hold a licence; and
- the Regulated Company is unable or unwilling to adequately participate in arrangements certified by the Secretary of State or Ofwat to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination or variation of the existing Regulated Company’s licence.

In addition, on an application being made to Court, whether by the Regulated Company itself or by its directors, creditors or contributories, for the compulsory winding-up of the Regulated Company, the Court would not be entitled to make a winding-up order. However, if satisfied

that it would be appropriate to make such an order if the Regulated Company were not a company holding a licence, the Court shall instead make a Special Administration Order.

(b) Special Administration Petition Period

During the period beginning with the presentation of the petition for Special Administration and ending with the making of a Special Administration Order or the dismissal of the petition (the “**Special Administration Petition Period**”), the Regulated Company may not be wound up, no steps may be taken to enforce any security except with the leave of the Court and, subject to such terms as the Court may impose, no other proceedings or other legal process may be commenced or continued against the Regulated Company or its property except with the leave of the Court.

Once a Special Administration Order has been made, any petition presented for the winding-up of the company will be dismissed and any receiver appointed, removed. Whilst a Special Administration Order is in force, those restrictions imposed during the Special Administration Petition Period continue with some modification: an administrative receiver can no longer be appointed (with or without the leave of the Court) and, in the case of certain actions which require the Court’s leave, the consent of the Special Administrator is acceptable in its place. See Chapter 10.6.2, “*Restrictions on the Enforcement of Security*” below.

(c) Special Administration powers and the Transfer Scheme

Special Administrators have extensive powers similar to those of administrators under the Insolvency Act, but with certain important differences. They are appointed only for the purposes of (i) transferring to one or more different Regulated Companies as a going concern, so much of the business of the Regulated Company as is necessary to ensure that the functions which have been vested in the Regulated Company by virtue of its licence are properly carried out; and (ii) pending the transfer, the carrying out of those functions. During the period of the order, the Regulated Company is managed for the achievement of the purposes of the order and in a manner which protects the respective interests of members and creditors. However, the effect of other provisions of the WIA is ultimately to subordinate members’ and creditors’ rights to the achievement of the purposes of the Special Administration Order.

Were a Special Administration Order to be made, it is for the Special Administrator to agree to the terms of the transfer on behalf of the existing Regulated Company, subject to the provisions of the WIA. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company’s licence (with modifications as set out in the transfer scheme) to the new Regulated Company(ies). The powers of a Special Administrator include, as part of a transfer scheme, the ability to make modifications to the licence of the existing Regulated Company, subject to the approval of the Secretary of State or Ofwat, as well as the power to exercise any right the Regulated Company may have to seek a review by Ofwat of the Regulated Company’s charges pursuant to an Interim Determination or a Shipwreck Clause. To take effect, the transfer scheme must be approved by the Secretary of State or Ofwat. In addition, the Secretary of State and Ofwat may modify a transfer scheme before approving it or at any time afterwards with the consent of the Special Administrator and each new Regulated Company.

The WIA also grants the Secretary of State, with the approval of Her Majesty’s Treasury, the powers: (i) to make appropriate grants or loans to achieve the purposes of the Special

Administration Order and to indemnify the Special Administrator against losses or damages sustained in connection with the carrying out of his functions; and (ii) to guarantee the payment of principal or interest and the discharge of any other financial obligations in connection with any borrowings of the Regulated Company subject to a Special Administration Order.

The Flood and Water Management Act 2010 (“**FWM Act**”) (see Chapter 10.9.1 “*Competition in the Water Industry – General*” below) amended the special administration regime in the WIA to bring it in line with modern insolvency practice in unregulated industries. The FWM Act also streamlined the procedures for transferring a failing company to new owners. The FWM Act contains provisions amending the special administration regime in the WIA, and also enabling water companies to more easily control non-essential uses of water, such as the use of hosepipes. The FWM Act also includes provisions regarding sustainable urban drainage systems, flood and coastal erosion risk management, reservoirs and the provision of large infrastructure projects. It also enables water companies to offer concessions to community groups for surface water drainage charges and social tariffs, and makes provision for landlords of residential premises to be made liable for water and sewerage charges where they fail to provide details of their tenants. The changes enable the Special Administrator to pursue the goal of rescuing the Regulated Company as a going concern if this is reasonably practicable.

In its updated approach to enforcement dated 9 January 2017, Ofwat has confirmed that, as at the beginning of 2016, neither the Secretary of State nor Ofwat have needed to apply to the Court for such a special administration order.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land except with the specific consent of, or in accordance with a general authorisation given by, the Secretary of State. A consent or authorisation may be given on such conditions as the Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge.

Protected Land comprises any land, or any interest or right in or over any land, which:

- was transferred to a water and water recycling company (under the provisions of the Water Act 1989) on 1 September 1989, or was held by a water only company at any time during the financial year 1989/90;
- is, or has at any time on or after 1 September 1989, been held by a company for purposes connected with the carrying out of its regulated water or water recycling functions; or
- has been transferred to a company in accordance with a scheme under Schedule 2 to the WIA from another company, in relation to which the land was Protected Land when the transferring company held an appointment as a water or water recycling undertaker.

Unless a specific consent is obtained from the Secretary of State, all disposals of Protected Land must comply with Condition K of the licence. This condition seeks to ensure (i) that, in disposing of Protected Land, the Regulated Company retains sufficient rights and assets to enable a Special Administrator to manage the business, affairs and property of the Regulated Company so that the purposes of the Special Administration Order can be achieved and (ii) that the best price is received from such disposals so as to secure benefits to customers through the application of the proceeds of such disposals to reduce charges as provided in, and subject

to the provisions of, the price control Condition B. To this end there are certain procedures for and restrictions on the disposal of Protected Land and special rules apply to disposals by auction or formal tender and to disposals to certain associated companies. These include a restriction on the disposal (except with the consent of Ofwat) of Protected Land required for carrying out the Regulated Business. In addition, Ofwat can impose conditions on disposals of Protected Land including conditions relating to the manner in which the proceeds of a sale are to be used.

Given the purposes of the WIA (in particular of the Special Administration regime and the restrictions on enforcement of security thereunder) and of Condition K of its Licence, Anglian Water would not expect to obtain, and has not obtained, the consent of the Secretary of State or Ofwat to the creation of any security (including the Security) over its Protected Land. Neither has Anglian Water created any security over its Protected Land.

10.6 Security

10.6.1 Restrictions on the Granting of Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, both the WIA and the Instrument of Appointment restrict a Regulated Company's ability to dispose of Protected Land (as explained in Chapter 10.5, "*Protected Land*" above). Accordingly, the licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land.

In addition, provisions in Anglian Water's licence require it at all times:

- (a) to ensure, so far as is reasonably practicable, that if a Special Administration Order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purpose of such an order could be achieved; and
- (b) to act in the manner best calculated to ensure that it has adequate (i) financial resources and facilities, (ii) management resources, and (iii) systems of planning and internal control to enable it to secure the carrying out of its licensed activities including the investment programme necessary to fulfil its licence obligations. These requirements must not be dependent upon the discharge by any other person of any obligation under or arising from any agreement or arrangement under which that other person has agreed to provide any services to the Regulated Company in its capacity as the Regulated Company.

These provisions further limit the ability of Anglian Water to grant security over its assets, in particular assets required for carrying out the Regulated Business, and limit in practice the ability to enforce such security.

The substantial majority of Anglian Water's assets by value is tangible property which is either Protected Land and/or assets that are required for carrying out Anglian Water's Regulated Business and cannot therefore be effectively secured. This necessarily affects the ability of Anglian Water to create a floating charge over the whole or substantially the whole of its business. However, in any event, there is no right under the WIA to block the appointment of a Special Administrator equivalent to the right of

a holder of a floating charge over the whole or substantially the whole of the business of a non- Regulated Company may have, in certain circumstances, to block the appointment of a conventional Insolvency Act administrator.

10.6.2 Restrictions on the Enforcement of Security

Under the WIA, the enforcement of security given by a Regulated Company in respect of its assets is prohibited unless the person enforcing the security has first given 14 days' notice to both the Secretary of State and Ofwat. If a petition for Special Administration has been presented leave of the Court is required before such security is enforceable or any administrative receiver can be appointed (or, if a receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a Special Administration Order is in force with some modification (see Chapter 10.5, "*Special Administration Orders*" above).

Once a Special Administrator has been appointed, they have the power to deal with property charged pursuant to a floating charge as if it were not so charged. When such property is disposed of under this power, the proceeds of the disposal must, however, be treated as if subject to a floating charge which has the same priority as that afforded by the original floating charge.

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

Within three months of the making of a Special Administration Order (or such longer period as the Court may allow), the Special Administrator must send a copy of his proposals for achieving the purposes of the order to, *inter alios*, the Secretary of State, Ofwat and the creditors of the company. The creditors' approval of the Special Administrator's proposal is not required at any specially convened meeting (unlike with a conventional administration under the Insolvency Act). The interests of creditors and members in a Special Administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company's affairs, business and property are being or have been managed by the Special Administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the Special Administrator is or would be prejudicial. Subject to one exception, the Court may make such order as it

thinks fit, including an order to require the Special Administrator to refrain from doing or continuing an act about which there has been a complaint. The exception to this is that the Court may not make an order which would prejudice or prevent the achievement of the purposes of the Special Administration Order.

10.6.3 Enforcement of Security over Shares in Anglian Water

Under the WIA, the enforcement of security over and subsequent sale of shares in a Regulated Company will not be subject to the restrictions described above in relation to the security over Anglian Water's business and assets. Notwithstanding this, given Ofwat's general duties under the WIA to exercise and perform its powers and duties, *inter alia*, to ensure that the functions of a Regulated Company are properly carried out, the Issuer anticipates that any intended enforcement either directly or indirectly of the Security or the Security over, and subsequently any planned disposal of, the shares in Anglian Water to a third-party purchaser, would in practice require consultation with Ofwat. In addition, depending on the circumstances, the merger control provisions referred to in Chapter 10.9.5, "*Regulation of the Water and Water Recycling Industry in England and Wales – Competition in the Water Industry – Merger Regime*", below, could apply in respect of any such disposal.

10.7 Economic Regulation

10.7.1 General

Economic regulation of the water industry in England and Wales is based on a system of periodic revenue controls imposed on the amounts Regulated Companies can collect from their customers. This is intended to reward companies for efficiency and quality of service to customers. The system was intended generally to allow companies to retain for a period any savings attributable to efficiency, thus creating incentives to make such gains. The length of the price control period is reviewed periodically and could be changed in future. Furthermore the length of the price control period may differ between controls.

10.7.2 Price controls

The main instrument of economic regulation is the price controls determined by Ofwat in accordance with the conditions of the licences. These control the total revenue companies can recover from customers via bills for water supply and water recycling services. Certain charges are not included in the price control formula but are determined on an individual basis.

Price control periods have to date been periods of five years, normally beginning on the first day in April in years ending in 0 or 5 and end on the last day of March 5 years later. The price controls for the current period (2020 to 2025, referred to as AMP7) were set at the end of 2019 to take effect on 1 April 2020, commonly referred to as Price Review 19 ("**PR19**"). Anglian Water accepted its Final Determination of the retail price control. However, Anglian Water did not accept the Final Determination of its wholesale price controls and in February 2020 asked Ofwat to make a reference to the CMA for a re-determination of these controls. The CMA's re-determination of Anglian Water's price controls is expected to be completed in December 2020. The CMA's re-

determination of Anglian Water's wholesale price controls for AMP7 commenced in March 2020 and is expected to be completed in December 2020. The revenues allowed by the CMA's re-determination may be lower than, equal to or higher than those determined by Ofwat. Ofwat's Final Determination will continue to apply pending the outcome of the CMA's re-determination.

The next price review ("PR24"), is expected to set price controls for the period 1 April 2025 to 31 March 2030. The PR19 regulatory framework is discussed below; at present, there is little information about the framework that will be introduced at PR24.

10.7.3 PR19; Overview of controls

Under PR19, there are five price controls which apply to Anglian Water, for water resources (abstraction of raw water), water network plus (comprising raw water transport and storage, water treatment and treated water distribution), waste water network plus (comprising collection and treatment of waste water), bioresources (comprising the transport and treatment of sludge and recycling of treated biosolids) and household retail services. The form of the price control for water resources, water network plus and waste water network plus is a total revenue control that covers all revenues from wholesale activities, including revenue and cash receipts from connection charges. For bioresources and household retail the control allows a fixed revenue for each tonne of sludge produced and each household customer served respectively such that the total revenue collected may vary from the level assumed. The price controls are set by Ofwat for each Regulated Company individually and reflects the scale of its assumed expenditure, its cost of capital as determined by Ofwat, and its operational and environmental obligations, together with Ofwat's judgment to the scope for it to improve its efficiency. As such, it will differ between companies and between years. The wholesale price controls (i.e. all price controls excluding the household retail price control) are indexed using a combination of CPIH and RPI. For network plus price controls, the real annual change in the total allowed revenue is expressed for presentational purposes as a K factor, a company and price control specific adjustment factor which may be positive, negative or zero.

The household retail controls are total revenue controls with an annual adjustment factor to reflect the cost differences arising from differences between actual and expected customer numbers. Again there is some flexibility to adjust charges to minimise differences between allowed and actual revenues.

Retail revenue allowances are not indexed.

Regulatory Capital Value (RCV)

Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying price controls set at Periodic Reviews, being the value of the capital base of the relevant Regulated Company for the purpose of calculating the return on the capital elements of the revenue allowance. The value of the regulatory capital value to investors and lenders is currently protected against inflation by adjusting the value each year by a combination of RPI and CPIH.

Ofwat's projections of regulatory capital value also take account of the assumed net RCV additions in each year of a Periodic Review Period which are a function of the

total expenditure over the period and the pay-as-you-go (“PAYG”) ratio. The PAYG ratio is established for each price control in the Final Determination (or by the CMA in the event that the Final Determination is referred to the CMA for redetermination) and reflects the proportion of total expenditure that is remunerated in the current price control period with the remaining non-PAYG totex added to the RCV to be remunerated in future periods. The remuneration of the RCV occurs through the RCV run-off, where the RCV is reduced by the RCV run-off that is included within the revenue cap.

Revenue Control

Actual turnover will be driven primarily by key physical factors such as metered volumes, metering programmes and new property growth. These will depend on external factors such as the weather, economic growth and customer behaviour. Revenue correction mechanisms correct for differences between actual turnover and the Final Determination allowed turnover (adjusted for inflation).

The control allows for in-period true-ups to take account of any under/over recovery of revenues in prior years of the AMP. In addition there is a revenue forecasting incentive which incentivises companies to ensure that the variance between actual and allowed revenue does not exceed 2 per cent. The retail revenue allowed under the new controls is based on an efficient cost to serve for each customer and therefore will be adjusted as respective customer numbers change.

Adjustments to revenue to reflect performance

The PR19 price control methodology continued the system introduced at PR14 for incentivising service performance by Anglian Water. The system comprises a set of outcomes (deliverables that customers have said they want to receive), performance commitments (means of assessing whether those outcomes are being delivered) and performance commitment levels (targeted standards of performance against the measures). The Outcome Delivery Incentives (ODIs) encourage Anglian Water to meet its performance commitment levels, rewarding the company if it exceeds its commitment levels and penalising it if it fails to achieve them. In the case of some ODIs the rewards and penalties are reputational but for others they are financial. In contrast to the 2015-20 period, where rewards and penalties were largely paid at the end of the period, during the 2020-25 period rewards and penalties will be paid ‘in-period’, two years after the year in which they were earned. For example, Anglian Water’s revenues for 2022/23 will therefore be adjusted according to the financial rewards and penalties they have earned during the first year of the AMP7 Period (2020/21).

In-period ODIs increase the power of incentives by bringing a reward or penalty closer in time to the actions that earned it. They are also likely to reduce the size of adjustments at price reviews.

Payments can take the form of a penalty paid by a company to compensate customers for performance below its committed performance level or a reward received by a company to reflect stretching levels of performance provided to customers beyond its committed performance levels.

Ofwat has also consulted on a set of rulebook models for calculating the adjustment to price controls resulting from the application of ODIs and how inflation, the time value of money and tax are applied to ODIs.

Anglian Water earned net rewards of £59.3 million (in 2019/20 prices) for its performance under the PR14 performance framework. This sum has been added to its revenues for the 2020-25 period.

10.7.4 PR19; Process and Referral to the Competition and Markets Authority

Ofwat conducted an initial assessment of the Regulated Companies' business plans (IAP), against nine test areas (engaging customers; addressing affordability and vulnerability; delivering outcomes for customers; securing long-term resilience; targeted controls, markets and innovation; securing cost efficiency; aligning risk and return; accounting for past delivery; and securing confidence and assurance) and three key characteristics (quality, ambition, and innovation) and categorised Regulated Companies' business plans into four categories (significant scrutiny, slow-track, fast-track, or exceptional).

In January 2019 Ofwat published the results of its IAP. The plans of three companies were deemed to be sufficiently good for those companies to move to the fast-track process. Accordingly those companies – Severn Trent Water, South West Water and United Utilities - received their draft determination of price controls on 11 April 2019. The plans of four companies – Thames Water, Southern Water, Affinity Water and Hafren Dyfrdwy – were deemed to require significant scrutiny, such that those companies were required to re-submit plans on 31 March 2019. For all other companies, which included Anglian Water, Ofwat's assessment of their plans means they remain in the slow-track process, which is equivalent to the standard process in previous price reviews.

On 4 July 2019 Ofwat published a letter to Anglian Water noting that there was “a substantial difference between [Ofwat's] view of efficient and justified expenditure” and the base costs relating to both the wholesale water and wastewater control areas proposed by Anglian Water. Ofwat explained that although this preliminary assessment is subject to change and does not take into account evidence submitted after 1 April 2019, Ofwat “[did] not expect any material changes to the size of the gap” between its view of efficient base costs and Anglian Water's proposed base costs before the publication of a draft determination on 18 July 2019 and “consider[ed] that Anglian Water needs to take urgent action to address the efficiency challenge on base costs”.

On 18 July 2019, Ofwat published a draft determination as part of the regulatory price setting process leading up to the Final Determination for PR19. In the draft determination Ofwat noted “Our draft determination allows Anglian Water £1.27 billion to invest in improvements to service, resilience and the environment. Key parts of this allowance are:

- £729m to improve the environment by efficiently delivering its obligations as set out in the Water Industry National Environment Programme (WINEP);
- £373 million to improve resilience and the supply-demand balance in particular by investing in a large interconnection programme;

- £108 million to increase customer metering and install more than one million smart meters to promote water efficiency;
- £25 million for the company to evaluate potential strategic regional water resource solutions, in partnership with others, including the South Lincolnshire reservoir; and
- £8 million to take forward the Elsham treatment and transfer scheme through direct procurement for customers.

As part of the draft determination, Ofwat noted “In our draft determinations, we intervene in Anglian Water’s plan.” “This intervention reduces Anglian Water totex costs by 20.5 per cent., a substantial reduction in costs, and saves customers £1.3 billion”. Ofwat explained that this totex reduction had been made to “to align with Ofwat’s view of efficient costs.” In addition the cost of capital had been updated to 3.19 per cent. on a CPIH basis (2.19 per cent. on an RPI basis) which represented a reduction of 0.21 per cent. from the IAP.

Ofwat considered “that Anglian Water’s draft determination is financeable, based on an efficient company, with the notional company structure, and is sufficient to deliver its obligations, including to ensure a long term resilience structure” and that they “expect[ed] Anglian Water to provide appropriate Board assurance that it will remain financeable on a notional and actual basis and can maintain its long term financial resilience in its response to the draft determination.” Ofwat recognised that Anglian Water had made additional submissions after 1 April 2019 but they could not take account of them for the draft determination.

As part of this consultation process, Anglian Water considered the information contained in the draft determination and published its response to Ofwat on 30 August 2019. Key elements of the response included:

- (a) At the level of weighted average cost of capital proposed in the draft determination Anglian Water consider that neither the notional nor actual company is financeable or able to maintain the corporate family rating of Baa1 implicit in the Ofwat regulatory methodology; a range of 2.4-2.8 per cent. (RPI real) has been proposed as this would enable the Board to provide assurance that it will remain financeable on a notional and actual basis;
- (b) The scale of the Totex gap, and the downside skew on ODIs increases performance risks significantly;
- (c) There were a number of differences between Anglian Water and Ofwat’s assumptions as to the growth of new homes in the region, and the lack of true-up mechanisms for the actual level of new connections;
- (d) The introduction of a large number of uncertainty mechanisms, and the lack of recognition of any relationship between the quality of service provided and the costs required to achieve that service present significant challenges in the price review.

Overall, the Board considered that the effect of the draft determination is to create a substantial increase in the level of risk, combined with a substantial reduction in the potential for companies to deliver good service and earn appropriate returns.

Ofwat published its Final Determination of price controls on 16 December 2019. While the Final Determination included some changes from the Draft Determination, most of the concerns expressed by Anglian Water in its response to the Draft Determination remained and the Board's view of the level of risk was unchanged. Accordingly, Anglian Water did not accept the Final Determination of its wholesale price controls and asked Ofwat to make a reference to the CMA for a re-determination of these controls. The CMA's re-determination of Anglian Water's wholesale price controls for AMP7 commenced in March 2020 and is expected to be completed in December 2020. The revenues allowed by the CMA's re-determination may be lower than, equal to or higher than those determined by Ofwat.

The CMA published its Provisional Findings for consultation on 29 September 2020. The CMA has provisionally proposed a number of changes to Ofwat's final determination, including adjustments to Ofwat's allowed rate of return, and reduction of companies' exposure to financial risk to achieve the right balance between incentivising out-performance and ensuring that Anglian can finance its functions. The CMA has also provisionally concluded to provide additional funding for botex and enhancement, expanded the scope of the true-up mechanism for growth costs, and made some changes to performance targets to ensure Anglian is appropriately challenged. Notwithstanding these provisional changes which improve the position for Anglian Water compared to Ofwat's final determination, a significant gap remains in the Totex allowed compared to Anglian Water's business plan. This will mean that Anglian Water still faces a tough challenge during AMP7 in relation to its operations and the delivery of its performance commitments and the related outcome delivery incentives. The CMA has invited further responses by 9am on 27 October 2020. The CMA will consider these responses, and expects to publish its final redetermination in mid-December.

10.7.5 Bulk Supply Charges

A small number of mainly large consumption non-domestic customers are charged in accordance either with individual "special" arrangements or standard charges which do not fall within the scope of the tariff basket. These include charges for bulk supplies and charges in respect of infrastructure provision and, where these are not in accordance with standard charges, charges for non-domestic supplies of water and the reception, treatment and disposal of trade effluent. Charges for bulk supplies of water are usually determined on an individual basis, as are charges for some larger non-domestic water supplies and some trade effluent. The charging basis for bulk supplies in some cases provides for annual recalculation by reference to the expenditure associated with the supply.

The Water Act 2014 introduces measures which are designed to encourage the entry into bulk supply agreements. On the application of one of the parties to the ensuing agreement, Ofwat may make an order for the supplier to make a bulk water supply to a qualifying person, and for that qualifying person to take it, under such terms and conditions as Ofwat specifies. Ofwat can only make an order if it is satisfied that the bulk supply is necessary for securing the efficient use of water resources and where it is satisfied that the parties are unable to come to an agreement themselves.

The Water Act 2014 enabled Ofwat to create codes relating to bulk supply pricing. In May 2018, Ofwat published its final guidance on 'Bulk Charges for NAVs'. As a supplement to the bulk supply pricing principles which Ofwat published in 2011, the guidance document sets out its approach when determining bulk charges set by an incumbent water company for bulk services provided to a NAV in England and Wales.

10.7.6 Interim Determinations

Condition B of a Regulated Company's licence provides for Ofwat to determine in certain circumstances whether and, if so, how the level of price controls should be changed between Periodic Reviews. The procedure for Interim Determination can be initiated either by the Regulated Company or by Ofwat. An application for an Interim Determination may be made in respect of a Notified Item, a Relevant Change of Circumstance or where there has been a substantial adverse or favourable effect on the delivery of regulatory outputs.

(a) Notified Item

A Notified Item is any item formally notified by Ofwat to the Regulated Company as not having been allowed for (either in full or at all) the price control, provided that there has been no Periodic Review subsequent to that notification.

For the AMP7 Period, Ofwat's Final Determination included two Notified Items for Anglian Water: (1) any increase in costs that is attributable to the continued lawful use of metaldehyde as a pesticide; and (2) any increase in costs, beyond those already allowed by Ofwat in the price controls, that is reasonably attributable to the Elsham treatment works and transfer scheme. The CMA re-determination may add, remove or amend these Notified Items.

In September 2020, the Government reintroduced a ban on the use of metaldehyde, with its use prohibited from 31 March 2022.

(b) Relevant Changes of Circumstances

Relevant Changes of Circumstance are defined in the licences. Such changes include: (a) the application to the Regulated Company of any new or changed legal requirement including any legal requirement ceasing to apply, being withdrawn or not being renewed (to the extent that the legal requirement applies to the Regulated Company in its capacity as a water or water recycling undertaker); (b) any difference in value between actual or anticipated proceeds of disposals of Protected Land and those allowed for at the last Periodic Review or Interim Determination; (c) where on a price determination an allowance has been made for taking steps to secure compliance or facilitate compliance with a legal requirement or achieve a service standard and the Regulated Company has failed to take those steps and (i) as a result, failed to spend the full amount which it was assumed would be spent taking into account savings which may have been achieved by prudent management and (ii) the stated purpose has not otherwise been achieved; and (d) where on a price determination an amount has been allowed for on account of capital expenditure to be incurred by the Regulated Company, and for any charging year the index of national construction costs used by Ofwat is at a different level from that which had been assumed would pertain for that charging year.

An Interim Determination takes account of the costs, receipts and savings to be included in the price determination which are reasonably attributable to the Notified Items or the Relevant Changes of Circumstance in question and are not recoverable by charges outside the price control formula. The amount and timing of the costs, receipts and savings must be appropriate and reasonable for the Regulated Company in all the circumstances and they must exclude: trivial amounts, any costs which would have been avoided by prudent management action, any savings achieved by management action over and above those which would have been achieved by prudent management action, and any amounts previously allowed for in a price determination. These costs are then netted off against the receipts and savings to determine the annual cash flows thereof for each year included in the period over which the costs are to be measured (**“Base Cash Flows”**).

The conditions of the licences also specify a materiality threshold which must be reached before any adjustment can be made. In relation to certain licences (including that of Anglian Water) this materiality threshold is reached where the sum of the net present values of: (i) Base Cash Flows consisting of operating expenditure and/or loss of revenue calculated over 15 years; and (ii) other Base Cash Flows calculated over the period to the next Periodic Review, is equal to at least 10 per cent. of the latest reported turnover attributable to the Regulated Company’s business. The net present value of any individual Notified Item or Relevant Change of Circumstance must also be greater than 2 per cent. of the turnover for the respective service (water, water recycling or retail). An adjustment to the level of price controls (which may be up or down) is then calculated on the basis of a formula broadly designed to enable the Regulated Company to recover the additional allowable costs incurred or to be incurred during the period until the start of the first charging year to which the next Periodic Review applies and attributable to the identified Base Cash Flows. The change is then made for the remainder of the period up to the start of that first charging year. Condition B of the licence sets out in detail the step-by-step methodology which Ofwat is required to apply.

(c) Substantial Effects (**“Shipwreck Clause”**)

In addition, under the substantial effects "Shipwreck" clause of Condition B, Anglian Water’s Licence permits it or Ofwat to request price controls to be reset if its regulated business either: (i) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action. For this purpose, the financial impact is calculated in the same way as for the materiality threshold above except that the 10 per cent. threshold is replaced by a 20 per cent. threshold.

(d) Proposed DPC Interim Determination mechanism

In July 2020, Ofwat consulted on modifications to Anglian Water’s licence which would provide new process by which Anglian Water could undertake the procurement of a third party competitively appointed provider for projects designated (with Ofwat’s agreement) to be delivered under Direct Procurement for Customers (**“DPC”**) initiative. The proposed modifications would specify the process to be followed in carrying out a DPC procurement, including the requirement to obtain Ofwat’s agreement for the procurement, requirements for the contract to be entered into with the third party

provider, and provision for Ofwat to allow Regulated Companies to recover charges from customers to meet the costs of the designated project. The consultation also proposes a modification to Anglian Water's licence which would introduce a separate Interim Determination process which would apply where Ofwat revokes the designation of a project as one to be delivered by DPC. Under this circumstance Anglian Water would undertake the project instead of a competitively appointed provider and the Interim Determination would serve to allow it the costs necessary to do so. The proposals in Ofwat's proposed licence modification would introduce a third type of Interim Determination in addition to the standard and substantial effects Interim Determinations. The materiality threshold in the proposed DPC Interim Determination would be two per cent.

The Elsham treatment and transfer scheme has been designated as a DPC scheme and the proposed licence modification would enable Anglian Water to recover its costs for completing the scheme should its designation as such be revoked.

10.7.7 References to the CMA

If Ofwat fails within specified periods to make a determination at a Periodic Review or in respect of an Interim Determination or if the Regulated Company disputes its determination, the Regulated Company can require Ofwat to refer the matter to the CMA for determination by it after making an investigation. The CMA must make its determination in accordance with any regulations made by the Secretary of State and with the principles which apply, by virtue of the WIA, in relation to determinations made by Ofwat. The decisions of the CMA are binding on Ofwat. Bristol Water plc was the only Regulated Company to dispute the Final Determination for the AMP6 Period. The CMA issued its final determination of the challenge by Bristol Water plc to Ofwat's price control determination in October 2015. Four companies disputed their Final Determinations for the AMP7 period: Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water.

10.7.8 Other Restrictions on Charging

Under the WIA, Regulated Companies must charge for water supplied, or water recycling services provided, to dwellings in accordance with a charges scheme which must comply with charging rules laid down by Ofwat. In drafting such rules, Ofwat must have regard to charging guidance issued to Ofwat by the Secretary of State. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

In April 2019, Ofwat published a letter to Regulated Companies providing advice on compliance with competition law and charging rules obligations with respect to the self-lay market for new connections. This was largely in response to a number of complaints over the last 12 months in which it has been alleged that incumbent Regulated Companies, through their charges, contractual terms and/or actions, have made it difficult for self-lay operators to compete and operate efficiently in the developer services markets. The charging rules for new connection services explicitly require Regulated Companies in England to set their charges (including any income offsets) and asset payments in accordance with the principle that they should promote effective competition for contestable work. Regulated Companies are also required to

publish their charges in a clear and accessible manner and explain how each charge has been calculated or derived so that it is clear what services are covered by each charge. Ofwat has, therefore, written to all incumbent Regulated Companies to remind them that, given their position of dominance in a number of markets in their appointment areas, each company has a special responsibility to ensure that its conduct in those markets does not prevent, restrict or distort competition.

10.8 Environmental Regulation

The water industry is subject to numerous regulatory requirements concerning human health and safety and the protection of the environment. Non-compliance with many of these requirements may potentially constitute a criminal offence. However, the Regulatory Enforcement and Sanctions Act 2008 (as amended) (“**RESA**”) allows the Secretary of State to confer powers on the regulators to impose civil penalties (such as fixed monetary penalties) on businesses as an alternative to criminal prosecution in relation to a number of environmental offences. Through the Environmental Civil Sanctions (England) Order 2010 the Secretary of State conferred these powers on the EA. The EA’s decision regarding which of its enforcement powers to use in relation to a breach includes consideration of the seriousness of the breach and its consequences and the public interest in bringing a prosecution. An increasingly popular tool available to the EA for some offences is to accept an environmental undertaking in lieu of prosecution, the terms of which are suggested by the offender but usually include a donation to charity.

The Sentencing Council issued the definitive guidelines on environmental offences on 26 February 2014 and they came into force on 1 July 2014. The guidelines provide step-by-step guidance for the sentencing of offenders in both the Magistrates and Crown Courts. The guidelines provide the courts with a range of potential fines and invite the courts to consider a series of relevant factors when sentencing offenders. In addition to the harm caused by the offence and the culpability of the offender, the courts are required to take into account the turnover of the offending organisation in order to ensure that the fine is proportionate to the means of the offender.

The issuance and subsequent application of these guidelines by the courts has led to increases in record fines for large utility companies (including water companies) in the UK over the past six years. This has in turn driven an increased focus on compliance with environmental laws and environmental permit conditions. It has also increased focus on environmental compliance issues at a senior management and boardroom level.

The EA, in its report on “The State of the Environment: Water Quality” dated February 2018, expressed its view that there “are still far too many serious pollution incidents” in the UK. Its ambition is to create a cleaner, healthier and better managed water environment. As part of this strategy, the EA’s expectation is that water companies continue to reduce pollution incidents from sewer systems and sewage treatment works.

Abstraction Licensing

Under the WRA, water abstractions must be carried out in accordance with a licence granted by the EA. It is a criminal offence to abstract water without a licence or in breach of the conditions of an abstraction licence. The maximum penalty is an unlimited fine. Existing abstraction licences may be revoked or varied by a direction from the Secretary of State without compensation being payable to a water or sewerage undertaker.

On 4 February 2016, the High Court gave its judgment in the case of *Chetwynd and another v Tunmore and another* [2016] EWHC 156 (QB). This case was the first to consider s 48A of the WRA, which provides that a person who suffers loss or damage as a result of abstraction from inland waters or underground strata can bring a claim against the abstractor. In this case, the High Court confirmed that there was no need for the loss suffered by a claimant to be a foreseeable consequence of the water abstraction. However, the High Court confirmed that a claimant must prove, on the balance of probabilities, that but for the water abstraction, the loss and damage would not have occurred.

The Water Act 2014 included measures to strengthen the water sector's ability to respond to the challenges of a growing population and less certain water supplies. The Government wants to put in place a more flexible abstraction regime which will enable abstractors to respond to variations in water availability as the climate changes. This is a significant programme of reform, involving modifying over 30,000 abstraction licences, and which creates risks and uncertainty for abstractors.

Water Abstraction Reform

The Government raised concerns about the UK's approach to managing water abstraction. The Government specifically raised concerns about older abstraction licences which allow abstraction which may cause damage to the environment (including licences previously granted without a time limit). The Government also raised as issues: the potential for licences to start acting under previously unused licences and their potential impact on the deterioration of water stocks; the fact that the regulatory regime is not flexible enough to cope with increasing demand and pressures from climate change, and the outdated, paper-based nature of the abstraction service.

In line with these concerns, in January 2016, DEFRA published the Government response to its consultations on water abstraction reform. The proposals, which were not intended to be implemented until 2020 at the earliest, included the incorporation of the water abstraction regime into the environmental permitting regime set out in the EP Regulations 2016. The headline objectives of these reforms were to:

- (a) improve flexibility to address short-term water availability issues; and
- (b) improve long-term sustainable management supporting growth and investment.

Further to these concerns and DEFRA's January 2016 report, the Government's 25 Year Plan placed an emphasis on addressing "unsustainable abstraction". On 29 May 2018, DEFRA published its water abstraction plan which sets out its approach to managing water abstraction going forwards. The plan is centred around three key pillars:

- (a) making full use of existing regulatory powers to address unsustainable abstraction. Specifically, the EA will use its powers to amend abstraction licences, prioritising changes to those licences which have the greatest impact. The aim is to be in a position to ensure 90 per cent. of surface water bodies and 77 per cent. of groundwater bodies achieve DEFRA's water abstraction sustainability standards by 2021;
- (b) developing a stronger catchment focus, which will ensure sufficient protection from unsustainable abstraction in key catchment areas; and
- (c) supporting reform to water abstraction regulation by modernising the abstraction system.

DEFRA published a progress report in May 2019 which set out that it was in the process of amending abstraction licences and was due to complete the Restoring Sustainable Abstraction programme by 2020. DEFRA also set out that while the current approach to reform was to encourage change on a voluntary basis, the EA would be ready to take regulatory action if required, under its wide-ranging discretionary powers. This has the potential to lead to Anglian Water incurring increased future costs to ensure legal and regulatory compliance.

In January 2019, DEFRA consulted on proposals to modernise water regulation in England. The DEFRA response to submissions made to that consultation was published in July 2019 and set out changes proposed to be made through the Environment Bill and other legislation, including amendments to the Water Industry Act 1991. The Environment Bill was withdrawn when Parliament was prorogued before the December 2019 General Election, but was reintroduced in January 2020. It would amend the Water Resources Act 1991 to give the EA powers to revoke or vary permanent abstraction licences without the need to pay compensation without having to seek direction from the Secretary of State. Specifically, the Environment Bill proposes that on or after 1 January 2028, the EA would be able to:

- (a) revoke or vary an abstraction licence where the change is necessary to protect the environment; and
- (b) vary a licence to reduce the permitted volume where the abstraction licence is consistently underused over an assessment period of 12 years if the quantity abstracted did not exceed 75% of the volume authorised by the abstraction licence in each year of the 12 year period.

The EA is also committed to reclassifying water bodies in 2021 to show where environmental improvements have been made, where improvements are still required before 2027 and where impacts are not yet confirmed. Ten of the EA's abstraction licensing strategies are also scheduled to be updated by the EA by 2021 with the remainder by 2027. In addition, the EA is due to review more than half of existing time limited abstraction licences by 2021 (2,300 in total). These changes may affect the amount of further abstraction reductions required by abstractors including Anglian Water.

Renewal of time-limited abstraction licences upon their expiry is also not guaranteed. The EA adopts a three-fold test when considering licence renewal upon expiry of time limited licences:

- 1. abstraction must be sustainable;
- 2. the abstractor has a reasonable need for the water; and
- 3. the abstractor will use the water efficiently.

DEFRA stated in June 2020 that it plans to consult further in spring 2021 on its plans to bring abstraction licensing into the EP Regulations 2016 by 2023.

Trade Effluent Discharge

Regulated Companies are responsible under the WIA for regulating discharges of trade effluent into their sewers. Industrial and trade sources of wastewater to sewers regulated by Anglian Water predominantly arise from the food, drink and chemical industries.

Under the Trade Effluents (Prescribed Processes and Substances) Regulations 1989 (SI 1156) (as amended), when trade effluent contains prescribed substances, or more than a prescribed quantity of such substances, or derives from a stipulated process (that is “**special category**

effluent”), the Regulated Company must refer to the EA any application to make such a discharge. The EA must then determine whether, and if so upon what conditions, the Regulated Company may accept the discharge. The Regulated Company cannot consent to the discharges to which the reference relates until the EA serves notice on the Regulated Company of its determination on the reference.

A Regulated Company may enter into an agreement with the owner or occupier of trade premises for the reception and disposal of trade effluent, instead of granting a consent. If the trade effluent which is to be the subject of an agreement is special category effluent, the Regulated Company must refer to the EA the question of whether the relevant operations should be prohibited or made subject to conditions. The Regulated Company cannot enter into any agreement regarding special category effluent until the EA serves notice on the Regulated Company of its determination in this regard.

Anglian Water consents to the discharges it regulates to protect its operations and the environment, and compliance is enforced on a risk-based approach. Where traders fail to meet the consent limits Anglian Water first tries to work with them to resolve the problems. However, if there is incidence of persistent failures or damaging discharges Anglian Water uses enforcement powers to prevent further reoccurrence.

Sewerage sludge

Anglian Water currently beneficially recycles 100 per cent. of its water recycling sludge by using it on agricultural land as a fertiliser and soil conditioner. Recycling to agricultural land is recognised by the EU Parliament and the European Commission as the Best Practicable Environmental Option for such material. Sludge is recycled to agricultural land in accordance with the Sludge (Use in Agriculture) Regulations 1989 (as amended and supported by a Sewage sludge in agriculture: code of practice for England, Wales and Northern Ireland (DEFRA 23 May 2018) and in addition the company’s overall sludge treatment & recycling operation has achieved certification to the Biosolids Assurance Scheme.

It should be noted that sludge use in agriculture is subject to both market forces and legislation. Anglian Water and the water industry are involved in discussions to ensure stakeholders are reassured about the practice as and when needed. Significant changes to markets or legislation could cause Anglian Water to incur material expenditure. Changes in legislation would potentially represent a “Relevant Changes of Circumstance” by Ofwat in relation to licences of Regulated Companies.

Energy and Climate Change

Energy use in water and water recycling treatment processes is one of Anglian Water’s biggest environmental impacts, as it results in emissions of greenhouse gases. As part of its sustainable development strategy, Anglian Water aims to obtain more energy from renewable sources and become net zero carbon by 2030. In 2019/20, Anglian Water’s gross operational carbon emissions decreased by 34 per cent. in comparison to the 2014/2015 baseline, reducing from 455,335 tonnes emitted to 298,576 tonnes.

Anglian Water may incur increased costs in the future due to increased electricity prices to account for carbon trading schemes and carbon prices applicable to electricity generators. Tighter caps on emissions and full auctioning of allowances have applied to most electricity generators in Phase III of the EU Emissions Trading Scheme (“EU ETS”) that commenced in 2013 and will run to the end of 2020. As expected, this has given rise to a restriction on supply

resulting in higher prices for carbon that are being passed on by the generators to consumers such as Anglian Water in the price of wholesale electricity. The Government's introduction of a carbon price floor for electricity generation, under the Climate Change Levy (General) (Amendment) Regulations 2013, has also affected electricity prices. Anglian Water's electricity costs were £781.5 million in 2019-20, 54 per cent. of which were associated with regulated charges and levies such as distribution and transmission charges and under those schemes both pre-dating and including Electricity Market Reform, such as low-carbon transition costs. Under the Electricity Market Reform the regulated element was forecast to continue to grow to over 60 per cent. of electricity costs by the end of the AMP7 Period. It is not yet decided how the outcome of the June 2016 referendum in favour of the UK leaving the EU will fully impact the UK's participation in the EU ETS, other than that it is scheduled to exit the EU ETS in its current form at the end of the Brexit transition period. In that regard, the European Commission has announced that in a "No Deal" scenario, the UK would lose access to the EU ETS Registry, while the UK Government has stated that in any event in the short term the current Monitoring, Reporting and Verification requirements would remain in place and a Carbon Emissions Tax would be introduced. The Government is currently consulting on its options, with a preference to introduce a UK ETS "if it suits both sides' interests".

It is therefore likely that energy transition costs will continue to be included in the cost of electricity, and given the adoption of a net zero by 2050 target in the Climate Change Act 2008 and the UK's Paris Agreement commitments, these costs are unlikely to decline.

By nature, Regulated Companies are exposed to the risk of increasing drought and consequent loss of abstraction resources resulting from the effects of climate change. It is likely that the use of such resources will become increasingly regulated as governments work to comply with their international obligations pertaining to the environment and as such resources become scarce. As a consequence and in order for Regulated Companies to comply with such increasing regulation and to adapt to and mitigate the risk of decreasing abstraction resources, it is likely that this will be a future area of investment for these companies. To the extent that such investment is not allowed by Ofwat for whatever reason, this may constitute a material liability for the relevant company.

Asbestos

The Control of Asbestos Regulations 2012 impose a duty on those who own or control commercial premises to carry out detailed assessments for the presence of asbestos, record its condition and proactively manage the associated risks. Asbestos is present at a number of Anglian Water's properties and there is a risk that Anglian Water may incur material expenditure in managing or removing asbestos located at these properties to comply with the Regulations.

Sewer Flooding

When a "combined" sewerage system, which carries both sewage and surface water run-off, reaches its capacity during heavy rainfall, a mixture of surface run-off and sewage overflows into rivers or out of external or internal drains. Section 94 of the WIA places a duty on every Regulated Company to ensure its area is properly drained via an adequate sewerage system. This duty is enforceable by the Secretary of State or Ofwat who, under section 18 of the WIA, may make an enforcement order securing compliance. Householders can bring proceedings

against the Regulated Company in respect of its failure to comply with such an Enforcement Order. However, where such an order has not been made, the only remedy available to such householders is to request that the Secretary of State or Ofwat makes an order and, if one is not forthcoming, to pursue judicial review proceedings against either the Secretary of State or Ofwat on the grounds of their failure to act. Householders do not have the right directly to enforce section 94 against Regulated Companies. This was confirmed by the House of Lords' decision in *Marcic v Thames Water Utilities* [2003] UKHL 66.

The UK has experienced prolonged periods of rain during recent years which has put pressure on combined sewerage systems and the EA has issued numerous flood alerts and flood warnings throughout this period. The AMP6 Period saw Anglian Water adopt a new approach to the problem of flooding from its sewers. Money has been spent on measures to reduce the risk of flooding, rather than on removing that risk completely through large-scale engineering schemes. Such schemes can cost millions of pounds to protect a handful of properties, making them an inefficient use of money and limiting the number of customers helped. This change of focus allows Anglian Water to reduce the risk of flooding to far more properties at a lower cost. Efforts are now focused in areas that have seen more than one flood in a twelve month period.

Combined Sewer Overflows (“CSOs”)

The development of urban drainage systems has evolved over time. Sewage systems are designed to cope with the combined flow of sewage and storm water up to a particular level, which is consented to by the EA (the “**Consented Discharge**”). On 8 May 2018, the EA published a guidance document for water companies which set out the appropriate process for submitting permit applications for storm overflows. When, during heavy rains, the level of sewage and storm water exceeds the level that the sewerage systems are designed to cope with, the Consented Discharge is allowed to flow into the relevant watercourse in order to prevent flooding in the surrounding area. The drainage systems vary considerably in their age, design, and hydraulic performance and the EA regulates and monitors the impact of these discharges on the aquatic environment. Any discharges which are considered to be unsatisfactory may be required to be improved through the investment programme agreed as part of the Periodic Review process.

The European Commission commenced infraction proceedings in 2010 against the Government relating to the implementation of the UWWTD in relation to untreated waste water discharges at CSOs in five specific localities (London, Whitburn, Beckton, Crossness and Mogden). In October 2012, the ECJ held that the Government was in breach of the UWWTD by failing to ensure that appropriate systems are in place for the collection and treatment of urban waste water. The final judgment found against the Government. In January 2019, the Commission issued a last reminder to the UK to comply with the decision before they refer the case back to the Court and request financial sanctions. A DEFRA spokesperson commented that UK compliance was at or above EU average levels and that the Government was considering its response. Any significant new obligations arising from this case would be expected to constitute a change in legal requirement and any expenditure could be included through the Periodic Review or Interim Determination process.

Discharge into Inland Fresh Waters, Coastal Waters or Relevant Territorial Waters

If Regulated Companies wish to discharge polluting matter into such water bodies, whether from continuous or intermittent (Storm/CSO) outfalls, they must seek an environmental permit from the EA. The EA has the power to grant or refuse permits, to impose conditions, or to modify, vary or revoke such permits. Permit conditions may control the quantity of a discharge or the concentrations of particular substances in it, or impose broader controls on the nature of a discharge. They are based on objectives set by the EA for the quality of the relevant receiving water as well as any relevant water quality standards in EU Directives and these will be retained as domestic law at the end of the Brexit transition period.

Non-compliance

The EP Regulations 2016 provide for a number of water pollution offences which include causing or knowingly permitting any poisonous, noxious or polluting matter or any trade or sewage effluent to enter the above water bodies unless the relevant discharge is made under and in accordance with a regulatory consent (including an environmental permit), and failing to comply with the conditions in an environmental permit. The maximum penalty for these offences is an unlimited fine or five years' imprisonment. It is possible that the regulators may prosecute a company's directors, managers, secretary or others in similar offices, if it believes that the offence was committed with their consent or connivance, or was attributable to their neglect.

Under the EP Regulations 2016, a Regulated Company will be regarded as responsible for a discharge of sewage effluent if it was bound to receive into its sewers the matter included in that discharge. However, a Regulated Company will not be guilty of an offence under EP Regulations 2016 if the offending discharge is attributable to a discharge into a sewer by a third party which the Regulated Company was not bound to receive and could not reasonably have been expected to prevent.

Management of Water Resources

Water Resources Planning

The Water Act 2003 amended the WIA to provide that Regulated Companies are under a duty to further water conservation when they formulate or consider any proposal relating to their functions and has placed water resources management plans on a statutory footing: Regulated Companies have a duty to produce Water Resources Management Plans, publish and consult upon them. These plans set out how the Regulated Company will manage and develop water resources so as to be able, and continue to be able, to meet its water supply duties under the WIA. It must address, amongst other things, the Regulated Company's estimate of the water it will need to meet its duties, and the measures it intends to take to manage and develop resources. The planning period is 25 years.

Anglian Water published its 2019 Water Resources Management Plan ("WRMP") in December 2019. Effective from April 2020, the 2020-2045 WRMP's key elements are: (i) installation of smart meters and other household water efficiency measures, so that customers only use the water they need; (ii) reducing leakage from pipes to 106 Ml/d by 2045, a reduction of 42%; (iii) build on existing infrastructure to develop a more integrated strategic water supply grid; and (iv) in the long-term, developing additional supplies.

Water Industry National Environment Programme ("WINEP")

The WINEP comprises a set of actions that the EA has requested all 20 water companies operating in England to complete between 2020 and 2025, in order to contribute towards meeting their environmental obligations.

In order to ensure its abstractions are sustainable, Anglian Water is implementing a number of mitigation schemes alongside sustainability reductions. WINEP mitigation options include river restoration, river support, recirculation, and adaptive management. Mitigation options are to be delivered according to their obligation dates, mainly in 2024. The sustainability reductions in the WRMP are dependent upon the delivery of the selected WINEP mitigation options. If for whatever reason these options cannot be delivered, then the sustainability reductions required would be much greater so the programmes of demand-side and supply-side options would need to be brought forward and new options added.

Sustainability Changes and Reductions

The management of water resources by Regulated Companies is subject to a number of challenges, including: dry weather conditions; climate change; increasing demands for water; rises in leakage rates; aquifer contamination from industrial and agricultural pollution; and reductions in abstraction required to ensure sustainable river systems. In relation to the latter, the EA has been instructed by DEFRA to use its powers to amend, modify or revoke damaging abstraction licences.

In previous years, funding for environmental sustainability reductions has been provided through the Periodic Review with the solution chosen to achieve the abstraction reduction (such as use of an alternative water supply source) being funded prior to its implementation. From 15 July 2012, the EA was given the power to lower the authorised quantity of existing abstraction licences without paying compensation if it believes it is necessary to protect any waters or underground strata, or any flora or fauna dependent on them, from “serious damage”. The EA have confirmed that any such revocation or variation will be assessed against a set of principles to determine whether there is a need to protect the environment from “serious damage” and throughout any process of assessment there will be consideration of any cost-effective alternatives to changing the licence to meet environmental objectives. At this time, a funding route for sustainability reductions will need to be found, and it is possible that the Periodic Review mechanism will be used again.

In December 2015, the Resilience Task and Finish Group, an independent body reporting to Ofwat, published a final report, the purpose of which was to advise Ofwat following the introduction of its new primary duty of resilience under the Water Act 2014. The report produced a series of 10 key recommendations which were designed to feed into Ofwat’s ongoing reform of policy framework for the 2019 price review.

Strategic Policy Statement

In accordance with Section 2A of the WIA, Ofwat is required to carry out its functions in accordance with the Strategic Policy Statement. DEFRA announced a new Strategic Policy Statement for Ofwat to replace the previous version in March 2017. This document sets out the Government’s two priorities and objectives for Ofwat’s regulation of the water sector in England. The two priorities set out in the Statement are to secure long-term resilience and to protect customers.

Principal EU Law

The activities of Regulated Companies are affected by the requirements of both EU Directives which provide a common framework for stewardship of the environment and social considerations and national and local level legislation and regulation. The European Court of Justice (the “ECJ”, now the Court of Justice of the European Union), has held that EU law has priority over national law. EU directives are known as secondary law. They are binding as to the results to be achieved, but the means of implementation and transposition into national laws are a matter for each EU Member State. Such EU directives include the Water Framework Directive (2000/60/EC), the Urban Waste Water Treatment Directive (91/271/EEC), the Habitats Directive (92/43/EEC), the Birds Directive (2009/147/EC) and the Industrial Emissions Directive (2010/75/EU) (the “IED”) and are discussed below. EU law remains in full force and effect in the UK until the end of the transition period on 31 December 2020. The European Union (Withdrawal) Act 2018 effectively provides for EU environmental legislation to continue to apply as domestic legislation following withdrawal from the EU, with some necessary modifications implemented through statutory instruments to allow it to continue to function. In addition, the Environment Bill which was reintroduced to Parliament in January 2020 will establish an Office for Environmental Protection, whose role amongst other things will be to replace the role of the European Commission in ensuring EU legal obligations imposed at the national level on the UK Government are complied with.

Water Framework Directive

Directive 2000/60/EC establishing a framework for community action in the field of water policy, (the “**Water Framework Directive**”) was adopted in 2000. It is intended to rationalise existing EU water legislation in order to provide a framework for the protection of inland and coastal waters from hazardous substances and to promote sustainable water consumption. The Directive was transposed into English and Welsh law by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2003 which came into force on 2 January 2004. The EA is responsible for monitoring and reporting on the objectives of the Water Framework Directive (WFD) on behalf of government. The EA works with Ofwat, local government, non- governmental organisations (NGOs) and a wide range of other stakeholders including local businesses, water companies, industry and farmers in order to achieve the objectives under the Water Framework Directive.

The Water Framework Directive establishes a programme set out over three ‘six year’ cycles, the first of which commenced in December 2009 with the publication of the first River Basin Management Plans. Updated 2015 plans were published on 18 February 2016. These plans include lists of measures that Regulated Companies and other parties need to undertake to achieve the objectives of the Water Framework Directive. These require specific actions on the part of Regulated Companies, to be undertaken within defined timescales. These actions include improving water recycling treatment works at various locations, and working with the EA to modify abstraction licences for certain areas to achieve more sustainable levels of abstraction. These programmes of measures necessitate Regulated Companies incurring material expenditure. However, these measures were captured in the WINEP and received funding approval through the Periodic Review process. Spreadsheets showing the full programmes of measures and detailing the involvement of individual Regulated Companies for each River Basin Management Plan can be viewed on the EA website. The next cycle of consultation is underway for the third iteration of river basin management plans.

It is noteworthy that many of the investments driven by the Water Framework Directive will also increase the level of carbon emissions of Regulated Companies.

Jurisprudence from the European Court of Justice, notably in the case of *Bund für Umwelt und Naturschutz Deutschland* (Judgment) [2015] EUECJ C-461/13, indicate that a Member State must refuse to grant authorisation for a development project where the project might either worsen the status of a body of water, or jeopardise its attainment of good surface water status. This judgment makes it clear that in order to comply with the Water Framework Directive, Member States must not simply set out a high level statement of intent by preparing River Basin Management Plans but must also intervene to refuse to authorise projects which would jeopardise a body of water. The expectation is that Member States will also seek to achieve the objectives set out in their River Basin Management Plans by imposing additional conditions in environmental permits. On 31 July 2014 DEFRA published ministerial guidance on river basin planning for the EA and on 18 February 2016 published a series of river basin management plans. The Anglian basin plan sets out the current status of the Anglian river basin and environmental objectives for improving the quality of the waterways.

The Priority Substances Directive (2008/105/EC) entered into force on 13 January 2009 and introduces environmental quality standards for water. It was, for the most part, transposed into UK law through Directions to the Environment Agency (the River Basin Districts Typology, Standards and Groundwater Threshold Values (Water Framework Directive) (England and Wales) Direction 2010 (the “**Typology Direction**”) and the River Basin Districts Surface Water and Groundwater Classification (Water Framework Directive) (England and Wales) Direction 2009). The directive replaced five existing directives, and sets harmonised quality standards for 33 ‘priority’ substances (those which are most harmful to the aquatic environment, such as mercury), thereby translating the concept of “good status” into transparent numerical values. The Priority Substances (Amendment) Directive 2013 (2013/39/EU) added twelve new substances to the ‘priority’ substances list and added three pharmaceuticals to a ‘watch list’ of emerging pollutants. Article 8 of the Directive requires the European Commission to develop a strategic approach to pollution of water by pharmaceutical substances, which they published in March 2019 setting out six areas of action to address the impact of pharmaceuticals on the environment.

Groundwater Directive

A groundwater directive (the “**Groundwater Directive**”) was adopted in December 2006. Under the Groundwater Directive, Member States are required to monitor and assess groundwater quality on the basis of common criteria and to identify and reverse trends in groundwater pollution. If groundwater quality is improved, Regulated Companies may benefit from reduced costs in cleaning abstracted water.

Commission Directive 2014/80/EU amended the Groundwater Directive, altering the methodology for Member States to follow in calculating threshold values for pollutants in water, extending the list of pollutants for which Member States must set threshold values and amending the information Member States must provide in river basin management plans.

The Groundwater Directive is implemented through the EP Regulations 2016 (as amended). This regime may generate compliance costs to meet the requirements to protect, enhance and restore groundwater bodies and to reverse any significant upward trends of pollutants.

Urban Waste Water Treatment Directive

The Urban Waste Water Treatment Directive (91/271/EEC) (“**UWWTD**”) relates to the collection, treatment and discharge of urban waste water and was transposed into UK legislation by the Urban Waste Water Treatment Regulations 1994 (as amended). The UWWTD lays down minimum requirements for the treatment of municipal water recycling and for the disposal of sewage sludge which arise from the treatment process and aims to control the discharge of industrial wastewaters. Receiving waters are classified according to their “sensitivity” to nutrient enrichment, with “sensitive” waters being subject to more stringent treatment requirements. The European Commission commenced infraction proceedings against the U.K., alleging that it had failed to implement the UWWTD correctly by inaccurately designating “sensitive” waters. The case was referred to the ECJ, where it was heard on 5 March 2009, and judgment was handed down on 10 December 2009. The ECJ found the U.K. was not in breach of the UWWTD Directive in respect of certain coastal and estuarial waters since the four criteria for eutrophication established by EU case law were not met. This is a significant decision for Regulated Companies since, had the ECJ found the U.K. was in breach of its obligations, Regulated Companies may have been required to make material investment in further treatment processes which would in due course be expected to be funded through the normal Ofwat price setting mechanism.

However, in 2010 the European Commission commenced infraction proceedings against the Government for its implementation of the UWWTD in relation to untreated waste water discharges at combined sewer overflows (CSOs) in five specific localities (London, Whitburn, Beckton, Crossness and Mogden). The case was referred to the ECJ, and in October 2012, the ECJ held that the Government was in breach of the UWWTD by failing to ensure appropriate systems were in place for the collection of urban waste water in London and Whitburn, and for the treatment of urban waste water at the Becton, Crossness and Mogden treatment plants. On 8 May 2018, the EA published a guidance document for water companies which set out the appropriate process for submitting permit applications for storm overflows. As indicated above, the Commission issued a last reminder to the UK in January 2019 to comply with this decision.

Industrial Emissions Directive

The IED came into force on 6 January 2011 and has been implemented through the Environmental Permitting regime in England and Wales, which is described above.

The Habitats and Birds Directives

Directive 92/43/EEC on the conservation of natural habitats and wild flora and fauna, (the “**Habitats Directive**”) and Directive 2009/147/EC on the conservation of wild birds (the “**Birds Directive**”) (the codified version of its predecessor Directive 79/409/EEC) establish a network of areas protected by designation across Europe called “Natura 2000” to conserve endangered habitats classified as special protection areas (“**SPA**”) under the Birds Directive and Special Areas of Conservation (“**SAC**”) under the Habitats Directive. Anglian Water owns or has an interest in sites which are directly affected by such designations and also conducts operations from sites adjacent to areas which are protected, which could materially affect operations and the ability to abstract water in or adjacent to such designated areas. Anglian Water has implemented a major scheme to protect the habitat for wildfowl at its largest reservoir, Rutland Water. The scheme was required to ensure compliance of resource development investment with the Habitats Regulations and also satisfied the review of consents under the Directive. The designation of SPAs and SACs, pursuant to the Habitats

Directive, may negatively impact upon a Regulated Company's plans for future sites or operations. This risk is significantly increased by the effects of climate change, such as the increasing risk of drought.

10.9 Competition in the Water Industry

10.9.1 General

Each Regulated Company currently effectively holds a geographic monopoly within its appointed area for the provision of water and water recycling services although there is some limited competition. Ofwat has concurrent powers with the CMA to apply UK/EU competition law on anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry. In March 2017, Ofwat published guidance on its approach to applying the Competition Act and the corresponding provisions in Articles 101 and 102 of the Treaty on the Functioning of the European Union in the water and wastewater sector in England and Wales. Ofwat has stated that it will use its powers under the Competition Act to investigate and prohibit anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry. Ofwat has a duty to consider whether the exercise of its powers under the Competition Act is more appropriate before using its powers under the WIA to promote competition.

The current main methods for introducing competition are:

- new appointments and variations (NAVs) – where one company can replace another as the statutory undertaker for water and/or sewerage services in a specified geographical area within the other Regulated Company's appointed territory (see Chapter 10.3.2, "*Regulation of the Water and Water Recycling Industry in England and Wales – Licences – Termination of a Licence*" above). NAVs can be granted for sites which do not already receive public water and/or sewerage services, sites on which premises use or are likely to use at least 50 mega litres of water per annum, or where the incumbent undertaker agrees to transfer part of its service area to a different company. In September 2018, Ofwat published a revised version of its application guidance and application form for NAVs, containing minor amendments to the earlier version;
- facilitating developers, or their contractors, to provide new water mains and service pipes instead of asking Regulated Companies to do the work ("self-lay"). The Water Act 2003 introduced a statutory framework for self-lay (see below);
- water supply licence (with wholesale authorisation) – when a water supply licensee introduces water into the supply system and supplies water to its customer's eligible premises (i.e. its non-household customer) using a Regulated Company's network (referred to as "common carriage"). All Regulated Companies maintain access codes which set out the conditions, including indicative access prices, under which licensees may introduce water into their networks. The sections of the WIA dealing with common carriage have been altered by the Water Act 2014, but those alterations have not yet been fully implemented;
- water supply licence (retail) – when a water supply licensee purchases wholesale supplies of water from the incumbent water undertaker and supplies water at the

retail level to non-household premises. The Water Act 2003 introduced the original statutory framework for the water supply licensing (“WSL”) regime (see Chapter 10.9.2, “*The Water Act 2003*” below). As of April 2017, the WSL regime has been replaced by the water supply and sewerage licensing (“WSSL”) regime. Regulated Companies publish a wholesale charges scheme detailing charges to be levied on retailers, who then compete for customers’ business based on price and other terms;

- sewerage licence (retail) – when a sewerage licensee purchases sewerage services from the incumbent sewerage undertaker and provides sewerage services at the retail level from non-household premises. The sewerage licensing regime was introduced by the Water Act 2014 as part of the WSSL regime. Regulated Companies publish a wholesale charges scheme detailing charges to be levied on retailers, who then compete for customers’ business based on price and other terms;
- cross border supplies – where a customer in an area adjacent to a neighbouring Regulated Company’s service area can connect to another Regulated Company’s network and receive a supply;
- private suppliers or private sewers including on-site water and effluent treatment; and
- from 2020, emerging markets in water resources, bio-resources, leakage detection and demand management.

In May 2019, Ofwat announced that it considered that there were numerous, reoccurring examples of incumbent Regulated Companies failing to support the development of effective markets (particularly the markets for business retail and developer services) by either giving insufficient thought to the potential impact that their actions, inaction, or active opposition or delaying of initiatives that are aimed at improving such markets. Ofwat therefore published a letter sent to incumbent Regulated Companies outlining its plans to encourage the development of effective markets. The letter explains that Ofwat promotes the targeted use of markets where these can deliver additional benefits for customers and society (the letter provides various examples of action it is taking to reiterate its expectations of the role that incumbent water companies have in supporting the development of effective markets). As a result, Ofwat decided to monitor incumbent Regulated Companies over a period of a few months to evaluate their engagement and support for initiative aim at driving improvements, and the development of new markets.

In August 2020, Ofwat published a report detailing the outcome of this review of incumbent support for markets in the water sector. This covered the market for non-domestic retail, inset appointments and development sites, as well as new markets for water resources and bioresources. Overall Anglian Water performed favourably in Ofwat’s assessment; it considered Anglian Water well-informed as to its responsibilities and supportive of market development, and identified some opportunities for Anglian Water to make further improvements and take a leadership role in the industry. Ofwat continues to encourage incumbent companies to support the development of market and outlined further incremental policy proposals for 2020 and

2021, with a focus on increased harmonisation across the industry (e.g. on tariff structures).

10.9.2 Future Direction of Competition

Ofwat completed its initial assessment of the costs and benefits of extending retail competition to residential water customers in England in 2016. In its final report to government, 'Costs and benefits of introducing competition to residential customers in England', published in September 2016, Ofwat states that the introduction of competition in the residential retail market in England would be likely to result in a net benefit. In its strategic priorities and objectives for Ofwat, published in September 2017, DEFRA noted that Ofwat should work with the government to develop the evidence base further, in order to enable the government to understand fully the case for extending competition to households. Ministers will then take a decision on whether or not to introduce competition in the household retail market.

An element of upstream competition has been introduced via information provisions pursuant to recent modifications to Regulated Companies' licences. These are intended to support the development and operation of markets in water resources, demand management, leakage services and bio-resources through the promotion of effective competition and by monitoring the progress and development of those markets. Licence modifications have been made to ensure that Regulated Companies do not show undue preference or discrimination in these new markets (Condition E1 of Anglian Water's appointment).

This represents an opportunity for new sources of water to be brought forward to market and utilised by Anglian Water to secure water supplies. Any third party options will be assessed as part of the development of the companies Water Resources Management Plan for 2024.

In addition to information provisions in the licences of Regulated Companies, Ofwat has previously stated its intention to act via price regulation, in particular:

- to introduce separate binding price controls for sludge/bio-resource treatment, transportation and recycling/disposal and water resources, which it has done at PR19;
- to allocate parts of the RCV to bio-resources and water resources, which it has done at PR19;
- to introduce a new access pricing framework for water resources in relation to the networks of English water companies;
- to inform, enable and encourage greater use of markets in the financing and provision of new assets by third parties; and
- to inform, enable and encourage greater use of markets in the financing and provision of new assets by third parties by means of "direct procurement". The PR19 Final Determination included Anglian Water's proposed investment in an Elsham treatment and transfer scheme as to be progressed via this route. This would see Anglian Water go to market for design, build, finance, operate and maintain partner, in a manner similar to 'Public Private Partnerships'. As

described above, Ofwat has consulted on licence amendments intended to support the introduction of DPC.

Ofwat also intends to use its new powers under the Water Act 2014 to establish rules for pricing bulk supplies, in particular to new inset appointees. Ofwat has issued guidance on this topic but has yet to issue formal rules.

10.9.3 Merger Regime

The WIA imposes a duty on the CMA to refer completed and anticipated water mergers (for which purpose a “merger” includes any acquisition of the ability materially to influence the policy of another water company by another water company or by a person who already holds such ability in respect of another water company) for a Phase II investigation. In determining whether such a merger operates, or may be expected to operate, against the public interest, the CMA must assess whether the merger prejudices Ofwat’s ability to make comparisons between different water companies. If the CMA decides there is a prejudicial outcome (i.e. that the merger has prejudiced, or may be expected to prejudice, the ability of Ofwat to make comparisons), it must decide whether action should be taken to remedy, mitigate or prevent that prejudice and, if so, what action. Remedies may be structural (i.e. the total or partial prohibition of a proposed merger; or the total or partial divestiture of a completed acquisition) or behavioural (such as amendments to a Regulated Company’s licence or a requirement to maintain separate management). In deciding on remedies, the CMA may have regard to any relevant customer benefits in the form of lower prices, higher quality, greater choice or innovation, of the merger under consideration. The CMA takes the final decision on remedial action and this decision can be appealed to the Competition Appeal Tribunal by any person sufficiently affected by the decision. Depending on the turnover of the parties involved, such mergers may require notification to the European Commission under the EU merger regime. In such circumstances, the CMA may still be able to investigate the effect of the merger, in order to protect the UK’s legitimate national interests.

Following reforms introduced by the Water Act 2014, exceptions to the CMA’s duty to refer a water merger for a Phase 2 investigation arise where the CMA believes that:

- (a) the merger is not likely to prejudice Ofwat's ability to make comparisons between water undertakings; or
- (b) such prejudice is likely to occur, but is outweighed by relevant customer benefits.

The CMA must ask Ofwat to give an opinion about whether these criteria are met. Ofwat must give its opinion in accordance with a pre-prepared "statement of methods", which it is obliged keep under review. The statement of methods document is designed to give clarity about the criteria Ofwat will use in giving opinions under the Water Act 2014.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company, or where the special water merger regime does not otherwise apply, generally applicable merger control rules will apply.

Depending on the turnover of the parties involved, transactions involving acquisitions of or by water companies may require notification to the European Commission under the EU merger regime.

In other cases (or following the end of the Brexit transitional period on 31 December 2020), the CMA may have jurisdiction to investigate the merger under the general UK merger control regime contained in the Enterprise Act 2002. Under that regime, the CMA must refer the transaction for a Phase II investigation if it believes there is a realistic prospect that the arrangement could be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services. If, following a Phase II investigation, the CMA concludes that the arrangement may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services it may impose appropriate remedies. In its investigations in respect of transactions in the water sector, the CMA is likely to consult with Ofwat.

In certain limited circumstances, the Secretary of State may also refer a merger to the CMA for a Phase II investigation into whether the arrangement could be expected to operate against the public interest. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU's merger regime.

10.9.4 Market Investigation Regime

The Enterprise Act contains the power for the CMA to investigate markets where it (or, in some circumstances, a minister or Ofwat) has reasonable grounds for believing that competition in that market is not effective. The reference by the CMA, the relevant minister or Ofwat will describe the goods or services and will indicate the feature(s) that relate to such goods or services that it believes have adverse effects on competition. The CMA will be responsible for remedies (which may include structural separation). However, where there are public interest considerations, the Secretary of State may intervene and remedy any adverse effects in the name of the public interest.

10.10 Regulatory Developments

10.10.1 Bulk supply and discharge pricing

In its November 2017 paper “New connections charges rules from April 2020 – England: Decision Document”, Ofwat set out a new approach to:

- requisition charges (where Regulated Companies lay new infrastructure at developers' request);
- asset payments (where Regulated Companies pay for water mains laid by a developer);
- charges for new infrastructure laid by Regulated Companies to enable new inset appointees to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company;

- payments for new infrastructure laid by new inset appointees to enable them to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company; and
- infrastructure charges (which are a one-off charge levied by Regulated Companies each time premises are connected to the water or sewerage network).

In order to provide a “level playing-field” between Regulated Companies, developers and new inset appointees, Ofwat proposed to set out rules whereby:

- deductions from the standard infrastructure charge will replace asset payments and payments for infrastructure laid by new inset appointees; and
- additions to the standard infrastructure charge will replace requisition charges and charges for infrastructure laid by Regulated Companies to facilitate new inset appointments.

These arrangements were confirmed in Ofwat’s July 2019 decision document “Charging rules for new connections and new developments for English companies” and took effect in April 2020.

Ofwat also proposed to produce guidance that it would apply to any dispute about bulk charges between an incumbent water company and a NAV. It proposed that Regulated Companies will apply a “wholesale-minus” approach to charges for ongoing water supplies and bulk sewerage services, meaning the application of household wholesale tariffs less the costs that Regulated Companies would no longer incur if a NAV supplied the new development instead. These arrangements were confirmed in Ofwat’s May 2018 paper “Bulk Charges for NAVs: Final Guidance”.

Anglian Water’s analysis of the effect of the wholesale-minus approach suggests a rather different charging profile than the large user tariff approach used previously, and not one that is necessarily more financially beneficial to NAVs in many cases.

The effect of the change of approach to infrastructure charges is to spread the current proportion of the overall cost of infrastructure for new development among all developers whomever they choose to deal with, whether Regulated Companies, new inset appointees, or self-lay providers. Ofwat’s intention is to boost the market for self-lay and new inset appointees although there appears to be the possibility of adverse cash flow consequences, particularly for developers and self-lay providers.

10.10.2 The Retail Exit Code Consultation

In March 2018, Ofwat released a consultation titled “Retail Exit Code: Price protections beyond March 2020” (the “**REC Consultation**”). The Retail Exit Code, which became effective in April 2017, sets out requirements for price and non-price terms in the default tariffs offered to non-household water and sewerage customers in England that have not yet engaged with the recently opened retail market. The price requirements were linked to PR16 which expired at the end of March 2020. In December 2018, Ofwat published a further consultation on price protections beyond March 2020, together with a consultation on the requirements in relation to non-price terms in the Retail Exit Code.

In July 2019, Ofwat published a decision in which it indicated that it would prioritise protections for customers, support the market where it is best able to flourish, work

with industry to resolve market frictions, and review the position again in the medium-term (which it indicated would be within two to three years). In particular, Ofwat decided to retain protections for the lowest-usage customers at a similar level, implement amended protections for medium-usage customers, and implement an obligation for companies to treat higher-usage customers in a reasonable and non-discriminatory manner but without specific protections.

10.10.3 Updated guidance on trading and procurement codes

In May 2018, Ofwat released updated guidance on trading and procurement codes titled “Trading and procurement codes – guidance on requirements and principles”. This guidance covers the requirements and principles that must be addressed in trading and procurement codes for water companies to claim water trading incentives for new trades. Ofwat has revised its guidance to reflect market developments and to provide greater clarity on the requirements for claiming incentives for new trades from 2020-2025. Ofwat has streamlined the approval process for new codes, which will now involve a four-week public consultation and, if no comments are received, automatic approval. However, Ofwat has not yet updated existing codes to align with the final guidance.

10.11 Customers’ Interests

10.11.1 General

Ofwat is responsible for protecting the interests of customers. It monitors the performance and level of service of Regulated Companies and the implementation of a “guaranteed standards” scheme in respect of customer care.

10.11.2 Guaranteed Standards

The Government’s guaranteed standards scheme (the “**Guaranteed Standards Scheme**”) is underpinned by regulations made under sections 38(2) to (4) and 95(2) to (4) and section 213 of the WIA, which prescribe standards of performance in connection with water supply and water recycling services in relation to matters such as the keeping of appointments with customers, dealing with enquiries and complaints from customers, giving notice of interruption of supply, installation of meters and flooding from sewers.

If a Regulated Company does not meet any of the prescribed standards, under the Guaranteed Standards Scheme, the customer is entitled to compensation, normally in the region of £20 for domestic customers and £20 or £50 for business customers (although, in the case of sewer flooding, it can be up to £1,000). The availability of such compensation is in addition to the availability of any other remedy the customer may have.

The Water Act 2014 extends guaranteed service standards (minimum service standards and payments for service failures) for household and non-household customers to all licensees operating in the retail market.

10.11.3 Consumer Council for Water

The Consumer Council for Water (“**CC Water**”) is a non-departmental public body whose role is to provide advice and represent consumers on water matters and sewerage, and to handle complaints made against Regulated Companies in England and Wales. The Water Act 2014 gave CC Water some additional responsibilities, which involve being consulted on developments in relation to the non-household retail market.

CC Water consists of a national Council, known as the Board, and two regional Committees for England and for Wales respectively.

10.11.4 Code for Adoption Agreements

In its “Code for Adoption Agreements” of November 2017, Ofwat required Regulated Companies operating mainly in England to agree, in consultation with developers and self-lay providers, a standard set of arrangements for adopting water and sewerage infrastructure laid by developers. These arrangements are to take the form of “Sector Guidance”, setting out the procedure for entering into self-lay and adoption agreements, and a “Model Adoption Agreement” setting out the contractual terms. Regulated Companies submitted sector guidance and a model adoption agreement for water infrastructure in January 2019 and for sewerage infrastructure in March 2019. Following a number of revisions, Ofwat approved the water sector documents in 2020 and has indicated that they will become “live” on 1 January 2021 and apply to all new pre-development enquiries and applications from this date. The sewerage sector documents were approved by Ofwat in 2019 and became “live” from 1 April 2020.

Among the detail of this Code was a requirement for companies to set certain standards for the self-lay process, and provide “redress” for failing to meet those standards. The sector guidance submitted provides for a much greater number of metrics to be reported to Water UK (the water industry trade association) and published, with redress payments for individual failings as well as a right to a written explanation, escalated through company management where appropriate.

It is hoped that the sector guidance and model agreements will deal with any shortcomings in and impediments to the self-lay market. It does, however, appear to be a matter of strong consensus among companies that the new financial incentives based on developer satisfaction will achieve far more than any redress available under the self-lay sector guidance, which has been designed to complement those incentives, rather than repeat them.

CHAPTER 11

LICENCE CONDITIONS – ANGLIAN WATER’S CONTROL OVER ITS OPERATIONS

11.1 Ring-fencing of the Regulated Business

As described in Chapter 5, “*Ring-fencing and the Anglian Water Services Financing Group*”, under Condition P of its Licence, as supplemented by RAG 5, Anglian Water must ensure that transactions between it and its associated companies in the Anglian Water Group are on an arm’s length basis, to prevent cross-subsidisation of activities.

As described in Chapter 5, “*Ring-fencing and the Anglian Water Services Financing Group*”, although Anglian Water is a subsidiary of AWGL, it has its own duties as a Regulated Company. Anglian Water’s Licence therefore requires Anglian Water, in conducting the regulated business, to behave as if it were substantially Anglian Water’s sole business and Anglian Water were a separate public limited company.

There are further obligations and responsibilities set out in Condition P.

11.2 Maintenance of Comparisons with other Water and Water Recycling Undertakers

Ofwat considers that the performance of Anglian Water’s regulated business should be transparent to regulators, customers and other water companies. Ofwat has stated that it will assess Anglian Water’s performance in terms of efficiency and customer service in exactly the same way as for other Regulated Companies. Accordingly, as described in Chapter 5, “*Ring-fencing and the Anglian Water Services Financing Group*”, Anglian Water publishes such information about its interim and annual financial results as would be required by the Listing Rules of the Financial Conduct Authority if Anglian Water’s shares were listed on the London Stock Exchange.

11.3 The Role of AWGL as the Owner of Anglian Water

Condition P of Anglian Water’s Licence includes a requirement for parent companies to give undertakings.

11.4 Procurement of Services

All Regulated Companies have the same statutory responsibilities for the proper discharge of their functions. Ofwat considered that any contracting-out of the day-to-day operations of Anglian Water’s regulated business must not interfere with its continuing responsibilities as a Regulated Company.

In July 2020, Ofwat removed Condition F1 from Anglian Water’s licence and, along with it, the requirement for Anglian Water to submit procurement plans and reports.

Ofwat, requires that Anglian Water as the licence holder must be able to demonstrate that it has the capacity at all times to meet its statutory functions, and that it retains sufficient control over its operations to enable it to deliver uninterrupted service to customers.

11.5 Recent modifications to the Licence arising from competitive activity

Since October 2007 the following modifications have been made to Anglian Water’s licence as a result of the granting by Ofwat of inset appointments:

- (a) 8 October 2007 - Inclusion of the Wynyard Business Park site, Hartlepool to Anglian Water from Northumbrian Water via inset appointment (water only);
- (b) 15 October 2007 - Exclusion of the Long Croft Road site in Corby to Independent Water Networks Ltd (“IWNL”) via inset appointment (water and sewerage);

- (c) 4 February 2008 - Exclusion of the Priors Hall site in Corby to IWNL via inset appointment (water and sewerage);
- (d) 4 September 2008 - Exclusion of the Billings Way site in Northampton to INWL via inset appointment (water only);
- (e) 17 December 2009 – Exclusion of the Brooklands site at Milton Keynes via inset appointment (water and sewerage);
- (f) 21 July 2011 – Exclusion of the Farndon Road site at Market Harborough to SSE Water via inset appointment (sewerage only);
- (g) 23 July 2012 - Exclusion of the Norwich Common site at Wymondham to SSE Water via inset appointment (water and sewerage);
- (h) 31 July 2013 - Inclusion of Woods Meadow development, Oulton, to AWS water supply area from Northumbrian Water via inset appointment (water only);
- (i) 20 January 2015 - Inclusion of Northstowe Phase 1 development, to AWS water supply area from South Staffs Water via inset appointment (water only);
- (j) 20 October 2016 - Exclusion of West Raynham to Icosa Water Limited via inset appointment (water and sewerage);
- (k) 21 May 2018 - Exclusion of Lincolnshire Lakes development, Scunthorpe to INWL via inset appointment (water and sewerage);
- (l) 18 August 2019 – Exclusion of the Henley Road site at Ipswich to IWNL via inset appointment (water only);
- (m) 24 August 2018 – Exclusion of Broadland Gate, Postwick to ICOSA Water Services Ltd via inset appointment (water and sewerage);
- (n) 19 January 2019 – Exclusion of Bidwell West, Houghton, to IWNL via inset appointment (sewerage only);
- (o) 1 April 2019 – Exclusion of the Limebrook Way site in Maldon, Essex, to IWNL via inset appointment (sewerage only);
- (p) 25 April 2019 – Exclusion of the Clipstone Park site in Leighton Buzzard to IWNL via inset appointment (water only);
- (q) 20 July 2019 – Exclusion of Wetherden Road, Elmswell, to Icosa Water Services Ltd via inset appointment (sewerage only);
- (r) 16 August 2019 – Exclusion of Grantham Road, Waddington, to Icosa Water Services Ltd via inset appointment (sewerage only);
- (s) 30 August 2019 – Exclusion of Colney Road site in Cringleford to IWNL via inset appointment (water and sewerage);
- (t) 11 September 2019 – Exclusion of Salhouse Road site in Norwich to IWNL via inset appointment (water and sewerage);
- (u) 16 September 2019 – Exclusion of the Factory Lane site in Brantham to IWNL via inset appointment (water only);

- (v) 20 September 2019 – Exclusion of the Cowdray Centre site in Colchester to IWNL via inset appointment (water and sewerage);
- (w) 24 September 2019 - Exclusion of the Malyons Lane, Hockley, to IWNL via inset appointment (sewerage only);
- (x) 13 November 2019 - Exclusion of St Giles Park, Norwich, to IWNL via inset appointment (water and sewerage);
- (y) 15 November 2019 - Exclusion of Ashby Road Daventry, to IWNL via inset appointment (water and sewerage);
- (z) 25 February 2020 - Exclusion of Oakwood Park, Clacton, to IWNL via inset appointment (sewerage only);
- (aa) 6 March 2020 - Exclusion of Palfrey Bungalow, Brentwood, to IWNL via inset appointment (water only);
- (bb) 3 June 2020 - Exclusion of Salhouse Road 3, Norwich, to IWNL via inset appointment (water and sewerage); and
- (cc) 30 July 2020 - Exclusion of Manor Road, Norwich, to IWNL via inset appointment (water only).

CHAPTER 12

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the “**Clearing Systems**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Bond Trustee or any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Bond Trustee or any Dealer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to section 17A of the Exchange Act. DTC holds securities that its participants (“**Participants**”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants (“**Direct Participants**”) include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“**Indirect Participants**”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “**Rules**”), DTC makes book-entry transfers of Registered Bonds among Direct Participants on whose behalf it acts with respect to Bonds accepted into DTC’s book-entry settlement system (“**DTC Bonds**”) as described below and receives and transmits distributions of principal and interest on DTC Bonds. The Rules are on file with the U.S. Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Bonds (“**Owners**”) have accounts with respect to the DTC Bonds similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Bonds through Direct Participants or Indirect Participants will not possess Registered Bonds, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Bonds.

Purchases of DTC Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Bonds on DTC’s records. The ownership interest of each actual purchaser of each DTC Bond (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Bonds are to be accomplished by entries made on the books of Participants acting on

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Bonds, except in the event that use of the book-entry system for the DTC Bonds is discontinued.

To facilitate subsequent transfers, all DTC Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Bonds, DTC will exchange the DTC Bonds for definitive Registered Bonds, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Bond, will be legended as set forth in Chapter 14, "*Subscription and Sale and Transfer and Selling Restrictions*".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Bonds to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Bonds, will be required to withdraw its Registered Bonds from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

Book-entry Ownership of and Payments in Respect of DTC Bonds

The Issuer may apply to DTC in order to have any Tranche of Bonds represented by a Registered Global Bond accepted in its book-entry settlement system. Upon the issue of any such Registered Global Bond, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Bond to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Bond will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Bond, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Bond accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Bond accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Bond. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Bond in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Bonds will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Bonds to DTC is the responsibility of the Issuer.

Transfers of Bonds Represented by Registered Global Bonds

Transfers of any interests in Bonds represented by a Registered Global Bond within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some states within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Bonds represented by a Registered Global Bond to such persons may depend upon the ability to exchange such Bonds for Bonds in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Bonds represented by a Registered Global Bond accepted by DTC to pledge such Bonds to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Bonds may depend upon the ability to exchange such Bonds for Bonds in definitive form. The ability of any holder of Bonds represented by a Registered Global Bond accepted by DTC to resell, pledge or otherwise transfer such Bonds may be impaired if the proposed transferee of such Bonds is not eligible to hold such Bonds through a Direct or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Bonds described in Chapter 14 under “*Subscription and Sale and Transfer and Selling Restrictions*”, cross-market transfers between DTC, on the one

hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (“**Custodian**”) with whom the relevant Registered Global Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Bonds of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Bonds will be effected through the Registrar, the Fiscal Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Bonds among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Obligors, the Bond Trustee, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Bonds represented by Registered Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

CHAPTER 13

TAXATION

Tax legislation, including in the country where the investor is domiciled or tax resident and in the Issuer's country of incorporation, may have an impact on the income that an investor receives from the Bonds.

13.1 UNITED KINGDOM TAXATION

The following is a general summary of the United Kingdom withholding taxation treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Bonds and the Guarantee. These comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of (including redeeming) Bonds. They relate only to the position of persons who are absolute beneficial owners of the Bonds. They assume that there will be no substitution of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Bonds). Prospective purchasers of Bonds should be aware that the particular terms of issue of any Series of Bonds as specified in the applicable Final Terms may affect the tax treatment of that and other Series of Bonds. This summary as it applies to United Kingdom taxation is based upon United Kingdom law and HM Revenue & Customs' published practice in effect on the date of this Prospectus and is subject to any change in law or practice that may take effect after such date (including with retrospective effect).

Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Bonds and the Guarantee. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds or the Guarantee even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Prospective purchasers who are in any doubt as to their tax position should consult their professional advisers.

13.1.1 Payment of Interest by the Issuer

Interest on Bonds which are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the United Kingdom Income Tax Act 2007 for the purposes of section 987 of the United Kingdom Income Tax Act 2007 may be paid without withholding or deduction for or on account of United Kingdom income tax ("**United Kingdom withholding tax**"). The London Stock Exchange is such a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List of the FCA within the meaning of, and in accordance with, the provisions of Part 6 of the FSMA and admitted to trading on the London Stock Exchange.

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

In other cases, interest on the Bonds which has a United Kingdom source will generally be paid by the Issuer under deduction of United Kingdom withholding tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs which may apply or to any direction to the contrary

from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Unless Bonds specified in the applicable Final Terms are USPP Bonds (in which regard, please refer to the paragraph headed ‘Taxation’ in Chapter 2 “*Overview of the Programme*” and Condition 10(b) of Chapter 8, “*Terms and Conditions of the Bonds*”), if United Kingdom withholding tax is imposed on payments of interest on the Bonds, then the Issuer will not pay any additional amounts in respect of such withholding.

13.1.2 Payments in respect of the Guarantee

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) is uncertain. Such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. The exemptions outlined in paragraph 13.1.1 (*Payment of Interest by the Issuer*) above may not apply to such payments by a Guarantor.

13.2 THE PROPOSED FINANCIAL TRANSACTIONS TAX (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain, (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

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

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States may decide to participate. Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

13.3 UNITED STATES FEDERAL INCOME TAXATION

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Bonds by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Bond which may be issued under the Programme, and the relevant Final Terms may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Bond as appropriate. Without limiting the foregoing, this summary does not address the material U.S. federal income tax consequences relevant to

Index Linked Bonds, Dual Currency Bonds, or Class B Bonds. This summary deals only with purchasers of Bonds that are U.S. Holders and that will hold the Bonds as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Bonds by particular investors (including consequences under the alternative minimum tax, the Medicare tax on net investment income, or rules regarding accrual basis taxpayers requiring the recognition of income in conformity with certain financial statements), and does not address state, local, non-U.S. or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Bonds as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Bonds in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Bonds with a term of 30 years or less. The following summary assumes the Bonds are properly treated as debt for U.S. federal income tax purposes.

*As used herein, the term “**U.S. Holder**” means a beneficial owner of Bonds that is, for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more*

U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Bonds will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax adviser concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Bonds by the partnership.

*The summary is based on the tax laws of the United States including the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and the United Kingdom (the “**Treaty**”) all as of the date hereof and all subject to change at any time, possibly with retroactive effect.*

Bearer Bonds are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Bond may be subject to limitations under U.S. income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Code.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE BONDS, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

13.3.1 Payments of Interest

(i) General

Interest on a Bond, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (a “**foreign currency**”), other than interest on a “Discount Bond” that is not “qualified stated interest” (each as defined below under “*Original Issue Discount – General*”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder’s method of accounting for

U.S. federal income tax purposes, reduced by the allocable amount of amortisable bond premium, subject to the discussion below. Interest paid by the Issuer on the Bonds and original issue discount (“**OID**”), if any, accrued with respect to the Bonds (as described below under “*Original Issue Discount*”) generally will constitute income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and the source of income rules to income attributable to the Bonds.

(ii) United Kingdom Withholding Taxes

As discussed in Chapter 13, “*Taxation*”, interest on Bonds which are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the United Kingdom Income Tax Act 2007, such as the London Stock Exchange, may be paid without withholding or deduction for or on account of United Kingdom income tax. A U.S. Holder of a Bond that is not listed on a recognised stock exchange, and is therefore not eligible for exemption from United Kingdom withholding tax, will nonetheless not be subject to United Kingdom withholding tax if, pursuant to the Treaty, HM Revenue & Customs issues a direction to the Issuer to pay interest to the U.S. Holder without deduction of tax. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of these United Kingdom taxes.

13.3.2 Original Issue Discount

(i) General

A Bond, other than a Bond with a term of one year or less (a “**Short-Term Bond**”), will be treated as issued with OID (a “**Discount Bond**”) if the excess of the Bond’s “stated redemption price at maturity” over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “**instalment obligation**”) will be treated as a Discount Bond if the excess of the Bond’s stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Bond’s stated redemption price at maturity multiplied by the weighted average maturity of the Bond. A Bond’s weighted average maturity is the sum of the following amounts determined for each payment on a Bond (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Bond’s stated redemption price at maturity. Generally, the issue price of a Bond will be the first price at which a substantial amount of Bonds included in the issue of which the Bond is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Bond is the total

of all payments provided by the Bond that are not payments of “qualified stated interest”. A qualified stated interest payment is generally any one of a series of stated interest payments on a Bond that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under “*Variable Interest Rate Bonds*”), applied to the outstanding principal amount of the Bond.

Solely for the purposes of determining whether a Bond has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Bond, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Bond.

U.S. Holders of Discount Bonds must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Bonds. The amount of OID includible in income by a U.S. Holder of a Discount Bond is the sum of the daily portions of OID with respect to the Discount Bond for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Bond (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Discount Bond may be of any length selected by the U.S. Holder and may vary in length over the term of the Bond as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Bond occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Bond’s adjusted issue price at the beginning of the accrual period and the Discount Bond’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Bond allocable to the accrual period. The “adjusted issue price” of a Discount Bond at the beginning of any accrual period is the issue price of the Bond increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Bond that were not qualified stated interest payments.

(ii) **Acquisition Premium**

A U.S. Holder that purchases a Discount Bond for an amount less than or equal to the sum of all amounts payable on the Bond after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “**acquisition premium**”) and that does not make the election described below under “*Election to Treat All Interest as Original Issue Discount*”, is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Bond immediately after its purchase over the Bond’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Bond after the purchase date, other than payments of qualified stated interest, over the Bond’s adjusted issue price.

(iii) **Market Discount**

A Bond, other than a Short-Term Bond, generally will be treated as purchased at a market discount (a “**Market Discount Bond**”) if the Bond’s stated redemption price at maturity or, in the case of a Discount Bond, the Bond’s “revised issue price” exceeds the amount for which

the U.S. Holder purchased the Bond by at least 0.25 per cent. of the Bond's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Bond's maturity (or, in the case of a Bond that is an instalment obligation, the Bond's weighted average maturity). If this excess is not sufficient to cause the Bond to be a Market Discount Bond, then the excess constitutes "*de minimis* market discount". For this purpose, the "revised issue price" of a Discount Bond generally equals its issue price, increased by the amount of any OID that has accrued on the Bond and decreased by the amount of any payments previously made on the Bond that were not qualified stated interest payments.

Any gain recognised on the sale or retirement of a Market Discount Bond (including any payment on a Bond that is not qualified stated interest) generally will be treated as ordinary income to the extent of the accrued market discount on the Bond. Alternatively, a U.S. Holder of a Market Discount Bond may avoid such treatment by electing to include market discount in income currently over the life of the Bond. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the U.S. Internal Revenue Service (the "**IRS**").

A U.S. Holder of a Market Discount Bond that does not elect to include market discount in income currently may be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Bond. Such interest is deductible when paid or incurred to the extent of income from the Market Discount Bond for the year. If the interest expense exceeds such income, such excess is currently deductible only to the extent that it exceeds the portion of the market discount allocable to the days on which the Market Discount Bond was held by the U.S. Holder.

Market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Bond with respect to which it is made and is irrevocable.

(iv) **Election to Treat All Interest as Original Issue Discount**

A U.S. Holder may elect to include in gross income all interest that accrues on a Bond using the constant-yield method described above under "*Original Issue Discount – General*" with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described below under "*Bonds Purchased at a Premium*") or acquisition premium. This election will generally apply only to the Bond with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Bond is made with respect to a Market Discount Bond, the electing U.S. Holder will be treated as having made the election discussed above under "*Market Discount*" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

(v) **Variable Interest Rate Bonds**

Bonds that provide for interest at variable rates ("**Variable Interest Rate Bonds**") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate

Bond will qualify as a “variable rate debt instrument” if (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Bond by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “**qualified floating rate**” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Bond is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Bond (e.g., two or more qualified floating rates with values within 0.25 per cent. of each other as determined on the Variable Interest Rate Bond’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Bond.

An “**objective rate**” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer’s stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Bond will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Bond’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Bond’s term. A “**qualified inverse floating rate**” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Bond provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Bond’s issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 0.25 per cent.), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “**current value**” of a rate is the value of the rate

on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Bond that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument”, then any stated interest on the Bond which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Bond that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” will generally not be treated as having been issued with OID unless the Variable Interest Rate Bond is issued at a “true” discount (i.e., at a price below the Bond’s stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Bond arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Bond.

In general, any other Variable Interest Rate Bond that qualifies as a “variable rate debt instrument” will be converted into an “equivalent” fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Bond. Such a Variable Interest Rate Bond must be converted into an “equivalent” fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Bond with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Bond’s issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Bond is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Bond. In the case of a Variable Interest Rate Bond that qualifies as a “variable rate debt instrument” and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Bond provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Bond as of the Variable Interest Rate Bond’s issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Bond is converted into an “equivalent” fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Bond is converted into an “equivalent” fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the “equivalent” fixed rate debt instrument by applying the general OID rules to the “equivalent” fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Bond will account for the OID and qualified stated interest as if the U.S. Holder held the “equivalent” fixed rate debt instrument. In each accrual period, appropriate

adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the “equivalent” fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Bond during the accrual period.

If a Variable Interest Rate Bond, such as a Bond the payments on which are determined by reference to an index, does not qualify as a “variable rate debt instrument”, then the Variable Interest Rate Bond will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Bonds that are treated as contingent payment debt obligations are addressed below under “*U.S. Dollar Contingent Bonds*”.

(vi) **Short-Term Bonds**

In general, an individual or other cash basis U.S. Holder of a Short-Term Bond is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Bonds on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Bond will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Bonds will be required to defer deductions for interest on borrowings allocable

to Short-Term Bonds in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Bond are included in the Short-Term Bond’s stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Bond as if the Short-Term Bond had been originally issued to the U.S. Holder at the U.S. Holder’s purchase price for the Short-Term Bond. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

(vii) **Fungible Issue**

As described under “*Terms and Conditions of the Bonds—Further Bonds*”, the Issuer may issue further Bonds with identical terms and without the consent of the holders of outstanding Bonds, if certain contractual restrictions on additional debt are satisfied. These further Bonds may in some cases be treated as part of a separate issue for U.S. federal income tax purposes, even if they are treated for non-tax purposes as part of the same series as outstanding Bonds. In such a case, the additional Bonds may be considered to have been issued with OID even if the outstanding Bonds of the same series had no OID, or the additional Bonds may have a greater amount of OID than the outstanding Bonds. Purchasers of bonds of such series after any such further issue may not be able to differentiate between additional bonds and the outstanding Bonds and, therefore, among other things, could (i) require purchasers of bonds of such series to accrue OID (or greater amounts of OID than they would have otherwise accrued) with respect to their bonds, (ii) affect the application of FATCA withholding with

respect to all bonds in such series, and these differences may affect the market value of the outstanding Bonds if the additional Bonds are not otherwise distinguishable from the original Bonds.

(viii) **U.S. Dollar Contingent Bonds**

Certain Series or Tranches of Bonds may be treated as contingent payment debt instruments (“**Contingent Bonds**”) for U.S. federal income tax purposes. Under applicable U.S. Treasury regulations, interest on the Contingent Bonds will be treated as OID and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the Issuer would issue a comparable fixed-rate non-exchangeable instrument (the “**comparable yield**”), in accordance with a projected payment schedule. This projected payment schedule must include each non-contingent payment on the Contingent Bond and an estimated amount for each contingent payment, and must produce the comparable yield. Interest inclusions will be adjusted upward and downward to reflect the difference, if any, between the actual payments received and the projected amount of such payments on the Contingent Bonds under the projected payment schedule. Special rules apply to the sale or other disposition of a Contingent Bond. The applicable Final Terms or any Prospectus or Series Prospectus will indicate the Issuer’s intention to treat a particular Series or Tranche of Bonds as Contingent Bonds.

The Issuer is required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on Contingent Bonds. This schedule must produce the comparable yield. The applicable Final Terms or any Prospectus or Series Prospectus may contain the comparable yield and projected payment schedule; otherwise a U.S. Holder of a Contingent Bond can submit a written request for the schedule to the attention of the Issuer, unless the applicable Final Terms or any Prospectus or Series Prospectus provides a different address for submitting requests for this information.

THE COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE WILL NOT BE DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF INTEREST ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF CONTINGENT BONDS FOR U.S. FEDERAL INCOME TAX PURPOSES AND WILL NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE BONDS.

The use of the comparable yield and the calculation of the projected payment schedule will be based upon a number of assumptions and estimates and will not be a prediction, representation or guarantee of the actual amounts of interest that may be paid to a U.S. Holder or the actual yield of the Contingent Bonds. A U.S. Holder will generally be bound by the comparable yield and the projected payment schedule determined by the Issuer unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly discloses such schedule to the IRS, and explains to the IRS the reason for preparing its own schedule. The Issuer’s determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

A U.S. Holder of a Contingent Bond will generally be required to include OID in income pursuant to the rules discussed in the fourth paragraph under “*Original Issue Discount — General*”, above. For these purposes, the “**adjusted issue price**” of a Contingent Bond at the beginning of any accrual period is the issue price of the Bond increased by the amount of

accrued OID for each prior accrual period, and decreased by the projected amount of any payments made on the Bond. No additional income will be recognised upon the receipt of payments of stated interest in amounts equal to the annual payments included in the projected payment schedule described above. Any differences between actual payments received by the U.S. Holder on the Contingent Bonds in a taxable year and the projected amount of those payments will be accounted for as additional interest (in the case of a positive adjustment) or as an offset to interest income in respect of the Bond (in the case of a negative adjustment), for the taxable year in which the actual payment is made. If the negative adjustment for any taxable year exceeds the amount of OID on the Contingent Bond for that year, the excess will be treated as an ordinary loss, but only to the extent the U.S. Holder's total OID inclusions on the Bond exceed the total amount of any ordinary loss in respect of the Bond claimed by the U.S. Holder under this rule in prior taxable years. Any negative adjustment that is not allowed as an ordinary loss for the taxable year is carried forward to the next taxable year, and is taken into account in determining whether the U.S. Holder has a net positive or negative adjustment for that year. However, any negative adjustment that is carried forward to a taxable year in which the Contingent Bond is sold, exchanged or retired, to the extent not applied to OID accrued for such year, reduces the U.S. Holder's amount realised on the sale, exchange or retirement.

If a U.S. Holder purchases a Contingent Bond for an amount that differs from the Bond's adjusted issue price at the time of the purchase, such U.S. Holder must determine the extent to which the difference between the price it paid for the Bond and the adjusted issue price of the Bond is attributable to a change in expectations as to the projected payment schedule, a change in interest rates, or both, and reasonably allocate the difference accordingly. A safe-harbour may apply to permit the allocation of this difference pro rata to OID accruals if the Contingent Bond is exchange listed property, as defined in applicable U.S. Treasury Regulations.

If a U.S. Holder purchases a Contingent Bond for an amount that is less than the adjusted issue price of the Bond, the amount of the difference allocated to a daily portion of OID or to a projected payment is treated as a positive adjustment to such Holder's income inclusion on the date the OID accrues or the payment is made. If a U.S. Holder purchases a Contingent Bond for an amount that is more than the adjusted issue price of the Bond, the amount of the difference allocated to a daily portion of OID or to a projected payment is treated as a negative adjustment to such U.S. Holder's income inclusion on the date the OID accrues or the payment is made.

Because any Form 1099-OID that a U.S. Holder receives will not reflect the effects of positive or negative adjustments resulting from its purchase of a Contingent Bond at a price other than the adjusted issue price determined for tax purposes, U.S. Holders are urged to consult with their tax advisers as to whether and how adjustments should be made to the amounts reported on any Form 1099-OID.

13.3.3 Bonds Purchased at a Premium

A U.S. Holder that purchases a Bond for an amount in excess of its principal amount or, for a Discount Bond, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium", in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Bond will be reduced by the amount of amortisable bond premium allocable (based on the Bond's yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for

U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “*Original Issue Discount – Election to Treat All Interest as Original Issue Discount*”.

13.3.4 Substitution of the Issuer

The terms of the Bonds provide that, in certain circumstances, the obligations of the Issuer under the Bonds may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of the Bonds by a U.S. Holder in exchange for new bonds issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new bonds (as determined for U.S. federal income tax purposes), and the U.S. Holder’s tax basis in the Bonds. U.S. Holders should consult their tax advisers concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Bonds.

13.3.5 Purchase, Sale and Retirement of Bonds

(i) General

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Bond equal to the difference between the amount realised on the sale or retirement and the U.S. Holder’s adjusted tax basis of the Bond. A U.S. Holder’s adjusted tax basis in a Bond generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder’s income with respect to the Bond and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder’s income with respect to the Bond, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Bond. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under “*Original Issue Discount – Market Discount*” or “*Original Issue Discount – Short-Term Bonds*” or attributable to changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Bond will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period in the Bonds exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Bond generally will be U.S. source.

(ii) Contingent Bonds

Gain from the sale or retirement of a Contingent Bond will be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder’s total interest inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Gain or loss realised by a U.S. Holder on the sale or retirement of a Contingent Bond will generally be foreign source.

A U.S. Holder’s tax basis in a Contingent Bond will generally be equal to its cost, increased by the amount of interest previously accrued with respect to the Bond (determined without regard to any positive or negative adjustments reflecting the difference between actual payments and projected payments), increased or decreased by the amount of any positive or negative adjustment that the Holder is required to make to account for the difference between

the Holder's purchase price for the Bond and the adjusted issue price of the Bond at the time of the purchase, and decreased by the amount of any projected payments scheduled to be made on the Bond to the U.S. Holder through such date (without regard to the actual amount paid).

13.3.6 Foreign Currency Bonds

(i) Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within each taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Bond) denominated in, or determined by reference to, a foreign currency, the accrual basis U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

(ii) OID

OID for each accrual period on a Discount Bond that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Discount Bond or a sale of the Discount Bond), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

(iii) Market Discount

Market discount on a Market Discount Bond that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the sale or retirement of the Market Discount Bond, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

(iv) Bond Premium

Bond premium (including acquisition premium) on a Bond that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Bonds were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Bond matures.

(v) Sale or Retirement

As discussed above under "*Purchase, Sale and Retirement of Bonds*", a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Bond equal to the difference between the amount realised on the sale or retirement and its adjusted tax basis in the Bond. A U.S. Holder's adjusted tax basis in a Bond that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Bond. The U.S. dollar cost of a Bond purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Bonds traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Bonds traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Bond equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Bond (as adjusted for amortized bond premium, if any) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Bond. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement.

(vi) Disposition of Foreign Currency

Foreign currency received as interest on a Bond or on the sale or retirement of a Bond will have a tax basis equal to its U.S. dollar value at the time the interest is received or on the settlement date. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Bonds or upon an exchange for U.S. dollars) will be U.S. source ordinary income or loss.

13.3.7 Backup Withholding and Information Reporting

In general, payments of interest and accruals of OID on, and the proceeds of a sale, retirement or other disposition of, the Bonds, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

13.3.8 Reportable Transactions

A U.S. taxpayer that participates in a “reportable transaction” will be required to disclose its participation to the IRS. Under the relevant rules, if the Bonds are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Bonds as a reportable transaction if the loss exceeds the relevant threshold in the regulations (U.S. \$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S. \$10,000 in the case of a natural person and U.S. \$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules.

13.3.9 Foreign Financial Asset Reporting

U.S. Holders are subject to reporting requirements on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds U.S. \$50,000 at the end of the taxable year or U.S. \$75,000 at any time during the taxable year. The thresholds are higher for individuals living outside of the United States and married couples filing jointly. The Bonds are expected to constitute foreign financial assets subject to these requirements unless the Bonds are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisors regarding the application of this legislation.

13.4 FATCA WITHHOLDING

Pursuant to certain provisions of U.S. law, commonly known as “FATCA”, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in such jurisdictions. Certain aspects of the

application of these rules to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, is not clear at this time. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining “foreign passthru payments” are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Bonds (other than Bonds that are treated as equity for U.S. tax purposes or that do not have a fixed term) issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” and, therefore, would not be subject to FATCA withholding unless materially modified after such date (including by substitution of the Issuer). However, if additional bonds of a series (as described in Chapter 8 “*Terms and Conditions of the Bonds—Further Issues*”) that are not distinguishable from Bonds issued as part of such series prior to the expiration of the grandfathering period are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all bonds within such series, including grandfathered Bonds within such series, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

CHAPTER 14

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement (the “**Programme Agreement**”) dated 23 July 2002 as amended or supplemented from time to time, agreed with the Obligors a basis upon which they or any of them may from time to time agree to purchase Bonds. Any such agreement will extend to those matters stated under Chapter 7, “*Form of the Bonds*” and Chapter 8, “*Terms and Conditions of the Bonds*”. In the Programme Agreement, each of the Obligors has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Bonds during and after the offering of the Tranche. Specifically such persons may over-allot (provided that, in the case of any Tranche of Bonds to be admitted to trading on the Market, the aggregate principal amount of Bonds allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or create a short position in the Bonds for their own account by selling more Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Bonds by bidding for or purchasing Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Bonds are reclaimed if Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations permitted stabilising activities may only be carried on by the Stabilising Manager named in the applicable Final Terms or any agent of his and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the relevant Tranche of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds.

14.1 Transfer Restrictions

As a result of the following restrictions, purchasers of Bonds in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Bonds.

Rule 144A Global Bonds

Each purchaser of Rule 144A Global Bonds or person wishing to transfer an interest from one Rule 144A Global Bond to another will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (a) that it is a QIB, purchasing (or holding) the Bonds for its own account or for the account of one or more QIBs and it is aware, and each beneficial owner of the Bonds has been advised, that any sale of such Bonds to it is being made in reliance on Rule 144A;
- (b) that the Bonds and the guarantees in respect thereof are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Bonds and the guarantees in respect thereof have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold except as set forth below;

- (c) that if in the future it decides to reoffer, resell, pledge or otherwise transfer the Bonds or any beneficial interests in the Bonds, it will do so, prior to (x) the date which is one year (or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereunder) after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Bonds or (y) such later date, if any, as may be required by applicable law, only (a) to the Issuer or any affiliate thereof, (b) for so long as the Bonds are eligible for resale pursuant to Rule 144A, inside the United States to a person whom the seller or any person acting for the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB to whom it gives notice that the transfer is being made in reliance on Rule 144A, (c) in an offshore transaction in compliance with Rule 903 or Rule 904 of Regulation S, (d) pursuant to any other exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each of the foregoing cases in accordance with any applicable state securities laws;
- (d) it will, and will require each subsequent holder to, notify any purchaser of the Bonds from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (e) that Bonds initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Bonds and before an interest in a Rule 144A Global Bond may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Bond, it will be required to provide the Transfer Agent with a written certification as to compliance with applicable securities laws;
- (f) that the Rule 144A Global Bonds, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY AND THE GUARANTEES IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, (X) PRIOR TO THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREOF) AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OR (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) FOR SO LONG AS THE BONDS ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER OR ANY PERSON ACTING FOR THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM

THE SELLER GIVES NOTICE THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR RULE 904 OF REGULATION S, (4) PURSUANT TO ANY OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF THE FOREGOING CASES IN ACCORDANCE WITH ANY APPLICABLE STATE SECURITIES LAWS; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”; and

- (g) that the Issuer, the Registrar, the Dealers and their affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Bonds as a fiduciary or agent for one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Regulation S Global Bonds

Each purchaser of Regulation S Global Bonds in offshore transactions pursuant to Regulation S and each subsequent purchaser of such Bonds in resales prior to the expiration of the distribution compliance period (defined as 40 days after the completion of the distribution of all the Bonds of the tranche of which such Bonds form a part), by accepting delivery of this Prospectus and the Bonds, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Bonds are purchased will be, the beneficial owner of such Bonds and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (2) It understands that such Bonds and the guarantees in respect thereof have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Bonds except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in compliance with Rule 903 or Rule 904 under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.

- (3) It understands that such Bonds, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following effect:

“THIS BOND AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, ASSIGNED, PLEDGED, TRANSFERRED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE BONDS OF THE TRANCHE OF WHICH THIS BOND FORMS PART.”

- (4) It understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (5) It understands that the Bonds offered in reliance on Regulation S will be represented by the Regulation S Global Bond. Prior to the expiration of the distribution compliance period, before any interest in the Rule 144A Global Bond may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Bond, it will be required to provide a Transfer Agent with a written certification as to compliance with applicable securities laws.

Definitive IAI Registered Bonds

Institutional Accredited Investors who purchase Registered Bonds in definitive form offered and sold in the United States are required to execute and deliver to the Registrar an IAI Investment Letter, except as otherwise specified in the applicable Final Terms. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Bonds will be issued in definitive registered form, see Chapter 7, *“Form of the Bonds”*.

The IAI Investment Letter will state, among other things, the following:

- (a) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;
- (b) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Bonds, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts’ investment for an indefinite period of time;
- (c) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Bonds and that the Institutional Accredited Investor is acquiring the Bonds purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion over and not with a view to any distribution of the Bonds, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control;

- (d) that the Bonds and the guarantees in respect thereof are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Bonds and the guarantees in respect thereof have not been and will not be registered under the Securities Act or any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold except as set forth below;
- (e) that if in the future it decides to reoffer, resell, pledge or otherwise transfer the Bonds or any beneficial interests in the Bonds, it will do so only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller or any person acting for the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) in an offshore transaction in compliance with Rule 903 or Rule 904 under the Securities Act, (d) to another Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee, (e) pursuant to any other exemption from registration provided under the Securities Act (if available) or (f) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (f) it will, and will require each subsequent holder to, notify any purchaser of the Bonds from it of the resale restrictions referred to in paragraph (v) above, if then applicable;
- (g) that Bonds offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Bonds;
- (h) that the Bonds will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY AND THE GUARANTEES IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER OR ANY PERSON ACTING FOR THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) TO ANOTHER INSTITUTIONAL ACCREDITED INVESTOR, SUBJECT TO DELIVERY TO THE REGISTRAR OF A TRANSFER CERTIFICATE TO THE EFFECT THAT SUCH TRANSFER IS BEING MADE TO AN INSTITUTIONAL ACCREDITED INVESTOR, TOGETHER WITH A DULY EXECUTED IAI INVESTMENT LETTER FROM THE RELEVANT TRANSFEE; (5) PURSUANT TO ANY OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION

STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (i) that, in the event that the Institutional Accredited Investor purchases Bonds, it will acquire Bonds having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency); and
- (j) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Bonds as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Bonds in the United States to any one purchaser will be for less than U.S. \$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S. \$500,000 (or its foreign currency equivalent) principal amount and no Legended Bond will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Bonds.

14.2 Selling Restrictions

14.2.1 United States

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

The Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations promulgated thereunder.

In connection with any Bonds which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (“**Regulation S Bonds**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell or in the case of bearer bonds, deliver such Regulation S Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, of all Bonds of the Tranche of which such Regulation S Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them by Regulation S.

Each Dealer further represents and agrees that it has not and will not enter into any contractual arrangement with any distributor with respect to the distribution of the Bonds, except with its affiliates or with the prior written consent of the Issuer.

In addition, until 40 days after the commencement of the offering of any Series of Bonds, an offer or sale of such Bonds within the United States by any dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or an available exemption from registration under the Securities Act.

Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Bonds to QIBs pursuant to Rule 144A and each such purchaser of Bonds is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Bonds which may be purchased by a QIB pursuant to Rule 144A is U.S. \$100,000 (or the approximate equivalent thereof in any other currency). To the extent that the Issuer is not subject to or does not comply with the reporting requirements of section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer and each of the Obligors have agreed to furnish to holders of Bonds and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A (d)(4).

The Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States and for the resale of the Bonds in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. The Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of the Base Prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of

the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

Each issuance of Index Linked Bonds or Dual Currency Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Bonds, which additional selling restrictions shall be set out in the applicable Final Terms. Each Dealer agrees that it shall offer, sell and deliver such Bonds only in compliance with such additional U.S. selling restrictions.

14.2.2 Prohibition of Sales to EEA and UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA or in the United Kingdom. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”); and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

14.2.3 United Kingdom

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

- (a) in relation to any Bonds which have a maturity of less than one year from the date of issue,
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Bonds would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Obligor; and

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

14.2.4 Belgium

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a “**Belgian Consumer**”) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Bonds, directly or indirectly, to any Belgian Consumer.

14.2.5 Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other applicable laws, regulations and ministerial guidelines of Japan.

14.2.6 Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 of Australia) (“**Corporations Act**”) in relation to the Programme or any Bonds has been, or will be, lodged with the Australian Securities and Investments Commission (“**ASIC**”).

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

- (a) has not (directly or indirectly) made or invited, and will not make or invite, an offer of the Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any offering circular or any other offering material or advertisement relating to the Bonds in Australia, unless:

- (i) the aggregate consideration payable by each offeree or invitee is at least A\$500,000 (or its equivalent in other currencies, in either case, disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Corporations Act;
- (ii) such action complies with all applicable laws, regulations and directives (including without limitation, the licensing requirements set out in Chapter 7 of the Corporations Act);
- (iii) such action does not require any document to be lodged with ASIC; and
- (iv) the offer or invitation is not made to a person who is a “retail client” within the meaning of section 761G of the Corporations Act.

14.2.7 Singapore

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to acknowledge and agree, that this Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Bonds, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:
 - (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), unless otherwise specified before an offer of Bonds, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

14.2.8 Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“**FinSA**”) and no application has or will be made to admit the Bonds to trading or any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Bonds constitutes a prospectus pursuant to the FinSA, and neither this Prospectus nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

14.2.9 Canada

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

- (a) the sale and delivery of any Bonds to any purchaser who is a resident of Canada or otherwise subject to the laws of Canada or who is purchasing for a principal who is a resident of Canada or otherwise subject to the laws of Canada (each such purchaser or principal a “**Canadian Purchaser**”) by such Dealer shall be made so as to be exempt from the prospectus filing requirements, and exempt from or in compliance with the dealer registration requirements, of all applicable securities laws and regulations, rulings and orders made thereunder and rules, instruments and policy statements issued and adopted by the relevant securities regulator or regulatory authority, including those applicable in each of the provinces and territories of Canada (the “**Canadian Securities Laws**”);
- (b) where required under applicable Canadian Securities Laws, (i) it is appropriately registered under the applicable Canadian Securities Laws in each province and territory to sell and deliver the Bonds to each Canadian Purchaser that is a resident of, or otherwise subject to the Canadian Securities Laws of, such province or territory, and to whom it sells or delivers any Bonds, (ii) such sale and delivery will be made through an affiliate of it that is so registered if the affiliate is registered in a category that permits such sale and has agreed to make such sale and delivery in compliance with the representations, warranties and agreements set out herein, (iii) it is a dealer that is permitted to rely upon the “international

dealer exemption” contained in section 8.18 of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations (“**NI 31-103**”), has complied with all requirements of that exemption and has provided notice to such investor as required by NI 31-103, provided that a statement to such effect in any Canadian Offering Memorandum (as defined below) delivered to such Canadian Purchaser by the Dealer shall constitute such notice; or (iv) it is a dealer entitled to rely on a dealer registration exemption for trades with “accredited investors” made available under a blanket order issued by the applicable securities regulatory authority;

- (c) it will comply with all relevant Canadian Securities Laws concerning any resale of the Bonds by it and will prepare, execute, deliver and file all documentation required by the applicable Canadian Securities Laws to permit each resale by it of Bonds to a Canadian Purchaser;
- (d) it will ensure that each Canadian Purchaser purchasing from it (i) has represented to it that such Canadian Purchaser is a resident in, and subject to the Canadian Securities Laws of, a province or territory of Canada, or is a corporation, partnership, or other entity, resident and created in or organised under the laws of Canada or any province or territory thereof, (ii) has represented to it that such Canadian Purchaser (A) is an “accredited investor” as defined in section 1.1 of National Instrument 45-106-Prospectus and Registration Exemptions (“**NI 45-106**”) or Section 73.3 of the Securities Act (Ontario), as applicable, which categories set forth in the relevant definition of “accredited investor” in NI 45-106 correctly and all material respects describes such Canadian Purchaser and that it is not a person created or used solely to purchase or hold the Bonds as an accredited investor as described in section 2.3(5) of NI 45-106, and (B) if the Canadian Purchaser is an individual and/or the dealer is permitted to rely on the “international dealer exemption”, is a “permitted client” as defined in section 1.1 of NI 31-103 and which categories set forth in the definition of “permitted client” in NI 31-103 correctly and in all respects describes such Canadian Purchaser; and (iii) consents to disclosure of all required information about the purchase to the relevant Canadian securities regulatory authorities;
- (e) the offer and sale of the Bonds was not and will not be made through or accompanied by any advertisement of the Bonds, including, without limitation, in printed media of general and regular paid circulation, radio, television, or telecommunications, including electronic display or any other form of advertising or as part of a general solicitation in Canada by the Dealer;
- (f) it has not provided and will not provide to any Canadian Purchaser any document or other material that would constitute an offering memorandum except in compliance with Canadian Securities Laws (including any Canadian offering memorandum prepared and provided to the Dealers in connection with the issue of the relevant Bonds (the “**Canadian Offering Memorandum**”) or in compliance with any exemption available from additional disclosure requirements under Canadian Securities Laws);
- (g) it will ensure that each Canadian Purchaser is advised that no securities commission, stock exchange or other similar regulatory authority in Canada has reviewed or in any way passed upon the Canadian Offering Memorandum or the merits of the Bonds described therein, nor has any such securities commission, stock exchange or other similar regulatory

authority in Canada made any recommendation or endorsement with respect to the Bonds, provided that a statement to such effect in any Canadian Offering Memorandum delivered to such Canadian Purchaser by the Dealer shall constitute such disclosure;

- (h) it has not made and it will not make any written or oral representations to any Canadian Purchaser (i) that any person will resell or repurchase the Bonds purchased by such Canadian Purchaser; (ii) that the Bonds will be freely tradeable by the Canadian Purchaser without any restrictions or hold periods; (iii) that any person will refund the purchase price of the Bonds; or (iv) as to the future price or value of the Bonds; and
- (i) it will inform each Canadian Purchaser (i) that the Issuer is not a “reporting issuer” and is not, and may never be, a reporting issuer in any province or territory of Canada and there currently is no public market in Canada for any of the Bonds, and one may never develop; (ii) that the Bonds will be subject to resale restrictions under applicable Canadian Securities Laws; and (iii) such Canadian Purchaser’s name and other specified information will be disclosed to the relevant Canadian securities regulators or regulatory authorities and may become available to the public in accordance with applicable laws, provided that a statement to such effect in any Canadian Offering Memorandum delivered to such Canadian Purchaser by the Dealer shall constitute such disclosure.

14.2.10 General

Each Dealer agrees that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Obligor, the Bond Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Obligor, the Bond Trustee nor the Dealers represent that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree, and as shall be set out in the relevant Subscription Agreement or Dealer Accession Letter, as applicable.

CHAPTER 15

GENERAL INFORMATION

15.1 Authorisation

The establishment, operation and maintenance of the Programme has been duly authorised by the Issuer most recently by resolutions passed at a meeting of the Board of Directors on 30 September 2020. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

The giving of the Guarantee by each of Anglian Water, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited has been duly authorised by resolutions of the Board of Directors of each of Anglian Water, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited, respectively, dated 25 June 2002, 10 June 2003 and 25 April 2018.

The issue of the Initial Bond Policy by MBIA in respect of the first Series of Class A Wrapped Bonds issued under the Programme on the Effective Date was duly authorised by a resolution of the meeting of the board of directors of MBIA passed on 1 March 2002.

15.2 Listing of Bonds

The admission of the Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Bonds which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Tranche. The listing of the Programme in respect of Bonds is expected to be granted on or about 22 October 2020.

15.3 Documents Available

So long as Bonds are capable of being issued under the Programme, copies of the following documents, including all audit reports, will, when published, be available for inspection at the Issuer's website at <https://www.awg.com/investors/anglian-water-services---terms-and-conditions/anglian-water-services---investor-information/> :

- (a) the Memorandum and Articles of Association of each of the Issuer and the other Obligors;
- (b) the Agency Agreement, the Bond Trust Deed, the STID and the forms of the Global Bonds, the Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (c) a copy of this Prospectus;
- (d) in the case of Bonds in issue, the applicable Final Terms;
- (e) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms to this Prospectus;
- (f) each Bond Policy and all related Endorsements relating to each Tranche of Wrapped Bonds issued under the Programme;
- (g) the Common Terms Agreement;
- (h) the Security Agreement;
- (i) the STID;
- (j) each Liquidity Facility Agreement;

- (k) each Hedging Agreement;
- (l) each Authorised Loan Agreement;
- (m) the Existing Finance Lease;
- (n) the I&I Agreements; and
- (o) the Master Definitions Agreement.

Other than in relation to the documents which are deemed to be incorporated by reference (see “*Documents Incorporated by Reference*” above), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the FCA.

15.4 Clearing Systems

The Bonds in bearer form have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Bearer Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Bonds in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of Registered Bonds, together with the relevant ISIN and common code, will be specified in the applicable Final Terms. If the Bonds are to be cleared through an additional or alternative clearing system (including Sicovam), the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

15.5 Significant or Material Change

There has been no significant change in the financial performance or financial position of Anglian Water and its subsidiary, nor any material adverse change in the prospects of Anglian Water that has occurred since 31 March 2020 (the end of the last period for which audited financial information has been published).

There has been no significant change in the financial performance or financial position of the Issuer, nor any material adverse change in the prospects of the Issuer that has occurred since 31 March 2020 (the end of the last period for which audited financial information has been published).

There has been no significant change in the financial performance or financial position of Anglian Water Services Holdings Limited and its subsidiaries, nor any material adverse change in the prospects of Anglian Water Services Holdings Limited that has occurred since 31 March 2020 (the end of the last period for which audited financial information has been published).

There has been no significant change in the financial performance or financial position of Anglian Water Services UK Parent Co Limited and its subsidiaries, nor any material adverse change in the prospects of Anglian Water Services UK Parent Co Limited since 31 March 2020 (the end of the last period for which audited financial information has been published).

15.6 Litigation

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Anglian Water is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Anglian Water and its subsidiary.

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Anglian Water Services Holdings Limited is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Anglian Water Services Holdings Limited and its subsidiaries.

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Anglian Water Services UK Parent Co Limited is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of Anglian Water Services UK Parent Co Limited and its subsidiaries.

15.7 Auditors

Deloitte LLP, of 2 New Street Square, London, EC4A 3BZ, registered to carry on audit work in the United Kingdom and Ireland by the Institute of Chartered Accountants in England and Wales (“**Deloitte**”), has audited, without qualification, the financial statements of Anglian Water, the Issuer and Anglian Water Services Holdings Limited for the years ended 31 March 2020 and 31 March 2019 in accordance with International Standards on Auditing (UK and Ireland).

On 1 September 2016, Deloitte was appointed auditor of Anglian Water, the Issuer and Anglian Water Services Holdings Limited. Deloitte has audited, without qualification, the financial statements of Anglian Water, the Issuer and Anglian Water Services Holdings Limited for the years ended 31 March 2019 and 31 March 2020 in accordance with International Standards on Auditing (UK and Ireland).

Anglian Water Services UK Limited Parent Co Limited was incorporated on 5 April 2018 and Deloitte was appointed as auditor on 14 June 2018. Deloitte has audited, without qualification, the financial statements of Anglian Water Services UK Parent Co Limited for the years ended 31 March 2019 and 31 March 2020 in accordance with International Standards on Auditing (UK and Ireland).

The report of Deloitte dated 29 May 2019 (in respect of the year ended 31 March 2019) on Anglian Water, the Issuer, Anglian Water Services Holdings Limited and Anglian Water Services UK Parent Co Limited, stated as follows: “This report, including the opinions, has been prepared for and only for the company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by prior consent in writing.”

15.8 Bond Trustee’s reliance on reports and legal opinions

Certain of the reports of accountants and other experts to be provided in connection with the Programme and/or the issue of Bonds thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts.

Under the terms of the Programme, the Bond Trustee will not necessarily receive a legal opinion in connection with each issue of Bonds.

As at the Effective Date, the Bond Trustee had been provided with a legal opinion outlining the anticipated tax treatment of AWG Group Ltd, the Issuer and other members of the Anglian Water Group in relation to, *inter alia*, the extinguishment of existing Anglian Water Group borrowings or their assumption by the Issuer,

the Anglian Water Loan Notes and the Hedging Agreements. This legal opinion included certain conclusions on the tax treatment of AWG Group Ltd, Anglian Water and the Issuer in relation to these transactions, and these conclusions would have been made in reliance on the conformity with U.K. GAAP of accounting treatment outlined in an AWG Parent Co Ltd accounting report. This accounting report was prepared by the accounting department of AWG Parent Co Ltd and was not reviewed or approved by PricewaterhouseCoopers LLP, auditors of AWG Group Ltd and the members of the Anglian Water Group at the date of such legal opinion.

15.9 Information in respect of the Bonds

The issue price and the amount of the relevant Bonds will be determined, before filing of the applicable Final Terms of each Tranche, based on then prevailing market conditions. Other than the Investors Report (see the Common Terms Agreement for details), the Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds. Anglian Water must supply to the Security Trustee, each Financial Guarantor, each Rating Agency and each Facility Agent in sufficient copies for all of the relevant Secured Creditors, within the earlier of 45 days after publication of the relevant financial statements or 180 days from 31 March or 90 days from 30 September in each year, an Investors Report in respect of the immediately preceding calendar half-year, starting with 30 September, 2002. The Investors Report is available at www.anglianwater.co.uk.

15.10 Description of yield

The yield for any particular Series of Bonds will be specified in the applicable Final Terms and will be calculated on the basis of the compound annual rate of return if the relevant Bonds were to be purchased at the Issue Price on the Issue Date and held to maturity. Set out below is a formula for the purposes of calculating the yield of Fixed Rate Bonds or Zero Coupon Bonds. The Final Terms in respect of any Floating Rate Bonds will not include any indication of yield.

The yield in respect of each issue of Fixed Rate Bonds under the Programme will be calculated on the basis of the Issue Price using the following formula:

$$P = x (RPI_{m-(t-1)} - RPI_{m-t})$$

where

P is the Issue Price of the Bonds; C is the Interest Amount;

A is the principal amount of Bonds due on redemption; n is time to maturity in years; and

r is the yield.

As an example, if an investor knows that the redemption amount be 100 per cent. and the Interest Amount is 5 per cent. and wishes to calculate the yield on an instrument with an Issue Price of 99.81 per cent., i.e. as per the following:

then a first estimate of $r = 5.05$ would show an issue price of 99.864 as per the following:

$$99.81 = \frac{C}{R} (1 - (1 + R)^{-n}) + A (1 + r)^{-n}$$

Then as a first estimate of $t = 5.05$ would show an issue price of 99.864 as per the following

$$\frac{5}{0.0505} (1 - (1 + 0.0505)^{-5}) + 100(1+0.0505)^{-5} = 99.864$$

As informed second estimate of $r = 5.07$ would show that the right amount had been found as follows:

The yield specified in the applicable Final Terms in respect of a Series of Bonds will not be an indication of future yield.

15.11 Material Contracts

Anglian Water has not entered into contracts outside the ordinary course of its business, which could result in Anglian Water or any member of its group being under an obligation or entitlement that is material to Anglian Water's ability to meet its obligation to holders of Bonds in respect of the Bonds being issued.

15.12 Third Party Information

Information contained in this Prospectus which is sourced from Ofwat has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by Ofwat, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has also identified the source(s) of such information.

15.13 Dealers transacting with the Issuer

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

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

CHAPTER 16

INDEX OF DEFINED TERMS

The following terms are used throughout this Prospectus:

“Acceleration of Liabilities” or **“Acceleration”** means an acceleration of any Secured Liabilities or termination of a commitment (or equivalent action) including:

- (a) the delivery of a termination notice from a Finance Lessor or Anglian Water terminating the leasing of any Equipment under a Finance Lease;
- (b) the delivery of a notice by Anglian Water or a Finance Lessor requesting the prepayment of any Rentals under a Finance Lease;
- (c) the early termination of any hedging obligations (whether by reason of an event of default, termination event or other right of early termination) under a Hedging Agreement; or
- (d) the taking of any other steps to recover any payment due in respect of any Secured Liabilities which have matured for repayment and are overdue, by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents and in accordance with the STID;

“Accession Memorandum” means each memorandum entered into by an additional Secured Creditor pursuant to the STID;

“Account” means any bank account of any member of the Anglian Water Services Financing Group;

“Account Bank” means Barclays Bank PLC of 5 the North Colonnade, Canary Wharf, London E14 4BB or any successor account bank appointed pursuant to the Account Bank Agreement;

“Account Bank Agreement” means the account bank agreement dated on or about the Effective Date between, inter alios, the Obligors, the Cash Manager, the Account Bank and the Security Trustee as supplemented from time to time;

“Additional Finance Document Memorandum” means each Memorandum entered into by an existing Secured Creditor pursuant to clause 3.2(b) of the STID;

“Additional Secured Creditor” means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the provisions of the STID;

“Advance” means any advance or other credit accommodation provided under any Authorised Credit Facility;

“AFC Amounts” means any amount which constitutes the Annual Finance Charge and which is actually due and payable, calculated in accordance with the CTA;

“Affiliate” means (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where “Affiliate” has the meaning given to it in that Hedging Agreement) a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company;

“Agency Agreement” means the agreement dated 30 July 2002 as modified by an amended and restated agency agreement dated on or about 2 October 2006 and as further modified by an amended and restated agency agreement dated on or about 12 October 2012 and as further modified by an amended and restated agency agreement dated on or about 4 October 2013 and as further modified by an amended and restated agency agreement dated on or about 9 October 2014 between, inter alios, the Issuer, the Bond Trustee

and the agents referred to therein under which, amongst other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme;

“AMP4 Period” means the five-year period commencing on 1 April 2005;

“AMP5 Period” means the five-year period commencing on 1 April 2010;

“AMP6 Period” means the five-year period commencing on 1 April 2015;

“AMP7 Period” means the five-year period commencing on 1 April 2020;

“Anglian Water” and **“AWS”** means Anglian Water Services Limited, a United Kingdom incorporated wholly-owned subsidiary of Anglian Water Services UK Parent Co Limited which has been appointed a water and water recycling undertaker under the Instrument of Appointment;

“Anglian Water Business Financial Model” means the business financial model prepared by Anglian Water and delivered to the Security Trustee from time to time and which, in relation to Trigger Events, must be prepared on the basis of actual figures then in issue from the Director General, rather than from any projected figures that may arise from any pending Interim Determination application or CMA referral;

“Anglian Water Change of Control” means the occurrence of any of the following events or circumstances:

- (a) Anglian Water Services Holdings Limited ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, Anglian Water Services UK Parent Co Limited;
- (b) Anglian Water Services UK Parent Co Limited ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, Anglian Water; or
- (c) Anglian Water ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, the Issuer;

“Anglian Water Group” means Anglian Water and its subsidiary. For the avoidance of doubt, references to the “Anglian Water Group” shall be to AWG Parent Co Ltd and its subsidiaries (including Anglian Water) for any period prior to the acquisition of AWG Parent Co Ltd (then known as AWG plc) by Osprey Acquisitions Limited;

“Anglian Water Loan Notes” means the loan notes issued by Anglian Water to the Issuer and the rights of the Issuer under certain assigned intercompany loans as more particularly described in Chapter 6.4.1, “Financing Structure – Intercompany Loan Arrangements – Anglian Water Loan Notes”;

“Anglian Water Services Financing Group” and **“AWS Financing Group”** means Anglian Water Services Holdings Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water and the Issuer;

“Anglian Water Services Holdings Limited” and **“AWS Holdings”** means Anglian Water Services Holdings Limited, a United Kingdom incorporated wholly-owned subsidiary of AWG Group Ltd;

“Anglian Water Services Overseas Holdings Limited” and **“AWS Overseas Holdings”** means Anglian Water Services Overseas Holdings Limited, a Cayman Islands incorporated company;

“Annual Finance Charge” means, in respect of the Pre-Test Period and thereafter each 12-month period commencing on 1 April in any subsequent year, the aggregate of all interest due or to become due (after taking account of the impact of interest rates on any Hedging Agreements then in place) during that

Pre-Test Period or 12-month period, all premia payable to any Financial Guarantor within that Pre-Test Period or 12-month period and the Lease Reserve Amounts and adjusted Lease Reserve Amounts falling due in that Pre-Test Period or 12-month period;

“Applicable Accounting Principles” means accounting principles, standards and practices generally accepted in the United Kingdom as applied from time to time and making such adjustments (if any) as the directors may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time;

“Arranger” means Barclays Bank PLC, as arranger of the Programme;

“Associate” means any person associated with or in whom any member of the Anglian Water Group or any successor of any of them or any member of any successor group of companies owning or controlling any interest in the Anglian Water Services Financing Group has an interest (whether directly or indirectly);

“Assumptions” means those assumptions which formed the basis for the Anglian Water Business Financial Model;

“Auditors” means Deloitte LLP or such other firm of accountants of international repute as may be appointed by Anglian Water in accordance with the CTA as the Auditors for the Anglian Water Services Financing Group;

“Australian dollars” means the lawful currency of Australia;

“Authorised Credit Facilities” means any facility or agreement entered into by the Issuer (or in the case of a Finance Lease, Anglian Water) for Class A Debt or Class B Debt as permitted by the terms of the Common Terms Agreement or for the issue of Bond Policies in relation thereto, the providers of which have acceded to the STID and the Common Terms Agreement and includes (without limitation) the Initial Authorised Loan Agreement, the Bridging Facility, the Liquidity Facilities, the Existing Finance Lease, the New Finance Lease, the Anglian Water Loan Notes, the Issuer/Anglian Water Loan Agreement, the Bond Trust Deed, the Existing Bond Trust Deeds, the Bonds, the Existing Hedging Agreements, the Premium Letters, the I&I Agreements and any other document entered into in connection with an Authorised Credit Facility or the transactions in an Authorised Credit Facility;

“Authorised Credit Facility Agent” means in respect of the Barclays Authorised Loan Agreement, Barclays Bank PLC, or any successor thereto.

“Authorised Credit Facility Arranger” means in respect of any Authorised Loan Agreement, any authorised credit facility agent in respect of such Authorised Loan Agreement or successor thereto;

“Authorised Credit Provider” means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility and includes each Financial Guarantor for so long as any Bond Policy issued by that Financial Guarantor is outstanding, and each Bondholder;

“Authorised Credit Providers” means any party to an Authorised Loan Agreement as lender or a Finance Party;

“Authorised Investments” means:

- (a) securities issued by the Government of the United Kingdom;
- (b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, provided that the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-term Rating;

- (c) any other obligations provided that in each case the relevant investment has the Minimum Short-term Rating and is either denominated in Sterling or (following the date on which the UK becomes a Participating Member State) euro or has been hedged in accordance with the Hedging Policy; or
- (d) any money market funds or equivalent investments which have a rating of at least A+ by S&P or A+ by Fitch or A1 by Moody's, provided that in Anglian Water's reasonable opinion it is able to liquidate such funds on a same day basis without material cost penalties being imposed;

"Authorised Loan Agreements" means the Barclays Authorised Loan Agreement, the Bank of China Authorised Loan Agreement, the SMBC Authorised Loan Agreement and the EIB Authorised Loan Agreement, as applicable;

"AWG Parent Co Ltd" means AWG Parent Co Ltd, a company incorporated under the laws of England and Wales, formerly admitted to the Official List and to trading on the London Stock Exchange, a wholly-owned subsidiary of Osprey Acquisitions Limited, formerly known as AWG plc;

"AWG Group Ltd" means AWG Group Ltd (formerly Anglian Water plc), a company incorporated under the laws of England and Wales and formerly listed on the London Stock Exchange, a wholly-owned subsidiary of AWG Parent Co Ltd;

"AWGL" means Anglian Water Group Limited, a company incorporated under the laws of Jersey, the ultimate holding company of the Anglian Water Group;

"AWS Derivative Transaction" means any Treasury Transaction entered or to be entered into by AWS to manage fluctuations in U.K. electricity prices and / or U.K. natural gas prices for non-speculative purposes only in line with market developments, regulatory developments and Good Industry Practice;

"AWS Derivative Policy" means the hedging policy applicable to AWS and as set out in Schedule 8A (*AWS Derivative Policy and Overriding Provisions Relating to AWS Derivative Transactions*) of the CTA as such hedging policy may be amended from time to time by agreement between the Security Trustee and AWS;

"Barclays Authorised Loan Agreement" means the bank facility entered into between, *inter alios*, the Issuer and certain Authorised Credit Providers dated 26 February 2015;

"Base Cash Flows" means the annual cash flows of the amounts of costs netted off against the amount of receipts and savings in respect of each Relevant Change of Circumstance, Notified Item and relevant disposal of land;

"Bearer Bonds" means those of the Bonds which are in bearer form;

"Blue Flag" means an annual award to beaches that meet Excellent standards under the Bathing Water Directive and 25 beach management criteria;

"Bondholders" means the holders from time to time of the Bonds;

"Bond Policies" means the financial guarantee insurance policy issued by a Financial Guarantor in respect of Class A Wrapped Bonds and/or Class B Wrapped Bonds which includes the Initial Bond Policies;

"Bonds" means the Class A Bonds and the Class B Bonds;

"Bond Trustee" means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed and/or the Existing Bond Trust Deeds, for and on behalf of the relevant Bondholders;

"Bond Trust Deed" means (a) in respect of Bonds issued under the Programme, the Bond Trust Deed dated 30 July 2002 between, *inter alios*, the Issuer, the Initial Financial Guarantor and the Bond Trustee under which Bonds will, on issue, be constituted and which sets out the terms and conditions on which the Bond Trustee has agreed to act

as bond trustee; and (b) in respect of the Existing Bonds, the Existing Bond Trust Deeds (and, in respect of such Bonds issued after the date of this Prospectus, as supplemented by a first supplemental bond trust deed dated on or about 23 September 2005, a second supplemental bond trust deed dated on or about 2 October 2006, a third supplemental bond trust deed dated on or about 6 October 2011, a fourth supplemental bond trust deed dated on or about 12 October 2012, a fifth supplemental bond trust deed dated on or about 4 October 2013, a sixth supplemental bond trust deed dated on or about 9 October 2014, a seventh supplemental bond trust deed dated on or about 12 September 2016, an eighth supplemental trust deed dated on or about 23 July 2018 and a ninth supplemental bond trust deed dated on or about 30 September 2019 and as further modified and/or supplemented and/or restated from time to time);

“Bridging Facility” means the bridge facility made available under the Bridging Facility Agreement;

“Bridging Facility Agent” means Barclays Bank PLC or any successor thereto;

“Bridging Facility Agreement” means the bridging facility agreement dated 18 April 2002 between the Issuer, the other Obligors, the Facility Arrangers, the Original Lenders and the Facility Agent (each as defined therein) and which is now cancelled;

“Business” means Regulated Business and Permitted Non-Statutory Business whether under a Permitted Joint Venture or otherwise as permitted under the Finance Documents;

“Business Day” means (other than in any Hedging Agreement where “Business Day” has the meaning given to it in that Hedging Agreement):

- (a) in relation to any sum payable in euro, a TARGET2 Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the applicable Final Terms;
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in U.S. dollars shall be New York and which in the case of Australian dollars is Sydney and which in the case of Canadian dollars is Toronto) and in each (if any) additional city or cities specified in the applicable Final Terms; and
- (c) in relation to the definition of Lease Calculation Date, a day on which commercial banks and foreign exchange markets settle payments generally in London;

“Calculation Date” means (other than in any Hedging Agreement where “Calculation Date” has the meaning given to it in that Hedging Agreement), 31 March and 30 September in each year starting on 31 March 2002 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor;

“CAMS” means Catchment Abstraction Management Strategies, which are part of the Government’s plans to reform water resources planning;

“Canadian dollars” means the lawful currency of Canada;

“CAT” means the Competition Appeal Tribunal of the United Kingdom;

“Capex Contract” means any agreement pursuant to which Anglian Water outsources any investment, construction works and other capital expenditure;

“Capex Reserve Account” means the account of Anglian Water titled “Capex Reserve Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Capital Maintenance Expenditure” means investment expenditure incurred (or, in respect of any future period, forecast to be incurred in the Anglian Water Business Financial Model) on maintaining base service levels in

the Regulated Business including IRE Expensed but excluding any investment expenditure relating to increases in capacity or enhancement of service levels, quality or security of supply;

“Cash Expenses” means the aggregate of all expenses incurred by Anglian Water in any period (excluding depreciation, IRC and interest on Financial Indebtedness);

“Cash Manager” means Barclays Bank PLC during and after a Standstill Period (except where the Standstill Period is terminated because the Event of Default giving rise to the Standstill is remedied or waived), in its capacity as Cash Manager under the CTA, or any successor Cash Manager, and at all other times Anglian Water;

“CCD” means expenditure designated under the heading current cost depreciation in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to Anglian Water in Ofwat’s most recent Final Determination adjusted as appropriate for any subsequent Interim Determination and for Out-turn Inflation;

“CGN” means classic global notes;

“Class” means each class of Bonds, the available Classes of Bonds being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds;

“Class A Average PMICR” means the sum of the ratios of Net Cash Flow less the greater of (a) the aggregate of CCD and IRC and (b) Capital Maintenance Expenditure to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by 3;

“Class A Bonds” means the Class A Wrapped Bonds and the Class A Unwrapped Bonds;

“Class A Debt” means any financial accommodation that is, for the purposes of the STID, to be treated as Class A Debt and includes as at the Effective Date all debt outstanding under:

- (a) the Class A Wrapped Bonds and the Class A Unwrapped Bonds (if any) issued by the Issuer on or after the Effective Date;
- (b) the Existing Bonds and the USPP 2001 Bonds which the Issuer will assume liability for on the Effective Date;
- (c) the Initial Authorised Loan Agreement;
- (d) the Existing Finance Lease;
- (e) the Existing Hedging Agreements;
- (f) tranche A1 and tranche B and the Class A portion of tranche A2 of the Bridging Facility;
- (g) the Debt Service Reserve Liquidity Facilities;
- (h) the O&M Reserve Facility;
- (i) the MBIA Premium Letter; and
- (j) the first I&I Agreement;

“Class A Debt Instructing Group” or **“Class A DIG”** means a group of representatives (each a **“Class A DIG Representative”**) of Qualifying Class A Debt, comprising of:

- (a) in respect of each Series of Class A Wrapped Bonds (if no FG Event of Default has occurred and is continuing), the Financial Guarantor;
- (b) in respect of each Series of Class A Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds) and each Series of Class A Unwrapped Bonds (other than USPP Bonds), the Bond Trustee;

- (c) in respect of Class A USPP Bonds (i) prior to the occurrence of an Event of Default, any USPP Bondholder who has outstanding to it or any of its affiliates more than US\$70,000,000 of Class A USPP Bonds or (ii) after an Event of Default has occurred and is continuing, any USPP Bondholder;
- (d) in respect of the Barclays Authorised Loan Agreement, Barclays Bank PLC;
- (e) in respect of the Existing Finance Lease, the Finance Lessor;
- (f) in respect of the EIB Authorised Loan Agreement, the European Investment Bank; and
- (g) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (f) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum or, in relation to existing Secured Creditors, the relevant Additional Finance Document Memorandum as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor;

“Class A Debt Interest” means, in relation to any Test Period, and without double counting an amount equal to the aggregate of all interest paid, due but unpaid or in respect of forward-looking ratios payable on the Issuer’s and/or Anglian Water’s obligations under or in connection with all Class A Debt, all premia paid, due but unpaid or in respect of forward looking ratios, payable, to any Financial Guarantor of Class A Debt and adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or in respect of forward looking ratios, payable on the Issuer’s and/or Anglian Water’s obligations under and in connection with all Class A Debt in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force) (excluding all indexation of principal to the extent it has been included in such interest or other amounts) and excluding amortisation of the costs of issue of any Class A Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt less all interest received or in respect of forward looking ratios receivable by any member of the Anglian Water Services Financing Group from a third party during such period;

“Class A Debt Service Reserve Account” or **“Class A DSRA”** means the account of the Issuer titled “Class A Debt Service Reserve Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Class A Debt Provider” means a provider of, or Financial Guarantor of, Class A Debt;

“Class A ICR” means the ratio of Net Cash Flow for each Test Period to Class A Debt Interest for each of the same Test Periods;

“Class A Net Indebtedness” means, as at any date, all the Issuer’s and Anglian Water’s nominal debt outstanding under and in connection with any Class A Debt (other than pursuant to tranche B of the Initial Authorised Loan Agreement) including all indexation accrued on any such liabilities which are indexed together with any interest due but unpaid (after taking into account the effect of all Interest Rate Hedging Agreements then in force) and less the value of all Authorised Investments and other amounts standing to the credit of any Account other than the Customer Payment Account or the Distributions Account) (where such debt is denominated other than in Sterling, the nominal amount outstanding will be calculated: (i) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates; or (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate);

“Class A PMICR” means the ratio of Net Cash Flow less the greater of (a) the aggregate of CCD and IRC and (b) Capital Maintenance Expenditure for each Test Period to Class A Debt Interest for the same Test Period;

“Class A RAR” means the ratio of Class A Net Indebtedness to RCV;

“Class A Unwrapped Bonds” means the Class A Bonds that do not have the benefit of a guarantee from a Financial Guarantor, which includes the Transferred USPP Bonds and some of the Existing Bonds;

“Class A Unwrapped Debt” means the Class A Debt that does not have the benefit of a guarantee from a Financial Guarantor;

“Class A USPP Bonds” means USPP Bonds which are also Class A Bonds;

“Class A Wrapped Bonds” means the Class A Bonds that have the benefit of a guarantee from a Financial Guarantor, which includes some of the Existing Bonds;

“Class A Wrapped Debt” means Class A Debt that has the benefit of a guarantee from a Financial Guarantor;

“Class B Bonds” means the Class B Wrapped Bonds and the Class B Unwrapped Bonds;

“Class B Debt” means any financial accommodation that is, for the purposes of the STID, to be treated as Class B Debt and includes as at the Effective Date all debt outstanding under:

- (i) the Class B Bonds; and
- (ii) the Class B portion of tranche A2 of the Bridging Facility;

“Class B Debt Instructing Group” or **“Class B DIG”** means a group of representatives (each a **“Class B DIG Representative”**) of Qualifying Class B Debt, comprising of:

- (i) in respect of each series of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing), the Financial Guarantor;
- (ii) in respect of each Series of Class B Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds) and each Series of Class B Unwrapped Bonds, the Bond Trustee; and
- (iii) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank pari passu with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in relevant Accession Memorandum, as the Class B DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor;

“Class B Debt Service Reserve Account” or **“Class B DSRA”** means the account of the Issuer titled “Class B Debt Service Reserve Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Class B Debt Provider” means any provider of, or Financial Guarantor of, Class B Debt;

“Class B Unwrapped Bonds” means the Class B Bonds that do not have the benefit of a guarantee from a Financial Guarantor;

“Class B Unwrapped Debt” means Class B Debt that does not have the benefit of a guarantee from a Financial Guarantor;

“Class B USPP Bonds” means Class B Bonds which are also USPP Bonds;

“Class B Wrapped Bonds” means the Class B Bonds that have the benefit of a guarantee from a Financial Guarantor;

“Class B Wrapped Debt” means Class B Debt that has the benefit of a guarantee from a Financial Guarantor;

“Clearstream, Luxembourg” means Clearstream Banking S.A.;

“Combined Contract” means any agreement pursuant to which Anglian Water sub-contracts, tenders or outsources both investment or construction works or other capital expenditure as well as the day to day operation of its assets and service delivery or any maintenance expenditure;

“Common Safekeeper” means Clearstream AG, Frankfurt;

“Common Terms Agreement” or **“CTA”** means the Common Terms Agreement dated 30 July 2002 between the Obligors and, *inter alios*, the Security Trustee, as amended by an amendment agreement to the CTA dated on or about 7 December 2006 which contains certain representations and covenants of the Obligors and Events of Default as amended from time to time;

“Companies Act” means the Companies Act 1985 and, where applicable, the Companies Act 2006 (including the Companies Act 1985 or the Companies Act 2006, as applicable, as it applies to limited liability partnerships) and any regulations made pursuant to those Acts.

“Company Collective” means the recognised body of employee, trade union and management representatives for collective bargaining in determining the terms and conditions of employment for Anglian Water employees and consultation on issues affecting those employees, for example, redundancies and TUPE transfers;

“Compensation Account” means the account of Anglian Water entitled “Compensation Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Competition Act” means the United Kingdom Competition Act 1998;

“CMA” means the Competition and Markets Authority in the United Kingdom;

“Conditions” means the terms and conditions of the Bonds set out in the Bond Trust Deed as may from time to time be amended, varied or supplemented in the manner permitted under the STID;

“Conformed Class A Average PMICR” means the sum of the ratios of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“Conformed Class A PMICR” means the ratio of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure for each Test Period to Class A Debt Interest for the same Test Period.

“Conformed Senior Average PMICR” means the sum of the ratios of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure, to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

“Conformed Senior PMICR” means the ratio of Net Cash Flow less the greater of (a) Depreciation and (b) Capital Maintenance Expenditure for each Test Period to Senior Debt Interest for each of the same Test Periods for that period.

“Consortium” means the Consortium formed for the purposes of acquiring the share capital of AWG Parent Co Ltd and now comprising of CPPIB (Hong Kong) Limited, Colonial First State Managed Infrastructure Limited, First State Investments Fund Management S.a.r.l., Conyers Trust Company (Cayman) Limited (in its capacity as trustee of IFM Global Infrastructure Fund), Camulodunum Investments Ltd and Infinity Investments S.A.;

“Construction Output Price Index” means the index issued by the Department of Trade and Industry, varied from time to time, relating to price levels of new build construction based on a combination of logged values

of tender price indices, labour and materials cost indices and on the value of new construction orders in the United Kingdom;

“Contractors” means any person (being either a single entity or joint venture) that is a counterparty to an Outsourcing Agreement or Capex Contract or Combined Contract;

“Control” of one person by another person means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) and whether acting alone or in concert with another or others has the power to appoint and/or remove the majority of the members of the governing body of that person or otherwise controls or has the power to control the affairs and policies of that person (and references to **“Controlled”** and **“Controlling”** shall be construed accordingly);

“Council” means the Ofwat National Customer Council;

“Coupon” means an interest coupon appertaining to a definitive Bearer Bond (other than a Zero Coupon Bond);

“Couponholders” means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders;

“Court” means the High Court of England and Wales;

“Covenantors” means:

- (a) CPPIB (Hong Kong) Limited a company incorporated in Hong Kong with registered number 1702575 and having its registered office at 18/F York House, The Landmark, 15 Queen’s Road Central, Hong Kong (**“CPPIB”**);
- (b) Colonial First State Managed Infrastructure Limited, ABN 13 006 464 428 a company registered under the Corporations Act 2001 (Commonwealth of Australia) and whose registered office is at Level 4, Darling Park Tower 1, 201 Sussex Street, Sydney NSW 2000 as responsible entity of CFS Infrastructure Fund – AWG Sector (**“CFSMIL”**);
- (c) First State Investments Fund Management S.a.r.l. (company registration number B128117) in its own name and on behalf of the First State European Diversified Infrastructure Fund FCP-SIF, a company registered in Luxembourg whose registered office is at 11-13, Boulevard de la Foire, L-1528 Luxembourg, Grand Duchy of Luxembourg (**“First State”**);
- (d) Conyers Trust Company (Cayman) Limited, a Cayman Islands exempted company, number 55233, whose registered office is at P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1- 1111, Cayman Islands in its capacity as trustee of IFM Global Infrastructure Fund (**“IFM”**);
- (e) Camulodunum Investments Ltd, a company incorporated in England and Wales (registered number 11108175) and whose registered office is at 1 Park Row Leeds LS1 5AB (**“CIL”**); and
- (f) Infinity Investments S.A., a company incorporated in Luxembourg (registered number B139024) and whose registered office is at 2C, rue Albert Borschette, L-1246, Luxembourg (**“Infinity”**),

together with such persons that hold shareholder instruments in AWGL and become bound by the terms of the Deed of Indemnity from time to time;

“COVID-19 Event” means any of the events described in Chapter 6.5.8(A), “Financing Structure – Common Terms Agreement – Modifications in respect of COVID-19 Events”;

“COVID-19 STID Proposal” has the meaning given to it in Chapter 6.5.5(vii), “Financing Structure – Common Terms Agreement – Covenants - General”;

“COVID-19 Trigger Event” means any of the events described in Chapter 6.5.8(A), “Financing Structure – Common Terms Agreement – Modifications in respect of COVID-19 Events”;

“COVID-19 Waiver Event” means any of the events described in Chapter 6.5.8(A), “Financing Structure – Common Terms Agreement – Modifications in respect of COVID-19 Events”;

“CP Document” means the agreement entitled “Conditions Precedent Agreement” dated 30 July 2002 and entered into, *inter alios*, between the Obligors, the Bond Trustee and the Security Trustee;

“CRA Regulation” means the Regulation (EC) No 1060/2009 of the European Parliament and of the Council dated 16 September 2009 on credit rating agencies;

“CSCs” means regional customer service committees established by the DGWS;

“Current COVID-19 Event Waiver Period” has the meaning given to it in Chapter 6.5.8(A), “Financing Structure – Common Terms Agreement – Modifications in respect of COVID-19 Events”;

“Currency Hedging Agreement” means any Hedging Agreement with a Hedge Counterparty in respect of a currency exchange transaction;

“Customer Payment Account” means the account of Anglian Water titled “Customer Payment Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Customer Payment Account Required Balance” means, at any time during a Financial Year, the amount calculated in accordance with the following formula:

$$\frac{CRA}{12} \times m$$

where CRA means, in respect of such Financial Year, the aggregate Customer Rebates declared, and m means the number of accounting months unexpired in such Financial Year;

“Customer Rebates” means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by Anglian Water to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if Anglian Water had established prices at the full price cap available to it under the Instrument of Appointment;

“Date Prior” means, at any time, the date which is one day before the next Periodic Review Effective Date;

“Dealers” means Banco Santander, S.A. Barclays Bank PLC, BNP Paribas, Commonwealth Bank of Australia, HSBC Bank plc, ING Bank N.V., J.P. Morgan Securities plc, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International plc, NatWest Markets Plc, Scotiabank Europe plc and SMBC Nikko Capital Markets Limited and any other entity which the Issuer and the Obligors may appoint as a Dealer and notice of whose appointment has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Programme Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Programme Agreement and notice of such termination has been given to the Principal Paying Agent and the Bond Trustee by the Issuer in accordance with the provisions of the Programme Agreement and references to a **“relevant Dealer”** or the **“relevant Dealer(s)”** mean, in relation to any Tranche or Series of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranche or Series and **“Dealer”** means any one of them;

“Debt Service Distribution Excess Amount” has the meaning given to it in Chapter 6.5.8(A), “Financing Structure – Common Terms Agreement – Modifications in respect of COVID-19 Events”;

“Debt Service Reserve Account” means any or both of the Class A Debt Service Reserve Account and/or the Class B Debt Service Reserve Account;

“Debt Service Reserve Liquidity Facility” means a debt service reserve liquidity facility (as may be amended and/or restated from time to time) made available under a Liquidity Facility Agreement;

“Debt Service Reserve Liquidity Facility Agreement” means any agreement establishing a Debt Service Reserve Liquidity Facility as more particularly described in Chapter 6.9.3, *“Financing Structure – Additional Resources Available – The Liquidity Facilities”*;

“Debt Service Reserve Liquidity Facility Provider” means Abbey National Treasury Services plc, Barclays Bank PLC, HSBC Bank plc, Lloyds Bank plc, Sumitomo Mitsui Banking Corporation Europe Limited or any other provider of Debt Service Liquidity Facilities;

“Deed of Indemnity” means the Deed of Indemnity dated 7 December 2006 between the Obligors and, *inter alios*, the Security Trustee, which contains certain indemnities relating to tax; **“Default”** means:

- (a) an Event of Default;
- (b) a Trigger Event; or
- (c) a Potential Event of Default;

“Default Situation” means any period during which there subsists:

- (a) a Standstill Period; or
- (b) an Event of Default;

“Definitive IAI Registered Bond” means a Registered Bond sold to an Institutional Accredited Investor pursuant to section 4(a)(2) under the Securities Act;

“DEFRA” means the Department of the Environment, Food and Rural Affairs in the United Kingdom;

“Depreciation” means, in relation to any period of time, the “total RCV run-off” (or other term(s) used to mean the depreciation charges applicable to the RAV) in respect of such period (interpolated as necessary) as last determined and notified to AWS by Ofwat at the most recent “Periodic Review” (as defined in the Instrument of Appointment) or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a “Periodic Review”.

“DGWS” or “Director General” means the Director General of Water Services in England and Wales;

“DIG Directions Request” means a written notice of each DIG Proposal sent by the Security Trustee to the relevant DIG Representatives pursuant to the STID;

“DIG Proposal” means a proposal pursuant to the STID requiring a Majority Creditor decision only;

“DIG Representatives” means the Class A DIG Representatives or the Class B DIG Representatives, as the context requires and **“DIG Representatives”** means each of them;

“Directors” means the board of directors for the time being of the Issuer or as the case may be the relevant Obligor;

“Discharge Date” means the date on which all obligations of the Issuer under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents;

“Distribution” means:

- (a) any payments (including, without limitation, any payments of distributions, dividends (including any Special Distribution), bonus issues, return of capital, fees, interest, principal or other accounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any member of the Anglian Water Group or any successor entity having an interest in Anglian Water Services Holdings Limited or any Associate or Affiliate of any such person other than:

- (i) payments made to such persons pursuant to arrangements entered into on *bona fide* arm's length terms in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed £5,000,000 (indexed) in any consecutive 12-month period;
 - (ii) any payments made to such persons pursuant to any Outsourcing Agreement and/or Capex Contracts entered into in compliance with the Outsourcing Policy;
 - (iii) payments made to such persons pursuant to arrangements entered into on terms that are not *bona fide* and arm's length in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed £500,000 (indexed) in any consecutive 12-month period; or
 - (iv) a UK Holdco Debt Service Distribution; or
- (b) payments made in respect of any Financial Indebtedness falling within paragraph (f) of the definition of Permitted Financial Indebtedness;

"Distributions Account" means the account of Anglian Water titled "Anglian Water Distributions Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

"DTC" means The Depository Trust Company of 55 Water Street, New York, NY 10041, United States of America;

"DWI" means the Drinking Water Inspectorate; **"EA"** means the UK Environment Agency;

"Early Redemption Amount" means for the purposes of the USPP 2001 Bonds, the principal and Make-Whole Amount (if any), but excluding any accrued interest payable, to the Bondholder on redemption of a USPP 2001 Bond as a result of an Early Redemption Event occurring and in relation to any other Bonds, as defined in the Conditions relating to such Bonds;

"Early Redemption Event" means a notice is given pursuant to clause 8.3(a)A of the Note Purchase Agreement;

"ECB" means the European Central Bank;

"ECOFIN Council" means the Economic and Financial Affairs Council

"Effective Date" means 30 July 2002 being the date on which the conditions precedent contained in the CP Document were fulfilled or waived in accordance with the CP Document;

"Emergency" means the disruption of the normal service of the provision of water or waste water services which is treated as an emergency under Anglian Water's policies, standards and procedures for emergency planning manual (EMPROC) (as amended from time to time);

"Emergency Instruction Notice" means a notice as set out in Chapter 6.3.9, "*Financing Structure – Security Trust and Intercreditor Deed – Emergency Instruction Procedure*";

"EIB" means the European Investment Bank;

"EIB Authorised Loan Agreement" means the bank facility entered into between, *inter alios*, the Issuer and the EIB on 6 July 2009;

"EIN Signatories" has the meaning as set out in Chapter 6.3.9, "*Financing Structure – Security Trust and Intercreditor Deed – Emergency Instruction Procedure*";

"ELL" means the annual Economic Level of Leakage suffered by Anglian Water;

“Enforcement Action” means any step (other than the exercise of any rights of inspection of any asset or other immaterial actions taken under any Finance Lease) that a Secured Creditor is entitled to take to enforce its rights against an Obligor under a Finance Document following the occurrence of an Event of Default including, without limitation, the declaration of an Event of Default or an Early Redemption Event, the institution of proceedings, the making of a demand for payment under a guarantee, the making of a demand for cash collateral under a guarantee or the Acceleration of Liabilities (other than a Permitted Lease Termination, a Permitted EIB Compulsory Prepayment Event, a Permitted Hedge Termination or a Permitted Acceleration) by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents;

“Enforcement Notice” means a notice in writing from the Security Trustee to the Issuer and/or Anglian Water specifying that all or any of the Secured Liabilities have or has become immediately enforceable;

“Enforcement Order” means an enforcement order, a final enforcement order or a provisional enforcement order, each as referred to and defined in the WIA;

“Enhancement Capex Purpose” has the meaning given to it in Chapter 6.5.5(vii), *“Financing Structure – Common Terms Agreement – Covenants - General”*;

“Enterprise Act” means the Enterprise Act 2002 which received Royal Assent on 7 November 2002;

“Entrenched Rights” means the rights of the Secured Creditors set out in Chapter 6.3.19, *“Financing Structure – Security Trust and Intercreditor Deed – Entrenched Rights”*;

“EPA 1990” means the Environmental Protection Act 1990;

“Equipment” means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, intellectual property right, software and any other item leased under that Finance Lease;

“Equivalent Amount” means the amount in question expressed in the terms of pounds sterling, calculated on the basis of the Exchange Rate;

“EU” means the European Union; **“Euroclear”** means Euroclear Bank SA/NV;

“Event of Default” means (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where “Event of Default” has the meaning given to it in that Hedging Agreement) an event specified as such in schedule 7 of the Common Terms Agreement, as more particularly described under Chapter 6.5.10, *“Financing Structure – Common Terms Agreement – Events of Default”*;

“Exchange Agent” means Deutsche Bank Trust Company Americas as exchange agent to the Issuer in respect of Registered Bonds;

“Exchange Rate” means the spot rate at which the relevant currency is converted to pounds Sterling as quoted by the Agent Bank as at 11.00 a.m.:

- (a) for the purposes of clause 9.3 (Notice to Secured Creditors of STID Proposal) and clause 9.6 (DIG Directions Request) of the STID, respectively, on the date that the STID Proposal or DIG Proposal (as applicable) is dated; and
- (b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required,

and, in each case, as notified by the Agent Bank to the Security Trustee;

“Existing Agency Agreements” means each of those agency agreements in respect of the Existing Bonds as the same shall have been amended on the Effective Date;

“Existing Bonds” means such of the following Bonds issued by AWG Group Ltd pursuant to the Existing Bond Trust Deeds for which the Issuer assumed liability on the Effective Date:

- (a) £100,000,000 12 per cent. bonds due 2014;
- (b) £150,000,000 3.875 per cent. index-linked guaranteed notes due 2020;
- (c) £200,000,000 6.625 per cent. guaranteed bonds due 2023;
- (d) £200,000,000 6.375 per cent. guaranteed bonds due 2029; and
- (e) €350,000,000 5.375 per cent. bonds due 2009.

With regard to the assumption of liability by the Issuer of the Existing Bonds on the Effective Date, listing particulars were prepared and submitted to the FCA for approval prior to the Effective Date;

“Existing Bond Trust Deeds” means the bond trust deeds in relation to:

- (a) £100,000,000 12 per cent. bonds due 2014 dated 7 January 1991, between AWG Group Ltd as issuer, Anglian Water as guarantor and Sun Alliance Trust Company Limited as trustee;
- (b) £200,000,000 6.625 per cent. guaranteed bonds due 2023 dated 21 August 1998, between AWG Group Ltd as issuer, Anglian Water as guarantor and Royal Exchange Trust Company Limited as trustee;
- (c) £200,000,000 6.375 per cent. guaranteed bonds due 2029 dated 15 January 1999, between AWG Group Ltd as issuer, Anglian Water as guarantor and Royal Exchange Trust Company Limited as trustee;
- (d) €350,000,000 5.375 per cent. bonds due 2009 dated 2 July 1999, between AWG Group Ltd as issuer and Royal Exchange Trust Company Limited as trustee; and
- (e) €1,500,000,000 MTN Programme dated 22 March 2000, between AWG Group Ltd as issuer, Anglian Water as guarantor and IRG Trustees Limited as trustee, pursuant to which £150,000,000 3.875 per cent. index-linked guaranteed notes due 2020 were issued on 28 April 2000,

as were amended pursuant to a consent solicitation on the Effective Date;

“Existing Finance Lease” means the lease between Anglian Water and the Existing Finance Lessor which was entered into prior to the Effective Date as amended, supplemented, assigned and novated prior to the Effective Date;

“Existing Finance Lessor” means Mercantile Leasing Company (No. 132) Limited which leases or agrees to lease Equipment to Anglian Water, under the terms of the Existing Finance Lease, including any of its successors or assigns;

“Existing Framework Agreements” means the framework agreements between Anglian Water and Contractors entered into prior to the Effective Date under which Anglian Water subcontracts, tenders and outsources its operation and maintenance expenditure and/or construction works and other capital expenditure;

“Existing Hedge Counterparties” means Barclays Bank PLC, Citibank, N.A., London Branch, Deutsche Bank AG, London Branch, Dresdner Bank AG and HSBC Bank plc including their successors and assigns;

“Existing Hedging Agreements” means the Treasury Transactions entered into by the Issuer and the Existing Hedge Counterparties dated on or about the Effective Date or any such agreement entered into by Anglian Water or AWG Group Ltd and one or more of the Existing Hedge Counterparties prior to the Effective Date and novated to the Issuer on or before the Effective Date;

“Existing Joint Venture” means:

- (a) a joint venture called “AB Water” entered into between Anglian Water and Persimmon Homes (formerly Beazer Homes) for effluent recycling;

- (b) a joint venture called “BREG” (Bio-solids Reduction and Energy Generation Plant) entered into between Anglian Water and TXU Europe Power Ltd. for the design, development, construction and operation of plants to generate heat and electricity in a combined cycle power station from natural gas and gasified water recycling sludge;
- (c) a joint venture called “Logica” entered into between Anglian Water and Logica UK Ltd. for the development, supply and support of telemetry systems;
- (d) a joint venture called “ABB Kent” entered into between Anglian Water and ABB Metering Limited to develop an automatic meter reading system;
- (e) a joint venture called “Ardleigh Reservoir” pursuant to the Ardleigh Reservoir Order 1967; and
- (f) any Existing Framework Agreements existing at the Effective Date,

details of which have been provided to the Security Trustee and the Initial Financial Guarantor;

“**Eurosystem**” means the European Central Bank and the national central banks of EU Member States that have adopted the euro;

“**Facility Agent**” means any facility agent under any Authorised Credit Facility; “**FG Event of Default**” means in relation to the Initial Financial Guarantor:

- (a) any Insured Amount which is Due for Payment (each as defined under the relevant Bond Policy) is unpaid by reason of non-payment by the Issuer and is not paid by such Financial Guarantor on the date stipulated in the relevant Bond Policy;
- (b) such Financial Guarantor disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the relevant Bond Policy or seeks to do so;
- (c) such Financial Guarantor:
 - (i) presents any petition, commences any case or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including as administrative receiver or manager), conciliator, trustee, assignee, custodian, sequestrator, liquidator or similar official under any bankruptcy law, of such Financial Guarantor (or, as the case may be, of a material part of its property or assets) under any Bankruptcy Law;
 - (ii) makes or enters into any general assignment, composition, arrangement (including a voluntary arrangement under the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors;
 - (iii) has a final and non-appealable order for relief entered against it under any Bankruptcy Law; or
 - (iv) has a final and non-appealable order, judgment or decree of a court of competent jurisdiction entered against it appointing any conciliator, receiver, administrative receiver, trustee, assignee, custodian, sequestrator, liquidator, administrator or similar official under any Bankruptcy Law (each a “Custodian”) for such Financial Guarantor or all or any material portion of its property or authorising the taking of its possession by a Custodian of such Financial Guarantor.

For the purpose of this definition, “**Bankruptcy Law**” means Law No. 85-98 of 25 January 1985 and Law No 84-148 of 1 March 1984 of the French Republic, any similar or future federal or state bankruptcy, insolvency, reorganisation, moratorium, rehabilitation, fraudulent conveyance or similar law, statute or regulation of the French Republic or of any other applicable jurisdiction for the relief of debtors, and, in relation to any other Financial Guarantor, such events

as are specified in that Financial Guarantor's I&I Agreement or equivalent document and set out in the applicable Final Terms;

"Final Determination" means the final determination of price controls made by Ofwat on a five-yearly (or other periodic) basis following a Periodic Review;

"Final Terms" means the final terms issued in relation to each Tranche of Bonds and giving details of that Tranche;

"Finance Documents" means the Security Documents, Bond Trust Deed and the Existing Bond Trust Deeds, the Bonds (including the applicable Final Terms), the Bond Policies, the I&I Agreements, the Premium Letters, the Finance Lease Documents, the Hedging Agreements, the CTA, the Issuer/Anglian Water Loan Agreement, the Anglian Water Loan Notes, the Initial Authorised Loan Agreement, the Bridging Facility Agreement, the Liquidity Facility Agreements, the Agency Agreement, the Existing Agency Agreements, the Master Definitions Agreements, the Account Bank Agreement, the CP Document, the Note Purchase Agreement, any other Authorised Credit Facilities, the Indemnification Deed, the Tax Deed of Covenant, the Programme Agreement and each agreement or other Bond between Anglian Water or the Issuer (as applicable) and an additional Secured Creditor designated as a Finance Document by Anglian Water or the Issuer (as applicable) and such additional Secured Creditor in the Accession Memorandum for such additional Secured Creditor;

"Finance Lease Documents" means each Finance Lease together with any related or ancillary documentation;

"Finance Leases" means the Existing Finance Lease, the New Finance Lease and any new finance lease entered into by Anglian Water or the Issuer in respect of plant, machinery, software, computer systems or equipment (the counterparty to which has acceded to the terms of the STID and the CTA and has agreed to be bound by the terms of Part 2 of schedule 14 (Finance Lease Terms) of the CTA) permitted to be entered into under the terms of the CTA, each a **"Finance Lease"**;

"Finance Lessors" means the Existing Finance Lessor, the New Finance Lessor and any other person entering into a Finance Lease with Anglian Water, as permitted by the CTA and the STID, who accedes to the STID and the CTA as a Finance Lessor (each a **"Finance Lessor"**);

"Finance Party" means any person providing financial accommodation pursuant to an Authorised Credit Facility including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facilities;

"Financial Guarantor" means any person, including the Initial Financial Guarantor, which provides a financial guarantee insurance policy, including the Bond Policies, in respect of any of the Wrapped Debt, and **"Financial Guarantors"** means all of them if there is more than one at any time;

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) monies borrowed or raised (whether or not for cash);
- (b) any documentary or standby letter of credit facility;
- (c) any acceptance credit;
- (d) any bond, note, debenture, loan stock or other similar instrument;
- (e) any finance, capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such;
- (f) any amount raised pursuant to any issue of shares which are capable of redemption;
- (g) receivables sold or discounted (otherwise than on a non-recourse basis);

- (h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days;
- (i) any termination amount due from any member of the Anglian Water Services Financing Group in respect of any Treasury Transaction that has terminated;
- (j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (k) above;

“Financial Year” means the 12 months ending on the 31 March in each year or such other period as may be approved by the Security Trustee;

“First Replacement Tax Deed of Covenant” means the deed of covenant entered into on 7 December 2006 between, *inter alios*, the Security Trustee and the Obligors;

“Fitch” means Fitch Ratings Limited;

“Global Bond” means a Temporary Bearer Global Bond and/or a Permanent Bearer Global Bond and/or a Regulation S Global Bond and/or a Rule 144A Global Bond, as the context may require;

“Good Industry Practice” means the standards, practices, methods and procedures as practised in the United Kingdom conforming to all applicable laws and that degree of skill, diligence, prudence and foresight which would reasonably be expected from a skilled and experienced person undertaking all or part of the Business as the case may be, under the same or similar circumstances having regard to the regulatory pricing allowances and practices in the United Kingdom’s regulated water and water recycling industry at the relevant time;

“Government” means the government of the United Kingdom;

“Guarantor” means each of the Obligors except the Issuer and together they shall be the Guarantors;

“Habitats Regulations” means the Conservation (Natural Habitats etc.) Regulations 1994 implemented pursuant to Council Directive 92/43/EEC;

“Hedge Counterparty” means any counterparty to a Hedging Agreement which is or becomes a party to the STID in accordance with the STID, including the Existing Hedge Counterparties, Abbey National Treasury Services plc, BNP Paribas, Commonwealth Bank of Australia, Lloyds Bank Corporate Markets plc, Morgan Stanley & Co. International Limited and National Australia Bank Limited. J.P. Morgan Securities plc and Deutsche Bank AG, London Branch are power hedge counterparties and have not acceded to the STID, but are included within the definition of “Hedge Counterparties” as power hedging is expressly included in the STID documentation and **“Hedge Counterparties”** means any or all parties as the context requires;

“Hedging Agreement” means:

- (a) the Existing Hedging Agreements;
- (b) any Treasury Transaction entered or to be entered into by the Issuer with Hedge Counterparties in accordance with the Hedging Policy (the counterparties to which have acceded to the terms of the STID and the CTA and agreed to be bound by the terms of schedule 8 (Hedging Policy and Overriding Provisions relating to Hedging Agreements) of the CTA); and

- (c) any other Treasury Transaction (the counterparties to which have acceded to the terms of the STID and the CTA and agreed to be bound by the terms of schedule 8 (Hedging Policy and Overriding Provisions relating to Hedging Agreements) of the CTA) designated a Hedging Agreement by the Security Trustee and the Issuer;

“Hedging Policy” means the initial hedging policy applicable to Anglian Water and the Issuer set out in schedule 8 (Hedging Policy and Overriding Provisions relating to Hedging Agreements) of the CTA as such hedging policy may be amended from time to time by agreement between the Security Trustee and the Issuer in accordance with the STID;

“Holding Company” means a holding company within the meaning of the Companies Act;

“I&I Agreement” means each insurance and indemnity agreement (or similarly named agreement) between, *inter alios*, the Issuer and a Financial Guarantor in connection with a particular Series of Class A Wrapped Bonds and/or Class B Wrapped Bonds;

“IRC” means the amounts set out under the heading infrastructure renewals charge in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to Anglian Water in Ofwat’s most recent Final Determination adjusted as appropriate for any subsequent Interim Determination and for Out-turn Inflation;

“IFRS” means the International Financial Reporting Standards as issued by the International Accounting Standard Board and as endorsed by the European Commission;

“Indemnification Deed” means the deed so named and dated on or about the Effective Date between the Obligors, any Financial Guarantor and the Dealers;

“Independent Review” means an independent review resulting from a Trigger Event as defined in Chapter 6.5.8 (iii), *“Financing Structure – Common Terms Agreement – Trigger Event Consequences – Independent Review”*;

“Initial Authorised Credit Facility Agent” means Barclays Bank PLC or any successor thereto;

“Initial Authorised Credit Facility Arranger” means Barclays Capital, or any successor thereto; **“Initial Bond Policies”** means the financial guarantee policies issued by the Initial Financial Guarantor

(subject to the satisfaction of certain conditions) in connection with the first Series of Wrapped Bonds; **“Initial Financial Guarantor”** means MBIA UK Insurance Limited;

“Insolvency Act” means the Insolvency Act 1986;

“Insolvency Act 2000” means the Insolvency Act 2000, certain provisions of which were brought into force on 1 January 2003;

“Insolvency Event” means, in respect of any company:

- (a) the initiation of or consent to Insolvency Proceedings by such company or any other company or the presentation of a petition for the making of an administration order and, in the opinion of the Security Trustee, such proceedings not being disputed in good faith with a reasonable prospect of success;
- (b) the making of an administration order in relation to such company;
- (c) an encumbrancer (excluding in relation to the Issuer, the Bond Trustee or any receiver) taking possession of the whole or any part of the undertaking or assets of such company;
- (d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such person (excluding in relation to

- the Issuer, the Security Trustee or any receiver) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;
- (e) the making of an arrangement, composition, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally;
 - (f) a meeting is convened for the purpose of considering a resolution or an effective resolution is passed or an order is made by a court of competent jurisdiction for the winding-up or dissolution of such company (except, in the case of the Issuer, a winding-up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution);
 - (g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;
 - (h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such person of an intention to do so; or
 - (i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such person;

“Insolvency Official” means, in respect of any company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver or manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all or substantially all of the company’s assets or in respect of any arrangement or composition with creditors;

“Insolvency Proceedings” means the winding-up, dissolution, administration or special administration of a company, corporation or other person or any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, special administration, arrangement, adjustment, protection or relief of debtors;

“Institutional Accredited Investor” means an institutional investor that qualifies as an “accredited investor” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) and that is not a QIB;

“Instructing Group” means the Class A DIG or, following repayment in full of the Class A Debt, the Class B DIG;

“Instrument of Appointment” or **“Licence”** means the Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water as a water and water recycling undertaker under that Act for the areas described in the Instrument of Appointment as modified or amended from time to time;

“Intercompany Loan” means the principal amount of all advances from time to time outstanding under the Intercompany Loan Arrangements;

“Intercompany Loan Arrangements” means the Issuer/Anglian Water Loan Agreement and/or the Anglian Water Loan Notes, as the context requires;

“Intercreditor Arrangements” means the arrangements between the Secured Creditors of the Anglian Water Services Financing Group in the STID summarised in Chapter 6.3, *“Financing Structure – Security Trust and Intercreditor Deed”*;

“Interest Payment Date” means any date upon which interest or payment equivalent to interest becomes payable under the terms of any Authorised Credit Facility;

“Interest Rate Hedging Agreement” means a Treasury Transaction to swap interest or other rates, including any RPI Linked Hedging Agreement or any other Hedging Agreement specified as such in the relevant Accession Memorandum to the STID;

“Interim Determination” means an interim determination as provided for in Part IV of Condition B of the Instrument of Appointment;

“Investment Company Act” means the U.S. Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder;

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

“Investors Report” means each report produced by Anglian Water and the Issuer within the earlier of 45 days after publication of the relevant Financial Statements or 180 days from 31 March or 90 days from 30 September in each year in respect of the immediately preceding calendar half year starting with 30 September 2002, in substantially the form set out in the CTA provided that ratio calculations will be adjusted only for every second Investors’ Report;

“IP” means intellectual property;

“IPPC” means the integrated pollution prevention and control regime introduced by the United Kingdom Pollution Prevention and Control Act 1999;

“IRE Expensed” means any infrastructure renewals expenditure reclassified as operating cost as a result of changes in accounting standards from U.K. GAAP to IFRS (whether by convergence or otherwise);

“Issue Date” means the date of issue of any Series of Bonds or the date upon which all conditions precedent to any other Authorised Credit Facility have been fulfilled or waived and the Issuer makes a utilisation of that facility;

“Issuer” means Anglian Water Services Financing Plc;

“Issuer/Anglian Water Loan Agreement” and **“Issuer/AWS Loan Agreement”** means the loan agreement entered into between the Issuer and Anglian Water on 30 July 2002 as more particularly defined in Chapter 6.4.2, *“Financing Structure – Intercompany Loan Arrangements – Issuer/Anglian Water Loan Agreement”*;

“IT” means information technology;

“K” means the adjustment factor set for each year by Ofwat with respect to Network Plus Water Activities and Network Plus Wastewater Activities by which charges to be levied by and/or revenue allowed to Regulated Companies for such activities may be increased, decreased or kept constant;

“Lease Calculation Cashflow” means, in respect of any Test Period or, as the case may be, the Pre-Test Period, for any Finance Lease, a cashflow statement produced by the relevant Finance Lessor on, or as soon as reasonably practicable after, its Lease Calculation Date occurring prior to the commencement of such Test Period and in accordance with its terms and schedule 14 (Finance Lease Terms) of the CTA and, in the case of an Additional Secured Creditor, in accordance with the terms of the relevant Accession Memorandum and using, *inter alia*, for the purposes of calculating the amount shown for each rental payment date falling within the Test Period or, as the case may be, the Pre-Test Period under the heading “interest” (or the equivalent thereof (howsoever worded)) in such cashflow statement, a rate of LIBOR, estimated, as at its Lease Calculation Date, by reference to the average of those rates per annum being offered by the reference banks specified in the relevant finance lease (or where there is none, Barclays Bank PLC and Citibank N.A.) to prime banks in the London interbank market for entry into 12-month (or such other period as is equal to the relevant rental period under such Finance Lease) forward contracts, commencing on each rental payment date arising during the period commencing on such Lease Calculation Date and ending on the last rental payment date to occur during the relevant Test Period and as agreed between Anglian Water and the relevant Finance Lessor (provided that, where any Finance Lease contains Rentals which are calculated by reference to a fixed

rate of interest, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest implicit in such Rental calculations), provided that where in respect of any Finance Lease there has been a change of assumption resulting in an increase or decrease in the Rental payable thereunder during any Test Period or the Pre-Test Period, as the case may be, the Lease Calculation Cashflow applicable to that Finance Lease for such Test Period or the Pre-Test Period shall also include a cashflow statement, produced as soon as reasonably practicable after the time of recalculating the Rental in accordance with the terms of that Finance Lease and schedule 14 (Finance Lease Terms) of the CTA or, as the case may be, that Accession Memorandum and using, in such cashflow statement, the same estimated interest rates as were used in preparation of the original cashflow statement prepared on or as soon as reasonably practicable after the Lease Calculation Date applicable to that Test Period or the Pre-Test Period, as the case may be;

“Lease Calculation Date” means in respect of the Existing Finance Lease:

- (a) the Effective Date;
- (b) the date falling 10 days before the rental payment date immediately preceding 1 April 2003; and
- (c) each yearly anniversary of the date referred to in (b) above,

and in respect of any Finance Lease which is not the Existing Finance Lease:

- (x) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease;
- (y) the date falling 10 days before the rental payment date immediately preceding the commencement date of the first Test Period to commence immediately after the date referred to in (x) above; and
- (z) each yearly anniversary of the date referred to in (y) above,

save that where any date referred to in (b), (c), (x), (y) or (z) above is not a Business Day, such date shall be deemed to be the preceding Business Day.

“Lease Reserve Amount” means in respect of any Finance Lease in any Test Period, the lower of (i) the aggregate Notional Amount calculated with respect to such Finance Lease; and (ii) the aggregate amount of rental payments payable to the Finance Lessor under such Finance Lease in respect of such Test Period or, as the case may be, the Pre-Test Period (inclusive of value added tax) (after adding back any additional rentals (inclusive of value added tax) payable and deducting any estimated rental rebates (inclusive of any credit for value added tax), in each case as determined in accordance with the provisions of the relevant Finance Lease);

“Letter(s) of Credit” means an on demand irrevocable letter(s) of credit provided by a LC Provider (as defined in the Deed of Indemnity) in favour of either the Security Trustee or AWS in a form satisfactory to the Security Trustee provided that, if any Letter(s) of Credit are provided in favour of AWS, AWS shall provide first ranking fixed charge security over such Letter(s) of Credit in favour of the Security Trustee that will be duly filed in the prescribed form by AWS with the Registrar of Companies within the prescribed time limits and shall further provide a legal opinion addressed to the Security Trustee, in a form and content satisfactory to the Security Trustee, confirming the efficacy of such first ranking fixed charge security;

“Licence” or “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 August 1989) under which the Secretary of State for the Environment appointed Anglian Water as a water and water recycling undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time;

“Liquidity Facility” means a Debt Service Reserve Liquidity Facility or an O&M Reserve Facility made available under a Liquidity Facility Agreement and **“Liquidity Facilities”** means all of them;

“Liquidity Facility Agent” means in respect of the Debt Service Reserve Liquidity Facility Agreements and the O&M Reserve Facility Agreement, Barclays Bank PLC;

“Liquidity Facility Agreements” means the Debt Service Reserve Liquidity Facility Agreements and the O&M Reserve Facility Agreement;

“Liquidity Facility Provider” means any lender from time to time under a Liquidity Facility Agreement, including the Debt Service Reserve Liquidity Facility Provider and the O&M Reserve Facility Provider;

“Liquidity Facility Requisite Ratings” means the Minimum Short-term Rating and a minimum long-term rating of at least “A” from Fitch and S&P and at least “A2” from Moody’s from at least two Rating Agencies;

“Local Authority Loan” means the local authority loan in the amount of approximately £195,000 provided to AWS by Castle Point Borough Council;

“London Stock Exchange” means the London Stock Exchange plc;

“Majority Creditors” means Class A DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class A Debt or following the repayment in full of the Class A Debt, Class B DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class B Debt, in each case subject to Clause 8 (Modifications, Consents and Waivers) and Clause 9 (Voting Instructions and Notification of Outstanding Principal Amounts of Qualifying Debt) of the STID;

“Make-Whole Amount” means the Make-Whole Amount as defined in the Conditions and/or the Note Purchase Agreement relating to the USPP 2001 Bonds and any other amount above par payable on redemption of any Class A Debt or Class B Debt except where such amount is limited to accrued interest;

“Master Definitions Agreement” means the Master Definitions Agreement dated 30 July 2002 between the Obligors and the other parties named therein as amended by an amending agreement to the Master Definitions Agreement dated on or about 2 October 2006 and as subsequently amended on 7 December 2006;

“Material Adverse Effect” means the effect of any event or circumstance which is materially adverse, taking into account the timing and availability of any rights or remedies under the WIA or the Instrument of Appointment, to:

- (a) the business, property, operations or financial condition of Anglian Water or of the Anglian Water Services Financing Group as a whole;
- (b) the ability of any member of the Anglian Water Services Financing Group to perform its obligations under any Finance Document;
- (c) the validity or enforceability of any Finance Document or the rights or remedies of any Secured Creditor thereunder; or
- (d) the ability of Anglian Water to perform or comply with any of its obligations under the Instrument of Appointment or the WIA;

“Material Agreement” means any Tier 1 Material Agreement or Tier 2 Material Agreement;

“Material Entity Event” means any of the events or circumstances in schedule 2 to the CTA and described in Chapter 6.5.11, *“Financing Structure – Common Terms Agreement – Material Entity Events”*;

“Maturity Date” means the date on which a Bond is expressed to be redeemable or any other Authorised Credit Facility is expressed to be repayable in full;

“Maximum Early Redemption Amount” means the aggregate of all Early Redemption Amounts which would become payable upon redemption of USPP 2001 Bonds following the occurrence of an Early Redemption

Event, assuming the holders of all USPP 2001 Bonds which were entitled to do so elected to have their USPP 2001 Bonds redeemed as a result of an Early Redemption Event occurring;

“**MBIA**” means MBIA UK Insurance Limited (now known as Assured Guaranty (London) plc);

“**MBIA Make-Whole Amount**” means the amount of market value in excess of par paid out by MBIA in respect of £100,000,000 12 per cent. bonds due 2014, as further defined in the Bond Policy relating to such bonds;

“**Meter Optants**” means domestic customers who have opted to be charged on the basis of a meter reading rather than by rateable value;

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

“**Minimum Short-term Rating**” means, in respect of any person, such person’s short-term unsecured debt obligations being rated at least:

- (a) in the case of Moody’s, “Prime-1”,
- (b) in the case of S&P, “A-I”,
- (c) in the case of Fitch, “F-I”, by any two Rating Agencies. “**MI/d**” means mega litres per day;

“**Monthly Payment Amount**” means the amount paid on a monthly basis by Anglian Water to the Debt Service Payment Account, as referred to in Chapter 6.6.3, “*Financing Structure – Cash Management – Payment Account*”;

“**Moody’s**” means Moody’s Investors Service Limited;

“**Net Cash Flow**” means:

- (a) in respect of any historical element of a Test Period, the aggregate of net cash flow from operating activities as shown in the AWS financial statements (after adding back, without double counting, and to the extent that such items are included in net cash flow from operating activities, any exceptional items, any customer rebates, any recoverable VAT, any capital maintenance expenditure, any movement in debtors and/or creditors relating to capital expenditure and IRE Expensed) minus corporation tax paid; and
- (b) in respect of any forward looking element of a Test Period shall have the same meaning set out in
- (c) above save that that paragraph shall be amended by adding the words “less any net cash flow from operating activities of its business other than its Regulated Business and after adding back corporation tax paid arising as a result of such businesses” after the words “corporation tax paid”;

“**New Finance Lease**” means the lease between Anglian Water and the New Finance Lessor which was entered into on 17 April 2009 as amended, supplemented, assigned and novated prior to the Effective Date;

“**New Finance Lessor**” means Lombard Business Leasing Limited which leases or agrees to lease Equipment to Anglian Water, under the terms of the New Finance Lease, including any of its successors or assigns;

“**New Money Advance**” means any drawing during a Standstill under a Liquidity Facility or any Authorised Credit Facility which is not made (or to the extent not made) for the purpose of refinancing a maturing Advance under such Liquidity Facility or refinancing a drawing under such Authorised Credit Facility;

“**NGN**” means new global note;

“**Non-Regulatory Allowable Expense**” means any expense incurred in connection with activities that are not the subject of, or fall outside the scope of, any Periodic Review;

“Note Purchase Agreement” means the note purchase agreement dated 25 July 2001 pursuant to which Anglian Water issued the USPP 2001 Bonds;

“Notified Item” means any item formally notified by Ofwat to the Regulated Company as not having been allowed for inprice controls made pursuant to the prior relevant Periodic Review or Interim Determination;

“Notional Amount” means, in respect of any Finance Lease, a sum, certified by any duly authorised signatory of the relevant Finance Lessor on each Lease Calculation Date and using the relevant Lease Calculation Cashflow relating thereto as being, for the succeeding Test Period, the amount shown for each rental payment date falling in that relevant Test Period or, as the case may be, the Pre-Test Period under the headings “interest” and “margin” (or any equivalents thereof (howsoever worded)) in the relevant Lease Calculation Cashflow, together with an amount equal to VAT on such amount at the rate applicable to rentals payable under the relevant Finance Lease;

“NPV” means, in respect of any amount payable or receivable at a future date, such amount discounted back to the date of calculation on an annual basis at the long term weighted average cost of funds of Anglian Water calculated on the basis of all Financial Indebtedness of Anglian Water having a residual maturity in excess of 12 months and the applicable rates of interest thereon;

“O&M Reserve Account” means the account of Anglian Water entitled “O&M Reserve Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“O&M Reserve Facility” means an operation and maintenance reserve liquidity facility made available under a Liquidity Facility Agreement;

“O&M Reserve Facility Agreement” means an agreement establishing an O&M Reserve Facility (as may be amended and/or restated from time to time) as more particularly described in Chapter 6.9.3, “*Financing Structure – Additional Resources Available – The Liquidity Facilities*”;

“O&M Reserve Facility Provider” means the provider of the O&M Reserve Facility from time to time;

“Obligor” means any member of the Anglian Water Services Financing Group and **“Obligors”** means all of them;

“Official List” means the official list of the FCA;

“Ofwat” means the WSRA;

“OHL-AWS Subordinated Loan” shall have the meaning given to such term in Chapter 6.9.4, “*Financing Structure – Additional Resources Available – OHL-AWS Subordinated Loan*”;

“Operational Performance Assessment” means the assessment performed by Ofwat to monitor water company performance;

“Ordinary Distribution” means a Distribution which is paid out of Net Cash Flow generated, but taking account of interim dividends, during the 12 months up to 31 March (being the final dividend for that Financial Year) or Net Cash Flow generated during the six months up to 30 September (being the interim dividend for the first half of that Financial Year);

“Original Lender” means a lender under the Bridging Facility;

“Original Tax Deed of Covenant” means the deed of covenant entered into on or about the Effective Date between, *inter alios*, the Security Trustee and the Obligors;

“Osprey” means Osprey Acquisitions Limited, a company incorporated under the laws of England and Wales, indirectly wholly owned by the members of the Consortium;

“Outsourcing Agreement” means any agreement pursuant to which Anglian Water sub-contracts, tenders or outsources either the day-to-day operation of its assets and service delivery (including any maintenance expenditure) that Anglian Water could, if not outsourced, perform itself and which has (or would have were it entered into on arm’s length terms) an annual value in excess of £100,000 (indexed);

“Outsourcing Policy” means each of the obligations in schedule 9 (Outsourcing Policy) of the CTA;

“Outstanding Principal Amount” means, as at any date that the same falls to be determined:

- (a) in respect of Wrapped Bonds prior to the occurrence of an FG Event of Default which is continuing, the aggregate of any unpaid amounts owing to a Financial Guarantor under an I&I Agreement to reimburse it for any amount paid by it under a Bond Policy in respect of unpaid principal on a Wrapped Bond and the principal amount outstanding (or the Equivalent Amount) of the Wrapped Bonds (including any premium);
- (b) in respect of Wrapped Bonds after an FG Event of Default which is continuing, the principal amount outstanding (or the Equivalent Amount) of the Wrapped Bonds (including any premium);
- (c) in respect of Unwrapped Bonds, the principal amount outstanding (or the Equivalent Amount) of the Unwrapped Bonds (including any premium);
- (d) in respect of any Authorised Credit Facilities that are loans, the principal amount (or the Equivalent Amount) of any drawn amounts that are outstanding;
- (e) in respect of each Finance Lease, the Equivalent Amount of either (i) prior to an Acceleration of Liabilities (other than a Permitted Lease Termination) and subject to any increase or reduction calculated in accordance with clause 9.9 (Notification of Outstanding Principal Amount of Qualifying Debt) of the STID, the highest termination value which may fall due during the rental period encompassing such date, calculated upon the assumptions set out in the cashflow report provided by the relevant Finance Lessor on the first day of each such rental period (or in the most recently generated cash flow report which is current on such date) or (ii) following any Acceleration of Liabilities (other than a Permitted Lease Termination), the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date of such Acceleration of Liabilities (other than a Permitted Lease Termination); and
- (f) in respect of any other Secured Liabilities, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Document,

all as most recently certified or notified to the Security Trustee, where applicable, pursuant to clause 9.9 (Notification of Outstanding Principal Amount of Qualifying Debt) of the STID;

“Out-turn Inflation” means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the RPI adjusted, as appropriate, in the case of capital additions, for any divergence between the actual movement of national construction costs, as evidenced by the Construction Output Price Index (or such other index as Ofwat may specify) relative to the RPI from their base levels, as used in the most recent Final Determination or Interim Determination and their relative movement, as projected by Ofwat for the purposes of that determination, and in respect of any period, including future periods, for which the relevant indices have not yet been published, by reference to forecast rates consistent with the average monthly movement in such indices over the previous 12 months for which published indices are available;

“Participating Member State” means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union;

“Paying Agents” means, in relation to all or any Series of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the Obligors pursuant to the Agency Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to all or any Series of the Bonds;

“Payment Account” means the account of Anglian Water titled “Payment Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Payment Date” means each date on which a payment is made or is scheduled to be made by any Obligor in respect of any obligations or liabilities under any Authorised Credit Facility;

“Payment Priorities” means the provisions relating to the order of priority of payments set out in Chapter 6.6.5, “*Financing Structure – Cash Management – Debt Service Payment Account*”;

“Pension Scheme” means the Anglian Water Group Pension Scheme, a retirement benefit arrangement in which the Anglian Water Group companies participate;

“Periodic Review” means the periodic review of Price Controls (as that term is defined in the Instrument of Appointment) as provided for in Part III of Condition B of the Instrument of Appointment;

“Permanent Bearer Global Bond” means a global bond comprising some or all of the Bearer Bonds of the same Series issued by the Issuer in exchange for the whole or part of any Temporary Bearer Global Bond issued in respect of such Bearer Bonds;

“Permitted Acceleration” means an acceleration of certain share pledges permitted pursuant to the STID; **“Permitted Acquisition”** means any of the following carried out by Anglian Water:

- (a) acquisitions (including Authorised Investments) made on arm’s length terms and in the ordinary course of trade;
- (b) acquisitions of assets required to replace surplus, obsolete, worn-out, damaged or destroyed assets which in the reasonable opinion of Anglian Water are required for the efficient operation of its Business or in accordance with the Finance Leases; or
- (c) acquisitions of assets (but not companies or joint ventures) made on arm’s length terms entered into for *bona fide* commercial purposes in furtherance of Anglian Water’s statutory and regulatory obligations,

but not an acquisition of a water business or interest therein (except (i) for inset business in the United Kingdom which is or will be included in RCV and which breaches neither the Instrument of Appointment nor the Act or (ii) with the prior consent of the Security Trustee and each Financial Guarantor or any acquisition by an Obligor required in connection with the Permitted Reorganisation);

“Permitted Book Debt Disposal” means the disposal (with the prior consent of the Security Trustee and each Financial Guarantor) of book debts by Anglian Water on arm’s length terms to any person other than an Affiliate, provided that where such book debts are sold on recourse terms:

- (a) Anglian Water has made a prudent provision in its accounts against the non-recoverability of such debts;
- (b) the recourse period does not exceed 24 months;
- (c) any write-back of any provision for non-recoverability arising from the sale can only be treated as operating profit for the purposes of the financial ratios once the relevant recourse period against Anglian Water has expired; and

- (d) the Anglian Water Business Financial Model is updated to ensure the transaction is taken into account in calculating all relevant financial ratios under the CTA;

“Permitted Demerger” means a demerger, reconstruction, scheme of arrangement or other like process immediately following which either (i) no person Controls Anglian Water Services Holdings Limited or (ii) all of Anglian Water Services Holdings Limited’s shares (or the shares of any company of which Anglian Water Services Holdings Limited is a direct or indirect wholly-owned subsidiary) are held by the then existing shareholders of AWG Parent Co Ltd;

“Permitted Disposal” means any disposal made by Anglian Water which:

- (a) is made in the ordinary course of trading of the disposing entity or in connection with an arm’s length transaction entered into for *bona fide* commercial purposes for the benefit of the Business;
- (b) is of assets in exchange for other assets comparable or superior as to type, value and quality;
- (c) is of Equipment pursuant to the Finance Leases;
- (d) would not result in the Senior RAR, calculated for each Test Period by reference to the most recently occurring Calculation Date (adjusted on a pro forma basis to take into account the proposed disposal) being less than or equal to 0.9:1;
- (e) is a disposal for cash on arm’s length terms of any surplus or obsolete or worn-out assets which, in the reasonable opinion of Anglian Water, are not required for the efficient operation of its Business and which does not cause a Trigger Event under paragraph 1 of schedule 6, Part 1 of the CTA;
- (f) is a Permitted Book Debt Disposal;
- (g) is a disposal of Protected Land (as that term is defined in the Act) in accordance with the terms of the Instrument of Appointment;
- (h) is a disposal or surrender of tax losses which is a Permitted Tax Loss Transaction; or
- (i) is any other disposal which is in accordance with the Instrument of Appointment provided that the consideration (both cash and non-cash) received by Anglian Water (or which would be received by Anglian Water if such disposal was made on arm’s length terms for full commercial value to an unconnected third party) in respect of any such disposal when aggregated with all other such disposals by it made in (y) the immediately preceding 12-month period does not exceed 2½ per cent. of RCV (or its equivalent) and (z) in the immediately preceding five-year period does not exceed 10 per cent. of RCV (or its equivalent),

and any disposal by an Obligor required in connection with the Permitted Reorganisation, provided that in each case such disposal does not cause the Trigger Event Ratio Levels to be breached;

“Permitted EIB Compulsory Prepayment Event” means, notwithstanding Clause 7 of the CTA, in the case of an Authorised Credit Facility to be provided by the EIB to any Obligor after 1 January 2011, a demand for prepayment or payment of such Authorised Credit Facility by the EIB, provided that:

- (i) such demand may only be made if the Credit (as defined in such Authorised Credit Facility) (when aggregated with the amount of any other credit made available from the EIB for the purposes of the Project (as defined in such Authorised Credit Facility)) exceeds 50 per cent. of the total cost of the Project (as defined in such Authorised Credit Facility);
- (ii) such demand is made in accordance with the relevant compulsory prepayment provision under such Authorised Credit Facility;

- (iii) no Trigger Event, no Event of Default and no Potential Event of Default is subsisting or would occur as a result of a payment following such demand;
 - (iv) the maximum aggregate amount to be paid to the EIB under such demands in any one financial year in respect of any one Authorised Credit Facility is the sum of:
 - (A) £50 million; and
 - (B) the Discretion Amount, provided that:
 - (a) each of the Security Trustee and the Financial Guarantor(s) has been provided with (A) a certificate from Issuer confirming that paragraphs (i) and (ii) above apply and (B) an acknowledgement from the EIB should such conditions in paragraphs (i) and (ii) be met;
 - (b) the aggregate of all Discretion Amounts in such financial year in respect of such Authorised Credit Facility does not exceed £5 million; and
 - (c) the Rating Requirement has been met in respect of such Discretion Amount,
- and for the purposes of this paragraph (iv), “**Discretion Amount**” means the amount agreed by the Financial Guarantor(s) (acting reasonably and having regard to the financial condition of the Obligors); and
- (v) notwithstanding any provision in such Authorised Credit Facility, such demand is made no later than 12 months after the date of the delivery of the certificate from Issuer to the EIB confirming the completion of the Project (as defined in such Authorised Credit Facility) unless Issuer obtains the prior consent of the Majority Creditors;

“**Permitted Emergency Action**” means any remedial action taken by Anglian Water during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of Anglian Water (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which Anglian Water considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 28 days or such longer period as is agreed by Anglian Water, the Security Trustee and each Financial Guarantor;

“**Permitted Enhancement Capex Financial Indebtedness**” has the meaning given to it in Chapter 6.5.5(vii), “*Financing Structure – Common Terms Agreement – Covenants - General*”;

“**Permitted Exchange**” means a formal exchange offer or other approach to existing Bondholders by, or on behalf of, the Issuer to exchange Bonds held by such Bondholders for new Bonds issued under the Programme and any related amendments to the Conditions of such Bonds agreed to by the holders of such Bonds in accordance with the terms of the Bond Trust Deed;

“**Permitted Existing Non-Statutory Business**” means any business other than the Regulated Business which is carried on by Anglian Water at the Effective Date and (a) which falls within the Permitted Non-Statutory Business Limits applicable to Permitted Existing Non-Statutory Business, (b) in respect of which all material risks related thereto are fully insured and (c) which does not give rise to any material, actual or contingent liabilities for Anglian Water that are not properly provided for in its financial statements;

“**Permitted Financial Indebtedness**” means:

- (a) Financial Indebtedness incurred under the Intercompany Loan Arrangements or the UK Holdco/Anglian Water Loan;

- (b) Financial Indebtedness incurred under any Finance Document as at the Effective Date;
- (c) Financial Indebtedness incurred under a Treasury Transaction provided it is in compliance with the Hedging Policy;
- (d) the Local Authority Loan provided that the aggregate amount thereof does not exceed the amount at the date of the CTA;
- (e) any unsecured indebtedness which is fully subordinated to the Class A Debt and Class B Debt in a manner satisfactory to the Security Trustee provided that the aggregate amount of such Financial Indebtedness, when aggregated further with those amounts outstanding under the facilities referred to in paragraph (d) above, does not exceed £15,000,000 (indexed);
- (f) any Subordinated Debt;
- (g) such further Financial Indebtedness incurred by the Issuer or Anglian Water that complies with the following conditions:
 - (i) at the time of incurrence of that Financial Indebtedness, no Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness;
 - (ii) the Financial Indebtedness is made available pursuant to an Authorised Facility Agreement the counterparty to which has acceded to the CTA and STID;
 - (iii) as a result of the incurrence of the Financial Indebtedness:
 - (A) Anglian Water and the Issuer will not be in breach of its covenant to maintain the Debt Service Reserve Liquidity Facility to the required level as more particularly described in paragraph (ii)(a) of Chapter 6.5.6, "*Financing Structure – Common Terms Agreement – Financial Covenants*" and its covenant to ensure scheduled final repayments are controlled, as more particularly described in paragraph (vi)(e) of Chapter 6.5.5, "*Financing Structure – Common Terms Agreement – Covenants – General*";
 - (B) no Authorised Credit Provider will have better or additional Entrenched Rights under the STID than those Authorised Credit Providers of the same class; and
 - (C) the Hedging Policy shall continue to be complied with in all respects;
 - (iv) the Financial Indebtedness which is Class A Debt ranks pari passu in all respects (but subject to the priorities set out in Paragraph 8 of Schedule 12 to the CTA) with all other Class A Debt in its category of Class A Debt and the Financial Indebtedness that is Class B Debt ranks pari passu in all respects (but subject to the priorities set out in Paragraph 8 of Schedule 12 to the CTA) with all other Class B Debt in its category of Class B Debt;
 - (v) if such further Financial Indebtedness is Class A Debt or Class B Debt then the Senior RAR (adjusted on a proforma basis to take into account the proposed incurrence of such further Financial Indebtedness) must be less than or equal to 0.90: 1 for each Test Period calculated by reference to the then most recently occurring Calculation Date;
 - (vi) if such further Financial Indebtedness is Class A Debt then (taking into account the incurrence of such debt) the Class A RAR must be less than or equal to 0.75:1 and the Class A PMICR must be greater than or equal to 1.30:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date;

- (vii) if such further Financial Indebtedness is incurred under a Finance Lease, the amount of that Financial Indebtedness, when aggregated with all other Financial Indebtedness under Finance Leases shall not exceed an amount of £570,000,000 (indexed); and
- (viii) if such further Financial Indebtedness is Class A Debt then (taking into account the incurrence of such debt) the Conformed Class A PMICR must be greater than or equal to 1.30:1 for each Test Period calculated by reference to the then most recently occurring Calculation Date;
- (h) Financial Indebtedness incurred with the consent of the Security Trustee and each Financial Guarantor.

For the purposes of this definition only, the termination sums payable under a Treasury Transaction that has been terminated shall not be treated as Financial Indebtedness and the occurrence of such event shall not be construed as the incurrence of Financial Indebtedness;

“Permitted Hedge Termination” means the termination of a Hedging Agreement in accordance with the CTA;

“Permitted Joint Venture” means, after the Effective Date, the financing, development, design, carrying out and management by or on behalf of Anglian Water of any new joint venture to which the Security Trustee and each Financial Guarantor has consented (such consent not to be unreasonably withheld) pursuant to the terms of the CTA and the operation by or on behalf of Anglian Water of that joint venture in accordance with the criteria set out in the CTA and, in relation to any Existing Joint Venture, the above-mentioned terms do not apply;

“Permitted Lease Termination” means any termination of the leasing (or the prepayment of Rentals arising by reason of such termination) of all or any part of the Equipment in the following circumstances:

- (a) *Total Loss*: Pursuant to clause 7.2 of the Existing Finance Lease or any other provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment save that Anglian Water or the Issuer (as applicable) will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if (i) an Acceleration of Liabilities has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment;
- (b) *Illegality*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that Anglian Water or the Issuer (as applicable) will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) an Acceleration of Liabilities has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment; and
- (c) *Voluntary Prepayment/Termination*: Pursuant to clause 11.3 of the Existing Finance Lease and any other provision of a Finance Lease whereby Anglian Water or the Issuer (as applicable) will be entitled to voluntarily terminate (and require payment of a termination sum), or prepay the Rentals due to, the leasing of certain Equipment under such Finance Lease provided that (i) no Acceleration of Liabilities has occurred or (ii) no Default Situation is subsisting or would occur as a result of such prepayment or termination;

“Permitted New Non-Statutory Business” means any business other than the Regulated Business and Permitted Existing Non-Statutory Business provided that (a) such business: (i) requires the utilisation of assets or resources that are already owned or controlled by Anglian Water; (ii) is prudent in the context of the overall business

of Anglian Water and continues to be prudent for the duration of that Permitted New Non-Statutory Business; (iii) is not reasonably likely to be objected to by Ofwat; and (iv) falls within the Permitted Non-Statutory Business Limits applicable to Permitted New Non-Statutory Business; (b) all material risks related thereto are fully insured; and (c) such business does not give rise to any material actual or contingent liabilities for Anglian Water that are not properly provided for in its financial statements;

“Permitted Non-Statutory Business” means Permitted Existing Non-Statutory Business and Permitted New Non-Statutory Business;

“Permitted Non-Statutory Business Limits” means, in respect of Permitted Non-Statutory Business, that the aggregate Non-Regulatory Allowable Expense in any Test Period does not exceed 2.5 per cent. of Cash Expenses of Anglian Water in that period;

“Permitted Reorganisation” means Anglian Water Services UK Parent Co Limited becoming an Obligor and the immediate Holding Company of Anglian Water, and Anglian Water Overseas Holdco Limited ceasing to be an Obligor and the immediate Holding Company of Anglian Water, substantially by means of the transactions described in and carried out pursuant to the STID Proposal from AWS dated 29 March 2018;

“Permitted Security Interest” means:

- (1) any security interest created by any Obligor that is:
 - (a) a Security Interest created under the Security Documents or contemplated by the Finance Documents;
 - (b) any Security Interest specified in schedule 12 of the CTA as set out in Chapter 6.6, *“Financing Structure – Cash Management”*, if the principal amount thereby secured is not increased;
 - (c) a Security Interest comprising a netting or set-off arrangement entered into by a member of the Anglian Water Services Financing Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
 - (d) a right of set-off, banker’s liens or the like arising by operation of laws or by contract by virtue of the provision of any overdraft facility and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft; and
 - (e) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by the relevant member of the Anglian Water Services Financing Group in good faith and with a reasonable prospect of success;
- (2) any security interest created by either Anglian Water or the Issuer that is:
 - (a) a security interest comprising a netting or set-off arrangement entered into under any hedge arrangement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such hedge arrangement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);
 - (f) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;

- (g) a Security Interest created over shares and/or other securities acquired in accordance with the CTA held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange; and
 - (h) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;
- (3) any security interest that is created by Anglian Water that is:
- (a) a Security Interest over or affecting any asset acquired on arm's length terms after the date hereof and subject to which such asset is acquired, if:
 - (i) such Security Interest was not created in contemplation of the acquisition of such asset;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Anglian Water Services Financing Group; and
 - (iii) unless such Security Interest falls within any of paragraphs (d) to (g) below and (A) such Security Interest is removed or discharged within three months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;
 - (b) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;
 - (c) a Security Interest arising under or contemplated by any Finance Leases, hire purchase agreements, conditional sale agreements or other agreements for the acquisition of assets on deferred purchase terms (other than the Existing Finance Lease) where the counterparty becomes party to the STID;
 - (d) a right of set-off existing in the ordinary course of trading activities between Anglian Water and its suppliers or customers;
 - (e) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business provided that such lien is discharged within 30 days of any member of the Anglian Water Group becoming aware that the amount owing in respect of such lien has become due;
 - (f) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business; or
 - (g) in addition to any Security Interests subsisting pursuant to the above any other Security Interests provided that the aggregate principal amount secured by such Security Interests does not at any time exceed £10,000,000 (or its equivalent) (indexed),

to the extent and for so long, in each case, as the creation or existence of such Security Interest would not contravene the terms of the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or the WIA;

“Permitted Tax Loss Transaction” means any surrender of tax losses or agreement relating to tax benefit or relief (including for the avoidance of doubt an election under section 171A Taxation of Chargeable Gains Act 1992) or other agreement relating to tax between:

- (a) an Obligor (other than Anglian Water or the Issuer if, in either case, it is the company making the surrender or providing the benefit or relief) and any other member of the Anglian Water Services Financing Group; or
- (b) Anglian Water or the Issuer and any other member of the Anglian Water Services Financing Group or an Obligor and any other member of the Anglian Water Group (not being a member of the Anglian Water Services Financing Group) provided that:
 - (i) a payment is made by the company receiving the benefit, tax loss or relief made available under a transaction pursuant to paragraph (b) above (the **“Recipient Company”**) which is equal to the tax saved by the Recipient Company; and
 - (ii) the payment for any such benefit, tax loss or relief is made within 30 days of the claim being made by the Recipient Company to include the benefit, tax loss or relief in the tax return (whether the tax return originally filed or an amendment to that tax return) it files with the HM Revenue & Customs;

“Permitted Tender” means a formal tender offer or other approach to existing Bondholders by, or on behalf of, the Issuer to buy back Bonds for cash and any related amendments to the Conditions of such Bonds agreed to by the holders of such Bonds in accordance with the terms of the Bond Trust Deed;

“Permitted Volume Trading Arrangements” means:

- (a) (for the period 12 months from the Effective Date only) contracts entered into by Anglian Water with suppliers for the supply of goods and services to the Anglian Water Group and the Anglian Water Services Financing Group on terms that discounts are available as a result of such arrangements provided that any member of the Anglian Water Group making use of such arrangements agrees to reimburse and indemnify the Anglian Water Services Financing Group for any amounts payable by the Anglian Water Services Financing Group to such suppliers as a result of that member of the Anglian Water Group making use of such arrangements; and
- (b) from the Effective Date, contracts entered into by the Anglian Water Group with suppliers for the supply of goods and services to the Anglian Water Group and the Anglian Water Services Financing Group on terms that discounts are available as a result of such arrangements, provided that any Obligor making use of such arrangements will reimburse the Anglian Water Group for any Financial Indebtedness by way of amounts payable by the Anglian Water Group to such supplier as a result of such Obligor making use of such arrangements;

“Potential Event of Default” means an event (other than in any Hedging Agreement, where “Potential Event of Default” has the meaning given to it in that Hedging Agreement) which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them), an Event of Default;

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

“PR19” means the Periodic Review conducted by Ofwat for the purpose of setting price controls for the AMP7 Period, the Final Determination for which was published on 16 December 2019

“Premium Letter” means the letter or other agreement between a Financial Guarantor and one or more of the Obligors setting the terms on which premia are payable in relation to one or more Bond Policies issued or to be issued by that Financial Guarantor;

“Pre-Test Period” means the period from the Effective Date up to 31 March 2003;

“Principal Paying Agent” means Deutsche Bank AG, London Branch as principal paying agent under the Agency Agreement, or its successors thereto;

“Programme” means the €10 billion global secured medium term note programme established by the Issuer and listed on the Market;

“Programme Agreement” means the agreement dated on or about 2 October 2006 between the Issuer, the Obligors and the Dealers named therein (or deemed named therein) concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto;

“Projected Operating Expenditure” means, at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls;

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

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

“Public Procurement Rules” means public procurement rules of the United Kingdom (including the Utilities Contracts Regulations 2016 (SI 2016/274)) and of the European Communities (including Directive 2014/25/EU) affecting the water and water recycling sector and including any jurisprudence of the courts of the United Kingdom and of the European Communities and decisions of the European Commission in respect of such rules;

“Qualifying Class A Debt” means the aggregate Outstanding Principal Amount of Class A Debt to be voted by the Class A DIG Representatives;

“Qualifying Class A Debt Provider” means a provider of Qualifying Class A Debt;

“Qualifying Class B Debt” means the aggregate Outstanding Principal Amount of Class B Debt to be voted by the Class B DIG Representatives;

“Qualifying Class B Debt Provider” means a provider of Qualifying Class B Debt;

“Qualifying Debt” means the Qualifying Class A Debt or the Qualifying Class B Debt, as the context requires;

“Qualifying Debt Provider” means a provider of Qualifying Debt;

“QIBs” means a “qualified institutional buyer” within the meaning of Rule 144A under the Securities Act;

“RAG 5” means Ofwat’s Regulatory Accounting Guidelines 5 “*Transfer pricing in the water industry*”;;

“Rating Agencies” means Fitch, Moody’s and S&P and any further or replacement rating agency appointed by the Issuer with the approval of the Security Trustee (acting upon the instructions of the Majority Creditors) to provide a credit rating or ratings for the Class A Debt and the Class B Debt and shadow ratings in respect of Class A Wrapped Debt and Class B Wrapped Debt for so long as they are willing to provide credit ratings generally (and **“Rating Agency”** means any one of them);

“Rating Confirmation on Change of Control” means, in respect of a UK Holdco Change of Control, confirmation from any two Rating Agencies that the shadow rating of the Class A Wrapped Bonds will not be downgraded to BBB+ in the case of Fitch and S&P or, as the case may be, Baa1 in the case of Moody’s, or below;

“Rating Requirement” means confirmation from any two Rating Agencies that, in respect of any matter where such confirmation is required, the shadow rating is, in the case of the Class A Wrapped Debt, A- by Fitch and S&P and A3 by Moody’s or above and, in the case of the Class A Unwrapped Debt, is A- by Fitch and S&P and A3 by Moody’s or above;

“RCV” or **“Regulatory Capital Value”** means, in relation to any date, the regulatory capital value for such date as last determined and notified to Anglian Water by Ofwat at the most recent Periodic Review or Interim Determination or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or Interim Determination (interpolated as necessary and adjusted as appropriate for Out-turn Inflation);

“Receiptholders” means the several persons who are for the time being holders of the Receipts;

“Receipts Account” means the joint account of Anglian Water and the Issuer titled “Receipts Account” held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time;

“Refinancing Debt” has the meaning given to it in Chapter 6.5.5(vii), *“Financing Structure – Common Terms Agreement – Covenants - General”*;

“Refinancing Purposes” has the meaning given to it in Chapter 6.5.5(vii), *“Financing Structure – Common Terms Agreement – Covenants - General”*;

“Registered Bonds” means those of the Bonds which are in registered form;

“Registered Global Bonds” means a Rule 144A Global Bond and/or a Regulation S Global Bond;

“Registrar” means Deutsche Bank Trust Company Americas, which will act as registrar and will provide certain registrar services to the Issuer in respect of Registered Bonds;

“Regulated Business” means the business of a “relevant undertaker” (as that term is defined in the WIA) in the United Kingdom carried out by Anglian Water;

“Regulated Company” means one of the 11 regional water and water recycling undertakers, six regional water only undertakers, and smaller water and sewerage undertakers in England and Wales holding an instrument of appointment within the scope of section 6 of the WIA, together the **“Regulated Companies”** (except as otherwise stated in Chapter 10, *“Regulation of the Water and Water Recycling Industry in England and Wales”*);

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Bond” means a global bond in registered form comprising some or all of the Registered Bonds of the same Series sold outside the United States in reliance on Regulation S under the Securities Act;

“Regulatory Information” means the regulatory accounts Anglian Water is required to submit to Ofwat which are filed in June of each year;

“Relevant Change of Circumstance” has the same meaning as in Part IV of Condition B of the Licence;

“Remedial Plan” means any remedial plan agreed by Anglian Water and the Security Trustee under Part 2 of schedule 6 (Trigger Events) of the CTA as more particularly described in Chapter 6.5.8(ii), *“Financing Structure – Common Terms Agreement – Trigger Event Consequences – Further Information and Remedial Plan”*;

“Rental” means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease;

“Required Amount” means £100 million of which not less than £40 million will (i) consist of funds standing to the credit of the Tax Reserve Account or (ii) be represented by Authorised Investments made in accordance with paragraph 14 of schedule 12 of the Common Terms Agreement;

“Requisite Ratings” means together the Minimum Short-term Rating and the Minimum Long-term Rating;

“Reserved Matters” means the rights of the Secured Creditors set out in Chapter 6.3.20, *“Financing Structure – Security Trust and Intercreditor Deed – Reserved Matters”*;

“Restricted Payment” means any Distribution or Customer Rebate other than:

- (a) to the extent required to make any payment under an Authorised Credit Facility in accordance with the provisions of the CTA and the STID, a payment by Anglian Water under the Intercompany Loan Arrangements; or
- (b) a payment made under a Permitted Tax Loss Transaction; or
- (c) a UK Holdco Debt Service Distribution;

“Rolling Average Period” means on each Calculation Date the Test Period ending on 31 March that falls in the same calendar year as that Calculation Date and the next subsequent two consecutive Test Periods, save that, where the test comes to be calculated at a time when information is not available in respect of any forward looking Test Period (as a result of Ofwat’s determination of price controls for a Periodic Review not having been published in draft or final form) then such Rolling Average Period will be the three 12-month periods which run consecutively backwards and/or forwards from such Calculation Date for which such information is available for the last Test Period in such calculation;

“RPI” means the all-items retail price index for the United Kingdom published by the Office for National Statistics (January 1987 = 100) or at any future date (except in the case of an RPI Linked Hedging Agreement), such other index of retail prices as may have then replaced it for the purposes of Ofwat’s determination of price controls for water and sewerage services or (in the case of an RPI Linked Hedging Agreement) such other index of retail prices as specified in such RPI Linked Hedging Agreement;

“RPI Linked Hedging Agreement” means a Hedging Agreement with a Hedge Counterparty in respect of one or more Treasury Transactions to hedge payments to be made by the Issuer or, as the case may be, AWS by reference to RPI;

“Rule 144A Global Bond” means a global bond in registered form comprising some or all of the Registered Bonds of the same Series sold to QIBs in reliance on Rule 144A under the Securities Act;

“SDRT” means stamp duty reserve tax;

“Secretary of State” means one of Her Majesty’s principal secretaries of state;

“Secured Creditor Representative” means:

- (a) in respect of any Liquidity Facility Provider, the facility agent under the relevant Liquidity Facility;

- (b) in respect of any Additional Secured Creditor, the representative of such Additional Secured Creditor (if any) appointed as its Secured Creditor Representative under the terms of the relevant Finance Document and named as such in the relevant Accession Memorandum; and
- (c) in respect of any existing Secured Creditor entering into an additional Finance Document, the representative of such existing Secured Creditor (if any) appointed as its Secured Creditor Representative under the terms of the relevant additional Finance Document and named as such in the Additional Finance Document Memorandum;

“Secured Creditors” means the Security Trustee (in its own capacity and on behalf of the other Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Bondholders (other than the USPP 2001 Bondholders)), the Bondholders, each Financial Guarantor, the Existing Finance Lessor, the Hedge Counterparties, the Issuer, each Authorised Credit Facility Agent, each Authorised Credit Facility Arranger, the Original Lenders, the Bridging Facility Agent, the Bridging Facility Arranger, each Debt Service Reserve Liquidity Facility Provider, the Liquidity Facility Agent, the O&M Reserve Facility Provider, the Cash Manager (other than when the Cash Manager is Anglian Water), the Agent Bank, the Principal Paying Agent, the Registrar, the Exchange Agent, the Transfer Agent, the USPP Paying Agent and any Additional Secured Creditors;

“Secured Liabilities” means all present and future sums, liabilities and obligations whatsoever (actual or contingent) payable, owing, due or incurred by an Obligor to the Secured Creditors (or any of them) under any Finance Document;

“Securities Act” means the United States Securities Act of 1933, as amended;

“Security” means the security constituted by the Security Documents, including any guarantee or obligation to provide cash collateral or further assurance thereunder;

“Security Agreement” means the deed of charge and guarantee executed in favour of the Security Trustee by each of the Obligors on 30 July 2002;

“Security Assets” means all property, assets, rights and undertakings the subject of the Security created by the Obligors pursuant to any Security Document;

“Security Documents” means:

- (a) the Security Agreement;
- (b) the STID; and
- (c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Secured Creditor under the Finance Documents;

“Security Interest” means:

- (a) any mortgage, pledge, lien, charge, assignment, or hypothecation, or other encumbrance securing any obligation of any person;
- (b) any arrangement under which money or claims to money, or the benefit of a bank or other account, may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or
- (c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect;

“Security Trustee” means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID;

“Senior Average PMICR” means the sum of the ratios of Net Cash Flow, less the greater of (a) the aggregate of CCD and IRC and (b) Capital Maintenance Expenditure, to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by 3;

“Senior Debt” means all Class A Debt and Class B Debt and any other debt ranking in priority to subordinated debt of any member of the Anglian Water Services Financing Group;

“Senior Debt Interest” means, in relation to any Test Period and without double counting, an amount equal to the aggregate of all interest paid, due but unpaid or in respect of forward looking ratios, payable (whether or not payable within the terms of the Finance Documents) on the Issuer’s and/or Anglian Water’s obligations under and in connection with all Class A Debt and Class B Debt, all premia paid, due but unpaid or, in respect of forward looking ratios, payable to any Financial Guarantor and adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or in respect of forward looking ratios, payable on the Issuer’s and/or Anglian Water’s obligations under and in connection with all Class A Debt and Class B Debt in each case during such Test Period (after taking account of the impact on interest rates of all and related Hedging Agreements then in force) (excluding all indexation of principal to the extent it has been included in such interest or other amounts and all other costs incurred in connection with the raising of such Class A Debt and/or Class B Debt), and excluding amortisation of the costs of issue of any Class A Debt and Class B Debt within such Test Period less all interest received or in respect of forward looking ratios receivable by any member of the Anglian Water Services Financing Group from a third party during such Test Period;

“Senior ICR” means the ratio of Net Cash Flow for each Test Period to Senior Debt Interest for each of the same Test Periods;

“Senior Net Indebtedness” means, as at any date, all the Issuer’s and Anglian Water’s nominal debt outstanding under and in connection with any Class A Debt and Class B Debt (other than pursuant to tranche B of the Initial Authorised Loan Agreement) and any nominal amounts of Financial Indebtedness falling within paragraph (d) of the definition of Permitted Financial Indebtedness including (in each case) all indexation accrued but unpaid (after taking account of the impact on interest rates of all related Hedging Agreements then in force) on any such liabilities which are indexed together with any interest due and unpaid (after taking account of the impact on interest rates of all related Hedging Agreements then in force) and less the value of all Authorised Investments and other amounts standing to the credit of any Account other than the Customer Payment Account or the Distributions Accounts (where such debt is denominated other than in Sterling, the nominal amount outstanding will be calculated (i) in respect of debt with associated Currency Hedging Agreements, by reference to the applicable hedge rates; or (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate);

“Senior PMICR” means the ratio of Net Cash Flow less the greater of (a) the aggregate CCD and IRC and (b) Capital Maintenance Expenditure for each Test Period to Senior Debt Interest for each of the same Test Periods for that period;

“Senior RAR” means the ratio of Senior Net Indebtedness to RCV;

“Series” means a Tranche of Bonds together with any further Tranche or Tranches of Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices;

“Shipwreck Clause” means a clause which may be contained in the licence of a Regulated Company and which is contained in the Licence of Anglian Water at Part IV of Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its licence, request price controls to be reset if the Regulated Business either (i) suffers a substantial adverse effect which could not have been avoided by prudent management action or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action;

“SMBC Authorised Loan Agreement” means the bank facility entered into between, *inter alios*, the Issuer and Bank of China Limited, London Branch dated 11 May 2015;

“SMBC Authorised Loan Facility” means the bank facility entered into between, *inter alios*, the Issuer and Sumitomo Mitsui Banking Corporation, Brussels Branch dated 11 May 2015;

“Special Administration” means the insolvency process specific to Regulated Companies under sections 23-26 of the WIA;

“Special Administration Order” means an order of the Court under sections 23-25 of the WIA under the insolvency process specific to Regulated Companies;

“Special Administration Petition Period” means the period beginning with the presentation of the petition for Special Administration under section 24 of the WIA and ending with the making of a Special Administration Order or the dismissal of the petition;

“Special Administrator” means the person appointed by the Court under sections 23-25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force;

“Special Distribution” means a Distribution:

- (a) that is made out of amounts in excess of Net Cash Flow, less any Distribution which has already been paid in respect of that Financial Year, generated in the 12 months to the most recently occurring 31 March or generated in the six months up to 30 September (as the case may be) less Capital Maintenance Expenditure, less Senior Debt Interest, less any amounts required to restore the Liquidity Facilities to the required levels (in each case calculated for the same period); or
- (b) that is not an Ordinary Distribution;

“Standard & Poor’s” or **“S&P”** means Standard & Poor’s Rating Services, a Division of the McGraw- Hill Companies Inc.;

“Standby Drawing” means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the required ratings or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of its term;

“Standstill” means, as provided for in the STID, a standstill of claims of the Secured Creditors against Anglian Water and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default;

“Standstill Event” means an event giving rise to a Standstill in accordance with the STID; **“Standstill Period”** means a period during which a standstill arrangement is subsisting;

“Statutory Accounts” means the statutory accounts which Anglian Water is required to prepare in compliance with the Companies Act;

“STID” means the security trust and intercreditor deed dated 30 July 2002 between the Obligors and the Secured Creditors pursuant to which the Security Trustee holds the Security on trust for the Secured Creditors and the Secured Creditors agree to certain intercreditor arrangements;

“STID Directions Request” means a written notice of each STID Proposal sent by the Security Trustee to the Secured Creditors pursuant to the STID;

“STID Proposal” means a proposal pursuant to the STID requiring a Majority Creditor decision and the consent of any Secured Creditor having an Entrenched Right in respect of such proposal;

“Subordinated Authorised Loan Amounts” means, in relation to any Authorised Credit Facility, the aggregate of any amounts payable by the Issuer to the relevant Authorised Credit Provider on an accelerated basis as a result of illegality on the part of the Authorised Credit Provider or any other amounts not referred to in any other paragraph of the Payment Priorities;

“Subordinated Coupon Amounts” means, in respect of any Floating Rate Bonds, any amounts (other than deferred interest) by which the margin on the Coupon on such Bonds exceeds the initial margin on the Coupon on such Bonds as at the date on which such Bonds were issued;

“Subordinated Debt” means any secured Financial Indebtedness that is fully subordinated, in a manner satisfactory to the Security Trustee and each Financial Guarantor, to the Class A Debt and Class B Debt and where the relevant credit provider has acceded to the Common Terms Agreement and the STID;

“Subordinated Liabilities” means all present and future liabilities (actual or contingent) payable or owing by an Obligor to another Obligor whether or not matured and whether or not liquidated other than (until the Security Trustee directs otherwise) any amounts payable or owing by UK Holdco to Anglian Water under the UK Holdco/Anglian Water Loan and any amounts payable or owing under the Anglian Water Loan Notes or the Issuer/Anglian Water Loan Agreement;

“Subordinated Liquidity Facility Amounts” means, in relation to any Liquidity Facility, the amount by which the cost of regulatory compliance or the interest rate payable exceeds what it was on the Issue Date and the aggregate of amounts payable by the Issuer to the relevant Liquidity Provider on an accelerated basis as a result of illegality, gross-up or increased costs on the part of such Liquidity Facility Provider or any other amounts not referred to in any other paragraph of the Payment Priorities;

“Subordinated O&M Reserve Facility Amounts” means, in relation to the O&M Reserve Facility, the aggregate of any amounts payable by the Issuer to the O&M Reserve Facility Provider on an accelerated basis as a result of illegality on the part of the O&M Reserve Facility Provider or any other amounts not referred to in any other paragraph of the Payment Priorities;

“Swiss francs” means the lawful currency of Switzerland;

“Talons” means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the definitive Bearer Bonds (other than Zero Coupon Bonds) and includes any replacements for Talons issued pursuant to Condition 14;

“Talonholders” means the several persons who are for the time being holders of the Talons;

“Tax Deed of Covenant” means the Original Tax Deed of Covenant and/or the First Replacement Tax Deed of Covenant, as applicable;

“Tax Reserve Account” means the account in the name of AWS (account number 60451886) held at the Account Bank (including any sub-account relating to that account and any replacement account from time to time) with a cash balance of at least £40 million;

“Tax Reserve Guarantee” means a financial guarantee provided by a Tax Reserve Guarantor in favour of either the Security Trustee or AWS in a form satisfactory to the Security Trustee provided that, if any Tax Reserve Guarantee is provided in favour of AWS, AWS shall provide first ranking fixed charge security over such Tax Reserve Guarantee in favour of the Security Trustee that will be duly filed in the prescribed form with the Registrar of Companies within the prescribed time limits and shall further provide a legal opinion addressed to the Security Trustee, in a form and content satisfactory to the Security Trustee, confirming the efficacy of such first ranking fixed charge security;

“Tax Reserve Guarantor” means a provider of a financial guarantee which complies with the TRG Requisite Ratings (as defined in the Deed of Indemnity);

“Temporary Bearer Global Bond” means a temporary global bond comprising some or all of the Bearer Bonds of the same Series issued by the Issuer;

“Test Period” means: (a) the period of 12 months ending on 31 March in the then current year; (b) the period of 12 months starting on 1 April in the same year; (c) each subsequent 12-month period up to the Date Prior; and (d) where the Calculation Date falls within the 13-month period immediately prior to the Date Prior, includes the 12-month period from the Date Prior;

“Tier 1 Material Agreement” means any Tier 1 Material O&M Agreement or a Tier 1 Material Capex Agreement;

“Tier 2 Material Agreement” means any Tier 2 Material O&M Agreement or a Tier 2 Material Capex Agreement;

“Tier 1 Material Capex Agreement” means any Capex Contract entered into by Anglian Water for the purposes of, or in connection with, Anglian Water carrying out its Regulated Business, where the NPV, at the later of (a) the Effective Date or (b) the date at which it is entered into or amended, supplemented or novated, of the agreed target cost payable by Anglian Water under that contract (which in each case has not been terminated or expired in accordance with its terms), is, or would be if such contract was entered into on arm’s length terms and for full value, equal to or greater than £15,000,000 (indexed);

“Tier 2 Material Capex Agreement” means any Capex Contract entered into by Anglian Water for the purposes of, or in connection with, Anglian Water carrying out its Regulated Business, where the NPV, at the later of (a) the Effective Date or (b) the date at which it is entered into or amended, supplemented or novated, of the agreed target cost payable by Anglian Water under that contract (which in each case has not been terminated or expired in accordance with its terms), is, or would be if such contract was entered into on arm’s length terms and for full value, less than £15,000,000 (indexed) but more than or equal to £5,000,000 (indexed);

“Tier 1 Material O&M Agreement” means any Outsourcing Agreement or series of Outsourcing Agreements (taken together) where the annual value of which is equal to or greater than contracts entered into between Anglian Water and any Contractor (or its affiliates) (which in each case has not been terminated or expired in accordance with its terms) exceeds (or would exceed were it entered into on arm’s length terms) 25 per cent. of the Projected Operating Expenditure;

“Tier 2 Material O&M Agreement” means any Outsourcing Agreement or series of Outsourcing Agreements (taken together), the annual value of which is equal to or greater than £5,000,000 (indexed), entered into with any Contractor and where the annual value of contracts entered into between Anglian Water and that Contractor (or its affiliates) (which in each case has not been terminated or expired in accordance with its terms) is less than 25 per cent. of the Projected Operating Expenditure;

“Tranche” means all Bonds which are identical in all respects (including as to listing); **“Transaction Documents”** means:

- (a) a Finance Document;
- (b) a Tier 1 Material Agreement; and
- (c) any other document designated as such by the Security Trustee and the Issuer;

“Transfer Agent” means Deutsche Bank AG, London Branch under the Agency Agreement, including any successor thereto;

“Transfer Scheme” means a transfer scheme under schedule 2 of the WIA;

“Transferred USPP Bonds” means those Bonds identified as USPP Bonds in the relevant pricing supplement and issued by the Issuer on the Effective Date in exchange for those of the following bonds previously issued by AWG Group Ltd:

- (a) U.S.\$23,000,000 6.57 per cent. bonds due 2009;
- (b) U.S. \$156,000,000 6.84 per cent. bonds due 2013; and
- (c) U.S. \$195,000,000 7.07 per cent. bonds due 2011,

and the USPP 2001 Bonds;

“Treasury Transaction” means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, index-linked swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate, index or price;

“Trigger Credit Rating” means each of the credit ratings referred to in Chapter 6.5.7(ii), *“Financing Structure – Common Terms Agreement – Trigger Events – Credit Rating Downgrade”*;

“Trigger Event” means any of the events or circumstances identified as such in the CTA, as more particularly described in Chapter 6.5.7, *“Financing Structure – Common Terms Agreement – Trigger Events”*;

“Trigger Event Consequences” means any of the consequences of a Trigger Event as identified as such in the CTA, as more particularly described in Chapter 6.5.8, *“Financing Structure – Common Terms Agreement – Trigger Event Consequences”*;

“Trigger Event Ratio Levels” means the financial ratios set out in Chapter 6.5.7(i), *“Financing Structure – Common Terms Agreement – Trigger Events – Financial Ratios”*;

“Trigger Event Remedies” means any remedy to a Trigger Event as identified in the CTA, as more fully particularised in Chapter 6.5.9, *“Financing Structure – Common Terms Agreement – Trigger Event Remedies”*;

“U.K. GAAP” means generally accepted accounting principles in the United Kingdom as it applied for periods of account beginning before 1 January 2005;

“UK Holdco” means Anglian Water Services Holdings Limited;

“UK Holdco/Anglian Water Loan” and **“UK Holdco/AWS Loan”** means the interest-bearing loan made to Anglian Water Services Holdings Limited by Anglian Water to enable Anglian Water Services Holdings Limited to pay the consideration to AWG Group Ltd to purchase the shares held by AWG Group Ltd in Anglian Water Services Overseas Holdings Limited in an amount consistent with the limitations under permitted post- closing events;

“UK Holdco Change of Control” means the occurrence of any of the following events or circumstances or the reasonable likelihood of such events or circumstances happening:

- (a) any person which previously Controls Anglian Water Services Holdings Limited ceasing to have Control of Anglian Water Services Holdings Limited; or
- (b) any person which does not previously Control Anglian Water Services Holdings Limited obtaining Control of Anglian Water Services Holdings Limited,

of which any Obligor has actual knowledge;

“UK Holdco Debt Service Distribution” means a dividend payment declared and paid by Anglian Water and/or Anglian Water Services Overseas Holdings Limited that meets the criteria specified in paragraph (iv)(u)(E) of Chapter 6.5.5, *“Financing Structure – Common Terms Agreement – Covenants – General”* and the payment by

Anglian Water Services Holdings Limited of sums payable to Anglian Water under the UK Holdco/Anglian Water Loan in each Financial Year;

“Ultimate Controller” means any person which, whether alone or jointly and whether directly or indirectly, is in the reasonable determination of Ofwat, in a position to control or in a position to materially influence the policy or affairs of the Regulated Company or any holding company of the Regulated Company;

“Unwrapped Bonds” means those Bonds that do not have the benefit of a guarantee from a Financial Guarantor;

“Unwrapped Debt” means any indebtedness that does not have the benefit of a guarantee from a Financial Guarantor;

“USPP Bonds” means the USPP 2001 Bonds and those Bonds identified as USPP Bonds in the relevant pricing supplement or Final Terms relating to any Class A Unwrapped Bonds or Class B Unwrapped Bonds issued by the Issuer on or after the Effective Date;

“USPP 2001 Bonds” means such amount of the Series D 7.13 per cent. Senior Notes due 2009 and Series E 7.23 per cent. Senior Notes due 2011, all issued by Anglian Water in July 2001, which remained outstanding immediately after the Effective Date;

“USPP Bondholders” means the holders of USPP Bonds;

“USPP Paying Agent” means Deutsche Bank Trust Company Americas or any successor thereto; **“UV”** means ultra-violet;

“UWWTD” means the Urban Waste Water Treatment Directive; **“VAT”** means value added tax;

“Voted Qualifying Class A Debt” means the aggregate Outstanding Principal Amount of Class A Debt voted by the Class A DIG Representatives in accordance with the applicable provisions of the STID as part of the Class A DIG;

“Voted Qualifying Class B Debt” means the aggregate Outstanding Principal Amount of Class B Debt voted by the Class B DIG Representatives in accordance with the applicable provisions of the STID as part of the Class B DIG;

“Voted Qualifying Debt” means the Voted Qualifying Class A Debt or the Voted Qualifying Class B Debt, as the context requires;

“Water Act 2014” means the United Kingdom Water Act 2014;

“Water Act 2003” means the United Kingdom Water Act 2003;

“Water Authorities” means the 10 regional public sector water authorities supplying water and water recycling services in England and Wales prior to privatisation in 1989;

“Water Quality Regulations” means the Water Supply (Water Quality) Regulations 2016/614 as amended by the Water Supply (Water Quality) (Amendment) Regulations 2018/706;

“WIA” means the United Kingdom Water Industry Act 1991 (as amended by subsequent United Kingdom legislation, including the Competition and Service (Utilities) Act 1992, the Water Industry Act 1999, the Water Act 2003 and the Water Act 2014);

“WRA” means the United Kingdom Water Resources Act 1991, (as amended by subsequent legislation including the United Kingdom Environment Act 1995, the Water Act 2003 and the Water Act);

“WSRA” means the United Kingdom Government’s Water Services Regulation Authority (also known as Ofwat);

“Wrongful Payment” means any Distributions (otherwise than pursuant to an agreement, contract or other similar arrangement) in breach of paragraph (iv)(u) of Chapter 6.5.5, “*Financing Structure – Common Terms Agreement – Covenants – General*”, which are in an aggregate amount of £500,000 (indexed) or less in each Financial Year; and

“Zero Coupon Bond” means a Bond on which no interest is payable.

[THIS PAGE HAS BEEN LEFT INTENTIONALLY BLANK]

REGISTERED OFFICE OF THE ISSUER

Lancaster House Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

**REGISTERED OFFICE OF
ANGLIAN WATER**

Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

**REGISTERED OFFICE OF
ANGLIAN WATER SERVICES HOLDINGS LIMITED**

Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

**REGISTERED OFFICE OF
ANGLIAN WATER SERVICES UK PARENT CO LIMITED**

Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
Cambridgeshire
PE29 6XU

BOND TRUSTEE AND SECURITY TRUSTEE

Deutsche Trustee Company Limited

Winchester House
1 Great Winchester Street
London EC2N 2DB

PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB

REGISTRAR AND EXCHANGE AGENT

Deutsche Bank Trust Company Americas

4 Albany Street
New York, NY 10006

LEGAL ADVISERS

*To the Issuer, Anglian Water, Anglian Water Services Holdings Limited
and Anglian Water Services UK Parent Co Limited as to English and United States law*

Herbert Smith Freehills LLP

Exchange House
Primrose Street
London EC2A 2EG

To the Dealers, the Bond Trustee and the Security Trustee as to English law

Allen & Overy LLP

One Bishops Square
London E1 6AD

AUDITORS AND REPORTING ACCOUNTANT

To the Issuer, Anglian Water and Anglian Water Services Holdings Limited

From 1 September 2016

Deloitte LLP

2 New Street Square
London EC4A 3BZ

To Anglian Water UK Parent Co Limited

From 6 April 2018

Deloitte LLP

2 New Street Square
London EC4A 3BZ

ARRANGER

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

DEALERS

Banco Santander, S.A.

Ciudad Grupo Santander
Edificio Encinar,
Avenida de Cantabria s/n
28660, Boadilla del Monte,
Madrid, Spain

BNP Paribas

16, boulevard des Italiens
75009 Paris

HSBC Bank plc

8 Canada Square
London E14 5HQ

J.P. Morgan Securities plc

25 Bank Street
Canary Wharf
London E14 5JP

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA

Scotiabank Europe plc

201 Bishopsgate
6th Floor
London EC2M 3NS

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

Commonwealth Bank of Australia

Senator House
85 Queen Victoria Street
London EC4V 4HA

ING Bank N.V.

Foppingadreef 7
1102 BD Amsterdam
The Netherlands

Lloyds Bank Corporate Markets plc

10 Gresham Street
London EC2V 7AE

NatWest Markets Plc

250 Bishopsgate
London EC2M 4AA

SMBC Nikko Capital Markets Limited

One New Change
London EC4M 9AF