SOUTHERN WATER SERVICES (FINANCE) LIMITED

(incorporated with limited liability in the Cayman Islands with registered number 112331)

Multicurrency programme for the issuance of up to £3,000,000,000 Guaranteed Wrapped Bonds unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest pursuant to financial guarantees issued by

MBIA Assurance S.A.

(originally registered on 3 May 1990 with the Nanterre Register of Trade and Companies and currently registered with the Paris Register of Trade and Companies under No. B377883293 (98B05130))

and

£3,000,000,000 Guaranteed Unwrapped Bonds financing

Southern Water Services Limited

(incorporated in England and Wales with limited liability with registered number 2366670)

The payment of all amounts owing in respect of the Bonds will be unconditionally and irrevocably guaranteed by Southern Water Services Limited ("**SWS**"), SWS Holdings Limited ("**SWSH**") and SWS Group Holdings Limited ("**SWSGH**") as described herein. SWS, Southern Water Services (Finance) Limited (the "**Issuer**"), SWSH and SWSGH are together referred to herein as the "**Obligors**". Neither SWSH nor SWSGH has any significant assets other than the shares in its respective subsidiary.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 as amended ("**FSMA**") (the "**UK Listing Authority**" or "**UKLA**") for bonds ("**Bonds**") issued under the programme (the "**Programme**") during the period of twelve months after the date hereof, to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such bonds to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange. This Offering Circular comprises listing particulars issued in compliance with the listing rules made under section 74 of the FSMA by the UK Listing Authority.

The Programme provides that Bonds may be listed on such other or further stock exchange(s) as may be agreed between the Obligors and the relevant Dealer (as defined below). The Issuer may also issue unlisted Bonds.

The Bonds may be issued on a continuing basis to one or more of the Dealers specified under Chapter 1 "*The 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 ongoing basis. References in this Offering Circular 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 to such Bonds.

Please see Chapter 5 "*Investment Considerations*" to read about certain factors you should consider before buying any Bonds.

Co-Arrangers

The Royal Bank of Scotland | **Citigroup**

Dealers

The Royal Bank of Scotland | **Citigroup**

Credit Suisse First Boston | **Morgan Stanley**

Offering Circular dated 17 July 2003

Under the Programme the Issuer may, subject to all applicable legal and regulatory requirements, from time to time issue Bonds in bearer and/or registered form (respectively "**Bearer Bonds**" and "**Registered Bonds**"). Copies of each Pricing Supplement (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited as bond trustee (the "**Bond Trustee**"), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agent (each as defined below), provided that, in the case of Bonds which are not listed on any stock exchange, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Bondholders. The Issuer may also issue unlisted Bonds.

The maximum aggregate nominal amount of all Bonds from time to time outstanding under the Programme will not exceed £6,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Details of the aggregate principal amount, interest (if any) payable, the issue price and any other conditions not contained herein, which are applicable to each Tranche of each Sub-Class of each Class of each Series (all as defined below) will be set forth in a pricing supplement (each a "**Pricing Supplement**") which, in the case of Bonds to be admitted to the Official List and to trading on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the relevant date of issue of the Bonds of such Tranche.

Bonds to be issued under the Programme will be issued in series (each a "**Series**") and may be issued in one or more of four classes (each a "**Class**"). The guaranteed wrapped bonds will be designated as either "**Class A Wrapped Bonds**" or as "**Class B Wrapped Bonds**". The guaranteed unwrapped bonds will be designated as either "**Class A Unwrapped Bonds**" or "**Class B Unwrapped Bonds**". Each Class may comprise one or more sub-classes (each a "**Sub-Class**") with each Sub-Class pertaining to, among other things, the currency, interest rate and maturity date of the relevant Sub-Class. Each Sub-Class may be zero-coupon, fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, euro or U.S. dollars (or in other currencies subject to compliance with applicable laws).

Each Class of Bonds issued on 23 July 2003 or such other date as the Co-Arrangers (as defined below) and the Issuer may agree (the "**Initial Issue Date**") is expected to have each of the following credit ratings:

Class	Standard & Poor's	Moody's	Fitch
Class A Wrapped Bonds	AAA	Aaa	AAA
Class A Unwrapped Bonds	A-	A3	A-
Class B Unwrapped Bonds	BBB	Baa3	BBB

No Class B Wrapped Bonds are to be issued on the Initial Issue Date.

The Class A Wrapped Bonds issued on the Initial Issue Date will be unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Coupon Amounts, as defined below (the "**FG Excepted Amounts**")) pursuant to Financial Guarantees (and the endorsements thereto) to be issued by MBIA Assurance S.A. ("**MBIA**") as set out in Chapter 10 "*MBIA and its Financial Guarantees*". The credit rating of such Class A Wrapped Bonds will be based upon the financial strength of MBIA. Subject to the approval of the Dealers (and confirmation of no downgrade of the Wrapped Bonds (as defined below) then in issue from at least two of the Rating Agencies), the Issuer may arrange for such other financial institutions to issue Financial Guarantees in respect of further Sub-Classes of Class A Wrapped Bonds, Class B Wrapped Bonds and/or other Wrapped Debt (MBIA and each such other financial institution, a "**Financial Guarantor**"). None of the Class A Unwrapped Bonds or Class B Unwrapped Bonds will benefit from a Financial Guarantee or the guarantee of any other financial institution.

Each Sub-Class of Bearer Bonds may be represented initially by a Temporary Global Bond (as defined below), without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (as defined below) on or about the Issue Date (as defined below) of such Sub-Class. Each such Temporary Global Bond will be exchangeable for definitive securities in bearer form following the expiration of 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership or to the effect that the holder is a U.S. person who purchased in a transaction that did not require registration under the Securities Act (as defined below) and as may be required by U.S. tax laws and regulations, as described in Chapter 8 "*The Bonds*" under "*Forms of the Bonds*". Ratings ascribed to all of the Bonds reflect only the views of Standard & Poor's, a division of The McGraw Hill companies ("**Standard & Poor's**"), Moody's Investors Service Limited ("**Moody's**") and Fitch Ratings Ltd. ("**Fitch**" and, together with Moody's and Standard & Poor's, the "**Rating Agencies**").

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Bonds may adversely affect the market price of such Bonds.

If any withholding or deduction for or on account of tax is applicable to the Bonds, payments of interest on, principal of and premium (if any) on, the Bonds will be made subject to such withholding or deduction, without the Issuer being obliged to pay any additional amounts as a consequence.

The Obligors may agree with any Dealer and the Bond Trustee that Bonds may be issued in a form not contemplated by the Conditions (as defined below) herein, in which event (in the case of Bonds admitted to the Official List only) supplementary listing particulars or further listing particulars, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

IMPORTANT NOTICE

This Offering Circular should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche of Bonds, should be read and construed together with the relevant Pricing Supplement.

Each of the Issuer and the other Obligors accepts responsibility for the information contained in this Offering Circular including the Appendices. To the best of the knowledge and belief of the Issuer and each of the other Obligors (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular (including the Appendices) is in accordance with the facts and does not omit anything likely to affect the import of such information.

MBIA accepts responsibility for the information contained in Chapter 10 "*MBIA and its Financial Guarantees*" on pages 166 to 181 and in the paragraphs relating to MBIA under the headings "*Significant or Material Change*", "*Litigation*", "*Availability of Financial Statements*" and "*Auditors*" in Chapter 13 "*General Information*" on pages 189 and 190 and in the financial statements of MBIA appended to this Offering Circular as set out in Appendix C on pages 198 to 212 (together, the "**MBIA Information**"). To the best of the knowledge and belief of MBIA (which has taken all reasonable care to ensure that such is the case), the MBIA Information is in accordance with the facts and does not omit anything likely to affect the import of such information. MBIA accepts no responsibility for any other information contained in this Offering Circular. Save for the MBIA Information, MBIA has not separately verified the information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by MBIA as to the accuracy or completeness of any information contained in this Offering Circular (other than the MBIA Information) or any other information supplied in connection with the Programme or distribution of any Bonds issued under the Programme.

This Offering Circular is being distributed only to, and is directed only at, persons who (i) are outside the United Kingdom or (ii) are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "**Order**") or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "**relevant persons**") and in each case who do not constitute the public in the Cayman Islands. This Offering Circular, or any of its contents, must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Circular relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons.

A copy of this Offering Circular (including the Appendices), which comprises the listing particulars approved by the UK Listing Authority as required by the FSMA (the "**Listing Particulars**") in relation to Bonds admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities and issued during the period of 12 months from the date of this Offering Circular, has been delivered for registration to the Registrar of Companies in England and Wales as required by Section 83 of the FSMA. Copies of each Pricing Supplement (in the case of Bonds to be admitted to the Official List) will be available from FT Business Research Centre, operated by FT Electronic Publishing at Fitzroy House, 13-15 Epworth Street, London EC2A 4DL and from the specified office set out below of each of the Paying Agents or the Registrar and Transfer Agents (as applicable).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below); provided, however, that such incorporated documents do not form part of the Listing Particulars. This Offering Circular shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular but not part of the Listing Particulars.

Any reference in this document to "**Listing Particulars**" means this document excluding all information incorporated by reference. The Issuer has confirmed that any information incorporated by reference, including any such information to which readers of this document are expressly referred, has not been and does not need to be included in the Listing Particulars to satisfy the requirements of the FSMA or the listing rules of the UK Listing Authority. The Issuer believes that none of the information incorporated herein by reference conflicts in any material respect with the information included in the Listing Particulars.

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Offering Circular in connection with the Issuer, any member of the SWS Financing Group (as defined below), or of the Group (as defined below), MBIA or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, any member of the SWS Financing Group or of the Group, MBIA, the Dealers, the Bond Trustee or the Security Trustee. Neither the delivery of this Offering Circular nor any offering or sale of Bonds made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer, any member of the SWS Financing Group or MBIA since the date hereof. Unless otherwise indicated herein, all information in this Offering Circular is given as of the date of this Offering Circular. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Dealer to subscribe for, or purchase, any of the Bonds.

None of the Dealers, the Financial Guarantors, the Bond Trustee or the Security Trustee nor any of the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager, the Mezzanine Facility Providers or the members of the Group (other than the Obligors) (each as defined below and, together, the "**Other Parties**") has separately verified the information contained herein (other than, in respect of MBIA, the MBIA Information). Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Dealer, Financial Guarantor, the Bond Trustee or the Security Trustee or Other Party as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Bonds or their distribution (other than, in respect of MBIA, the MBIA Information). The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer, the other Obligors and MBIA. Each person receiving this Offering Circular acknowledges that such person has not relied on any Dealer, Financial Guarantor, the Bond Trustee or the Security Trustee or Other Party nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision (other than, in respect of MBIA, the MBIA Information).

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Obligors or MBIA is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct or that there has been no adverse change in the financial position of the Issuer or the other Obligors as of any time subsequent to the date indicated in the document containing the same. None of the Dealers, the Financial Guarantors, 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 of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Bonds.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, any Financial Guarantor, any member of the SWS Financing Group, any member of the Group, any Dealer, the Bond Trustee, the Security Trustee or any of the Other Parties that any recipient of this Offering Circular should purchase any of the Bonds.

Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Issuer, the other Obligors and MBIA and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Bonds should consult independent professional advisers.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may include Bonds in bearer form that are subject to U.S. tax law requirements. Subject to certain exemptions, the Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act). The Bonds are being offered outside the United States in accordance with Regulation S under the Securities Act. See Chapter 12, "*Subscription and Sale*" below.

The distribution of this Offering Circular and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, MBIA and the Dealers to inform themselves about and to observe any such

restrictions. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Offering Circular, see Chapter 12, ''*Subscription and Sale*'' below. This Offering Circular does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

No invitation may be made to the public in the Cayman Islands to subscribe for any of the Bonds.

All references herein to ''**pounds**'', ''**sterling**'' or ''**£**'' are to the lawful currency of the United Kingdom, all references to ''**$**'', ''**U.S.$**'', ''**U.S. dollars**'' and ''**dollars**'' are to the lawful currency of the United States of America, and references to ''€'' or ''**euro**'' are to the single 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, from time to time.

In connection with the issue of any Sub-Class of Bonds under the Programme, the Dealer (if any) which is specified in the relevant Pricing Supplement as the Stabilising Manager (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be conducted in accordance with all applicable laws, regulations and rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(i) the most recently published annual audited financial statements of each Obligor from time to time and, in the case of SWS, the semi-annual interim financial statements (whether audited or unaudited) published subsequently to its annual financial statements;

(ii) the most recently published annual audited financial statements and the semi-annual unaudited interim financial statements published subsequently to such annual financial statements, of MBIA from time to time; and

(iii) all supplements and addenda to this Offering Circular circulated by the Issuer from time to time in accordance with its undertaking described below given by it in the Dealership Agreement (as defined in Chapter 12 ''*Subscription and Sale*''),

provided that any statement contained herein, or in the documents deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document all or the relative portion of which is or is deemed to be incorporated by reference herein modifies or supersedes such earlier statement provided that no such document or modifying or superseding statement shall form part of the Listing Particulars issued in compliance with section 74 of the FSMA.

The Issuer will provide, free of charge, upon oral or written request, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular) at the specified offices of the Bond Trustee and (in the case of Bearer Bonds) at the offices of the Paying Agents and (in the case of Registered Bonds) at the offices of the Registrar and the Transfer Agents.

Each of the Obligors has undertaken in the Dealership Agreement (as defined in Chapter 12 ''*Subscription and Sale*'') to comply with sections 81 and 83 of the FSMA.

SUPPLEMENTARY OFFERING CIRCULAR

The Issuer has undertaken, in connection with the admission of the Bonds to the Official List and to trading on the London Stock Exchange, that, if there shall occur any adverse change in the business or financial position of the Issuer, SWS, any member of the SWS Financing Group or MBIA or any change in the information set out in Chapter 8 "*The Bonds*" under "*Terms and Conditions of the Bonds*" that is material in the context of the issue of Bonds under the Programme, the Issuer will prepare or procure the preparation of an amendment or supplement to this Offering Circular or, as the case may be, publish a new offering circular for use in connection with any subsequent issue by the Issuer of Bonds to be admitted to the Official List and to trading on the London Stock Exchange and will supply to each Dealer such number of copies of the supplementary or new offering circular as such Dealer may reasonably request. The Issuer will also supply to the UK Listing Authority such number of copies of the supplementary or new offering circular as may be required by the UK Listing Authority and will make copies available, free of charge, at the specified office of the Bond Trustee and (in the case of Bearer Bonds) at the offices of the Paying Agents and (in the case of Registered Bonds) at the offices of the Registrar and the Transfer Agents.

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PRINCIPAL FEATURES OF THE BONDS ISSUED ON THE INITIAL ISSUE DATE – INDICATIVE STRUCTURE

The ratings attributed below are anticipated ratings only, and may be subject to adjustment by the Rating Agencies when final ratings are published on the Initial Issue Date. 6.I.5(a) 6.J.9

BONDS	**WRAPPED**				**UNWRAPPED**			
SUBCLASS	**A1**	**A2a**	**A2b**	**A3**	**A4**	**A5**	**A6**	**B1**
Principal Amount	350,000,000	150,000,000	35,000,000	483,000,000	350,000,000	150,000,000	120,000,000	250,000,000
Issue Price	113.750	114.922	114.922	100.000	113.911	107.873	100.000	110.657
Currency	£	£	£	$	£	£	£	£
Type of Bonds	Fixed	Index-Linked	Limited Index Bonds	Floating	Fixed	Index-Linked	Step-up Floating	Step-up Fixed/ Floating
Credit Enhancement (Provided by other classes of Bonds subordinated to the relevant class)	Subordination of Class B Bonds	Subordination of Class B Bonds	Subordination of Class B Bonds	Subordination of Class B Bonds	Subordination of Class B Bonds	Subordination of Class B Bonds	Subordination of Class B Bonds	None
Expected Rating – S&P	AAA	AAA	AAA	AAA	A-	A-	A-	BBB
Expected Rating – Moody's	Aaa	Aaa	Aaa	Aaa	A3	A3	A3	Baa3
Expected Rating – Fitch	AAA	AAA	AAA	AAA	A-	A-	A-	BBB
Interest Rate	6.192%	3.706%	3.706%	3m$LIBOR + 40 bps	6.640%	3.816%	3m£LIBOR + 118 bps step-up to 3m£LIBOR + 295 bps at 2009	7.869% Conversion at 2014 to 3m£LIBOR + 475 bps
Interest Accrual Method	Act/Act ISMA	Act/Act ISMA	Act/Act ISMA	Act/360	Act/Act ISMA	Act/Act ISMA	Act/365	Act/Act ISMA
Frequency of Payment of Interest	Annually	Semi-annually	Semi-annually	Quarterly	Annually	Semi-annually	Quarterly	Annually

BONDS	WRAPPED				UNWRAPPED			
SUBCLASS	**A1**	**A2a**	**A2b**	**A3**	**A4**	**A5**	**A6**	**B1**
Interest and Principal Payment Dates	31 March	31 March 30 Sept	31 March 30 Sept	31 March 30 June 30 Sept 31 Dec	31 March	31 March 30 Sept	31 March 30 June 30 Sept 31 Dec	31 March
First Interest Payment Date	31 March 2004	30 Sept 2003	30 Sept 2003	30 Sept 2003	31 March 2004	30 Sept 2003	30 Sept 2003	31 March 2004
Expected Maturity	31 March 2029	31 March 2034	31 March 2034	31 March 2007	31 March 2026	31 March 2023	31 March 2009	31 March 2014
Final Maturity	31 March 2029	31 March 2034	31 March 2034	31 March 2007	31 March 2026	31 March 2023	31 March 2013	31 March 2038
Early Redemption Amount	Higher of par and spens, plus accrued and unpaid interest	Higher of par and spens, plus accrued and unpaid interest	Higher of par and spens, plus accrued and unpaid interest	Sum of par plus premium specified in pricing supplement plus accrued and unpaid interest	Higher of par and spens, plus accrued and unpaid interest	Higher of par and spens, plus accrued and unpaid interest	Sum of par plus premium specified in pricing supplement plus accrued and unpaid interest	Higher of par and spens, plus accrued and unpaid interest
Frequency of Amortisation of Principal	Bullet Repayment	Bullet Repayment	Bullet Repayment	Bullet Repayment	Bullet Repayment	Bullet Repayment	Bullet Repayment	Bullet Repayment
Application for Exchange Listing	London	London	London	London	London	London	London	London
Form at Issue	Bearer Form	Bearer Form	Bearer Form	Bearer Form	Bearer Form	Bearer Form	Bearer Form	Bearer Form
ISIN	XS0172989252	XS0173036194	XS0173059998	XS0172996547	XS0172992637	XS0173041517	XS0172990003	XS0173044024
Common Code	017298925	017303619	017305999	017299654	017299263	017304151	017299000	017304402

CHAPTER 1

THE PARTIES

Issuer	Southern Water Services (Finance) Limited, a company incorporated in the Cayman Islands with limited liability with registered number 112331, is the funding vehicle for raising funds to support the long term debt financing requirements of SWS. Pursuant to the Reorganisation Plan (as defined below), the Issuer will become, immediately prior to the first issue of Bonds, a 100% subsidiary of SWS.
SWS	Southern Water Services Limited, a company incorporated in England and Wales with limited liability (registered number 2366670), which holds an Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed SWS as a water and sewerage undertaker under the WIA for the areas described in the Instrument of Appointment. SWS is a 100% subsidiary of SWSH.
SWSH	SWS Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 04324499). SWSH is a 100% subsidiary of SWSGH.
SWSGH	SWS Group Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 04324498). Pursuant to the Reorganisation Plan, SWSGH will become, immediately prior to the first issue of Bonds, a 100% subsidiary of Southern Water Services Group Limited.
Guarantors	Pursuant to the terms of the Security Agreement, SWSH and SWSGH will each guarantee the obligations of each other and of SWS and the Issuer under each Finance Document in favour of the Security Trustee. In addition, SWS and the Issuer will each guarantee the obligations of each other (but not those of SWSH and SWSGH) under each Finance Document in favour of the Security Trustee. SWSH, SWSGH, SWS and the Issuer are collectively referred to herein as the "**Guarantors**" and each a "**Guarantor**".
SWS Financing Group	The SWS Financing Group will be constituted pursuant to the Reorganisation Plan immediately prior to the first issue of Bonds and will comprise SWSGH, SWSH, SWS, the Issuer and the Pension Companies (as defined below) on the Initial Issue Date.
SWSG	Southern Water Services Group Limited, a company incorporated in England and Wales with limited liability (registered number 04374956), whose registered office is at Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. Pursuant to the Reorganisation Plan, Southern Water Services Group Limited will become, immediately prior to the first issue of Bonds, a 100% subsidiary of Southern Water Investments Limited.
SWI	Southern Water Investments Limited, a company incorporated in England and Wales (registered number 04650294), whose registered office is at Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX and which is the ultimate holding company of the SWS Financing Group. SWI will agree to subscribe on the Initial Issue Date for 150,000 participating cumulative redeemable preference shares 2038 of 1p each (the "**Class A2 Preference Shares**") in the capital of SWS.
Group	SWI and its Subsidiaries from time to time.

Co-Arrangers	The Royal Bank of Scotland plc and Citigroup Global Markets Limited are the Co-Arrangers of the Programme.
Dealers	The Royal Bank of Scotland plc, Citigroup Global Markets Limited, Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors, "**Dealers**") either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds.
Financial Guarantor (for Class A Wrapped Bonds on the Initial Issue Date)	MBIA, as initial financial guarantor (in such capacity, the "**Initial Financial Guarantor**") under the terms of various financial guarantees which it agrees to issue (subject to the satisfaction of certain conditions precedent contained in the CP Agreement prior to the issue of the Class A Wrapped Bonds on the Initial Issue Date) in favour of the Bond Trustee in respect of such Class A Wrapped Bonds, will unconditionally and irrevocably guarantee the scheduled payment of interest and principal (as adjusted for indexation, as applicable, but excluding the FG Excepted Amounts) in respect of such Class A Wrapped Bonds. (See Chapter 10 "*MBIA and its Financial Guarantees*" under "*MBIA Assurance S.A. – MBIA Financial Guarantee*"). MBIA is under no obligation to issue Financial Guarantees. The Issuer may arrange for such other financial guarantee companies (each a "**Financial Guarantor**"), in addition to MBIA, to issue Financial Guarantees in respect of further Tranches or Sub-Classes of Class A Wrapped Bonds and/or Class B Wrapped Bonds or in respect of other Wrapped Debt issued or raised under an Authorised Credit Facility.
Hedge Counterparties	The Royal Bank of Scotland plc acting through its office at 135 Bishopsgate London EC2M 3UR and Citibank, N.A., London branch acting through its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (together the "**Existing Hedge Counterparties**" and, together with any counterparties to future Hedging Agreements, the "**Hedge Counterparties**"). The Existing Hedge Counterparties are under no obligation to enter into any Treasury Transactions after the Initial Issue Date.
Bond Trustee	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the Bond Trust Deed) will act as trustee (the "**Bond Trustee**") for and on behalf of the holders of each Class of Bonds of each Series (each a "**Bondholder**").
Mezzanine Facility Provider	Royal Bank Investments Limited acting through its office at 280 Bishopsgate, London EC2M 4RB (the "**Initial Mezzanine Facility Provider**") will agree to provide the Issuer with a £127,200,000 senior mezzanine credit facility and a £106,000,000 junior mezzanine credit facility (respectively the "**Senior Mezzanine Facility**" and the "**Junior Mezzanine Facility**" and together the "**Mezzanine Facilities**").
VWIL	Veolia Water Investment Limited ("**VWIL**") whose registered office is at 37-41 Old Queen Street, London SW1H 9JA, (or syndicatees nominated by VWIL) will agree to subscribe on the Initial Issue Date for fixed dividend (£40 per share net) cumulative redeemable preference shares 2038 of £1 each (the "**Class A1 Preference Shares**") for a subscription price of £150,000,000 and fixed dividend (£70 per share net) cumulative redeemable preference shares 2038 of £1 each (the "**Class B Preference Shares**") for a subscription price of £110,000,000, in the capital of SWS.

Security Trustee	Deutsche Trustee Company Limited (or any successor trustee appointed pursuant to the STID) will act as security trustee for itself and on behalf of the Secured Creditors (as defined below) (the "**Security Trustee**") and will hold, and will be entitled to enforce, the Security (as defined below) subject to the terms of the STID (as defined below).
Secured Creditors	The Secured Creditors will comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor.
DSR Liquidity Facility Provider	The Royal Bank of Scotland plc acting through its office at 135 Bishopsgate, London EC2M 3UR (the "**Initial DSR Liquidity Facility Provider**") will provide the Issuer with a 364-day revolving credit facility for interest requirements on the Class A Debt and, within certain limits, for interest requirements on the Class B Debt.
O&M Reserve Facility Provider	A provider of a liquidity facility pursuant to an O&M Reserve Facility Agreement to fund SWS' operating and maintenance expenditure, which, among others, the Issuer and such O&M Reserve Facility Provider may enter into from time to time.
Authorised Credit Provider	The Royal Bank of Scotland plc (the "**Initial Authorised Credit Provider**") will provide SWS with revolving credit facilities to fund the working capital and capital expenditure requirements of SWS until the fifth anniversary of the Initial Issue Date. The Initial Authorised Credit Provider will also provide the Issuer on or following the Initial Issue Date with index-linked term facilities, subject to the provision of a Financial Guarantee by a Financial Guarantor in respect of the Issuer's payment obligations under such term facilities.
Paying Agents	Deutsche Bank AG London will act as principal paying agent (the "**Principal Paying Agent**") and, together with any other paying agents appointed by the Issuer, the "**Paying Agents**") to provide certain issue and paying agency services to the Issuer in respect of the Bearer Bonds.
Agent Bank	Deutsche Bank AG London will act as agent bank (the "**Agent Bank**") under the Agency Agreement.
Account Bank	National Westminster Bank plc, acting through its office at 27 South Street, Worthing, West Sussex BN11 3AR or any person for the time being acting as Account Bank (pursuant to the Account Bank Agreement). National Westminster Bank plc is a company incorporated in England and Wales with registered number 929029 and has its registered office at 135 Bishopsgate, London EC2M 3UR. National Westminster Bank plc is part of the RBS Group.
Cash Manager	SWS, or during a Standstill Period, The Royal Bank of Scotland plc (the "**Standstill Cash Manager**") will pursuant to the terms of the cash management provisions of the CTA be appointed to act as cash manager in respect of moneys credited from time to time to the Accounts (as defined below).
Registrar and Transfer Agent	Deutsche Bank AG London will act as transfer agent (the "**Transfer Agent**") and will provide certain transfer agency services to the Issuer in respect of the Registered Bonds. Deutsche Bank Luxembourg S.A. will act as registrar (the "**Registrar**") and will provide certain registrar services to the Issuer in respect of the Registered Bonds.

CHAPTER 2

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Pricing Supplement. Words and expressions not defined in this summary shall have the same meanings as defined in Chapter 8 "*The Bonds*".

Description	Guaranteed Bond Programme.
Programme Size	Up to £6,000,000,000 (or its equivalent in other currencies) aggregate nominal amount of Bonds outstanding at any time.
Issuance in Classes	Bonds issued under the Programme will be issued in Series, with each Series belonging to one of four Classes. The Wrapped Bonds will be designated as either Class A Wrapped Bonds or Class B Wrapped Bonds. The Unwrapped Bonds will be designated as one of Class A Unwrapped Bonds or Class B Unwrapped Bonds. Each Class will comprise one or more Sub-Classes of Bonds and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class. The specific terms of each Tranche of Bonds will be set out in the applicable Pricing Supplement.
Issue Dates	The date of issue of a Tranche of Bonds as specified in the relevant Pricing Supplement (each an "**Issue Date**").
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 restrictions applicable at the date of this Offering Circular. See Chapter 12 "*Subscription and Sale*". **Bonds with a maturity of less than one year** Bonds having a maturity of less than one year from the date of issue 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 12 "*Subscription and Sale*".
Distribution	Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies	Euro, Sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
Redenomination	The applicable Pricing Supplement may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (*European Economic and Monetary Union*), as amended by the applicable Pricing Supplement.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency (as defined in the Conditions).

Issue Price	Bonds may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Interest	Bonds will, unless otherwise specified in the relevant Pricing Supplement, be interest-bearing and interest will be calculated (unless otherwise specified in the relevant Pricing Supplement) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and will be payable in arrear, as specified in the relevant Pricing Supplement, or on such other basis and at such rate as may be so specified. Interest will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Pricing Supplement.
Form of Bonds	Each Sub-Class of Bonds will be issued in bearer or registered form as described in Chapter 8 ''*The Bonds*''. Registered Bonds will not be exchangeable for Bearer Bonds.
Fixed Rate Bonds	Fixed Rate Bonds will bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Pricing Supplement.
Floating Rate Bonds	Floating Rate Bonds will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Sub-Class of Floating Rate Bonds.
Indexed Bonds	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined in Condition 7(a) (*Indexation – Definitions*)) may be calculated in accordance with Condition 7 by reference to the UK Retail Price Index or such other index and/or formula as the Issuer and the Relevant Dealer may agree (as specified in the relevant Pricing Supplement).
Interest Payment Dates	Interest in respect of Fixed Rate Bonds is or will be payable annually in arrear, in respect of Floating Rate Bonds is or will be payable quarterly in arrear and in respect of Indexed Bonds is or will be payable semi-annually in arrear (or, in each case, as otherwise specified in the relevant Pricing Supplement).
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.

Partly Paid Bonds

Partly Paid Bonds will be issued in the amount as specified in the relevant Pricing Supplement and further instalments will be payable in the amounts and on the dates as specified in the relevant Pricing Supplement.

Instalment Bonds

The applicable Pricing Supplement 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 Pricing Supplement.

Redemption

The applicable Pricing Supplement will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, or for taxation reasons if applicable, or following an Index Event or an Event of Default) or that such Bonds 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 and on such other terms as may be agreed between the Issuer and the relevant Dealer, in each case as set out in the applicable Pricing Supplement.

Redemption for Index Event, Taxation or Other Reasons

Upon the occurrence of certain index events (as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)), the Issuer may redeem the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds are also redeemed.

In addition, in the event of the Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Issuer may (a) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) of the Bonds) and, failing this, (b) redeem (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) of the Bonds) all (but not some only) of the Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest. No single Class or Sub-Class of Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Bonds are also redeemed in full at the same time.

In the event of SWS electing to prepay an advance (in whole or in part) under an Issuer/SWS Loan Agreement, the Issuer shall be obliged to redeem all or the relevant part of the corresponding Sub-Class of Bonds or the proportion of the relevant Sub-Class which the proposed prepayment amount bears to the amount of the relevant advance under the relevant Issuer/SWS Loan Agreement.

Bonds having a maturity of less than one year from the date of issue are subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Bonds with a maturity of less than one year*" above.

The Financial Guarantors will not guarantee any of the amounts payable by the Issuer upon an early redemption, and their obligation will be to continue to make payments in respect of the Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made had such early redemption not occurred.

The Issuer shall only be 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.

Denomination of Bonds

Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Bond 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 "*Certain Restrictions – Bonds with a maturity of less than one year*" above.

Taxation

Payments in respect of Bonds or under the relevant Financial Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, the Issuer and, to the extent there is a claim under the relevant Financial Guarantee, the relevant Financial Guarantor will make payments subject to the appropriate withholding or deduction. No additional amounts will be paid by the Issuer or the Guarantors or, to the extent there is a claim under the relevant Financial Guarantee, by the relevant Financial Guarantor in respect of any withholdings or deductions, unless otherwise specified in the applicable Pricing Supplement.

Status of the Bonds

The Bonds will constitute secured obligations of the Issuer. Each Class of Bonds 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 (a) the Issuer in accordance with the terms and conditions of the Bonds (the "**Conditions**") and the trust deed (the "**Bond Trust Deed**") to be entered into by the Obligors, MBIA and the Bond Trustee in connection with the Programme and (b) in the case of the Wrapped Bonds only, the relevant Financial Guarantor in certain circumstances in accordance with the relevant Financial Guarantee.

The Class A Wrapped Bonds and the Class A Unwrapped Bonds will rank *pari passu* with respect to payments of interest and principal. However, only the Class A Wrapped Bonds will have the benefit of the relevant Financial Guarantee. All claims in respect of the Class A Wrapped Bonds and the Class A Unwrapped Bonds will rank in priority to payments of interest and principal due on all Class B Wrapped Bonds and Class B Unwrapped Bonds.

The Class B Wrapped Bonds and the Class B Unwrapped Bonds will rank *pari passu* with respect to payments of interest and principal. However, only the Class B Wrapped Bonds will have the benefit of the relevant Financial Guarantee.

Covenants

The representations, warranties, covenants (positive, negative and financial) and events of default which will apply to, among other things, the Bonds will be set out in a common terms agreement dated on or around the Initial Issue Date (the "**CTA**", see Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement*").

Guarantee and Security	The Bonds will be unconditionally and irrevocably guaranteed and secured by each of SWS, SWSGH and SWSH pursuant to a guarantee and security agreement (the "**Security Agreement**") entered into by each such Obligor in favour of the Security Trustee over the entire property, assets, rights and undertaking of each such Obligor (the "**Security**"), in the case of SWS to the extent permitted by the WIA and Licence. Each such guarantee constitutes a direct, unconditional and secured obligation of each such Obligor. The Security will be 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).
Inter-creditor Arrangements	The Secured Creditors and each Obligor will each be party to a security trust and intercreditor deed (the "**STID**"), which will regulate, among other things, (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 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
Status of Financial Guarantees in relation to Wrapped Bonds	Each Financial Guarantee issued in favour of the Bond Trustee in relation to each Sub-Class of Wrapped Bonds will be a direct, unsecured obligation of the relevant Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application, pursuant to which the relevant Financial Guarantor will guarantee the timely payment of interest and principal (other than the FG Excepted Amounts) on the relevant Sub-Class of Wrapped Bonds.
Reimbursement	The Issuer will be obliged, pursuant to the terms of a guarantee and reimbursement deed with the relevant Financial Guarantor in respect of any Sub-Class or Sub-Classes of Wrapped Bonds, among other things, to reimburse such Financial Guarantor in respect of payments made by it under the relevant Financial Guarantee or Financial Guarantees of such Sub-Class or Sub-Classes of Bonds. Each such Financial Guarantor will be subrogated to the rights of the relevant Class A Wrapped Bondholders or Class B Wrapped Bondholders, as the case may be, against the Issuer in respect of any payments made under such Financial Guarantees. See Chapter 7 "*Summary of the Financing Agreements*" under "*Financial Guarantor Documents*".
Authorised Credit Facilities	Subject to certain conditions being met, the Issuer and (for certain indebtedness) SWS will be permitted to incur indebtedness under authorised credit facilities (each an "**Authorised Credit Facility**") with an Authorised Credit Provider, providing loan, hedging and other facilities (including Financial Guarantees) which may rank *pari passu* with the Class A Bonds, the Class B Bonds, the Senior Mezzanine Debt or the Junior Mezzanine Debt. Each Authorised Credit Provider will be party to the CTA and the STID and may have voting rights thereunder. See Chapter 7 "*Summary of the Financing Agreements*".
DSR Liquidity Facility	The DSR Liquidity Facility Providers will make available to the Issuer a credit facility for the purpose of meeting certain shortfalls in revenues for the Issuer to meet, among other things, its obligations to pay interest on the Bonds. The Issuer is obliged, pursuant to the CTA, to maintain through a DSR Liquidity Facility (or DSR Liquidity Facilities) and/or amounts in the Debt Service Reserve Account an amount or

	amounts which is/are at least equal to the aggregate of projected interest payments on the Class A Debt and the Class B Debt for the succeeding 12 months.
O&M Reserve and O&M Reserve Facility	SWS will establish a reserve in the amount of £35,000,000 in the O&M Reserve Account of SWS out of the proceeds of issue of the SWS Preference Shares. The principal amount credited to the O&M Reserve Account (the "**O&M Reserve**") may only be used by SWS for the purpose of meeting its operating and maintenance expenses. O&M Reserve Facility Providers may additionally make available to the Issuer a liquidity facility, the proceeds from which will be on-lent by the Issuer to SWS for the purpose of meeting SWS' operating and maintenance expenses.
Listing	Application has been made to admit Bonds issued under the Programme to the Official List and to admit them to trading on the London Stock Exchange. The Bonds may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Bonds may also be issued. The applicable Pricing Supplement will state whether or not the relevant Bonds are to be listed and, if so, on which stock exchange(s).
Ratings	The ratings assigned to Class A Wrapped Bonds and Class B Wrapped Bonds will be based solely on the debt rating of the Initial Financial Guarantor and/or any other Financial Guarantor appointed and reflect only the views of the Rating Agencies. The ratings assigned to the Class A Unwrapped Bonds and the Class B Unwrapped 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, among other things, on certain underlying characteristics of the business and financial condition of SWS or, in the case of the Class A Wrapped Bonds and/or Class B Wrapped Bonds, of the Initial Financial Guarantor and/or any other Financial Guarantor from time to time.
Governing Law	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 United Kingdom, the Cayman Islands and such other restrictions as may be required in connection with the offering and sale of a particular Sub-Class of Bonds. See Chapter 12 "*Subscription and Sale*".
Investor Information	SWS will be required to produce an investors' report (the "**Investors' Report**") semi-annually to be delivered within 120 days from 31 March or 60 days from 30 September of each year starting with 30 September 2003. Such Investors' Report will include, among other things: (i) a general overview of the SWS business in respect of the six month period ending on the immediately preceding Calculation Date; (ii) the calculations of the Class A ICR, Class A Adjusted ICR and the Senior Adjusted ICR for each Test Period (historic and projected); (iii) the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the twelve month period ending on such Calculation Date; (iv) the Class A RAR and Senior RAR (historic and projected); and (v) reasonable detail of the computations of these financial ratios. Each such Investors' Report will be made available by SWS and the Issuer to the Secured Creditors, including the Bondholders on SWS' website. SWS will also be required to make available unaudited interim financial statements and audited financial statements, within 60 days of

30 September and 120 days of 31 March, respectively and, in any event within five Business Days of the date on which they are made available. SWS will also place certain additional information on its website, as and when available. This will include, among other things, the most recently published: (a) annual charges scheme for SWS, with details of tariffs; (b) a summary of SWS' strategic business plan at each Periodic Review; (c) SWS' current Procurement Plan (as defined below) (if any); (d) SWS' annual drinking water quality report; (e) SWS' annual environment report; (f) SWS' annual conservation and access report; and (g) such other periodic information compiled by SWS for Ofwat.

CHAPTER 3

SUMMARY FINANCING STRUCTURE

History and Background

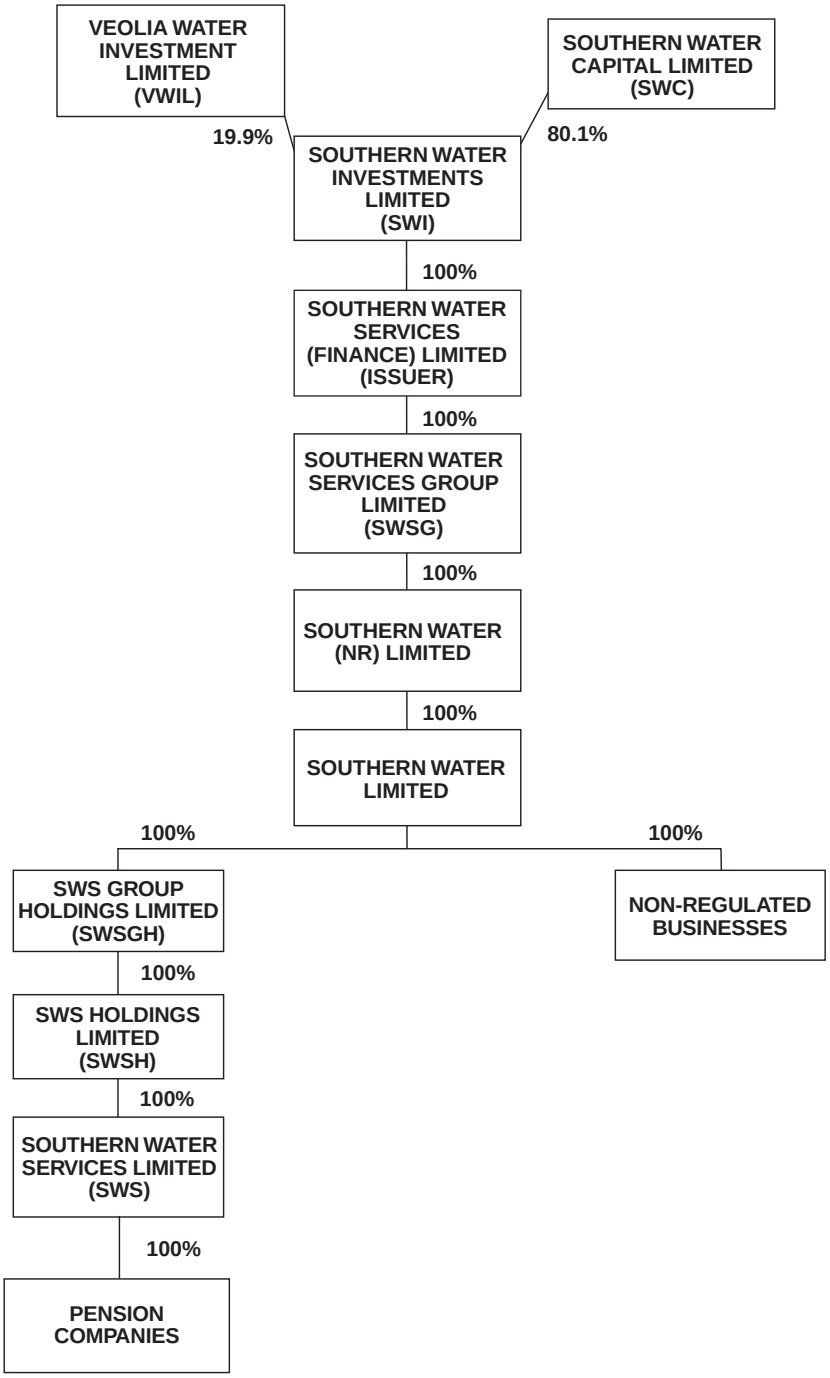
On 7 May 2003, SWI completed its acquisition of the entire issued ordinary share capital of the Issuer from First Aqua Holdings Limited. The Issuer completed its acquisition of Southern Water (NR) Limited and its subsidiaries (including SWS) from Scottish Power UK plc in April 2002 (the ''**First Aqua Acquisition**'').

SWI is controlled by Southern Water Capital Limited (''**SWC**'') (the largest shareholder in which is Royal Bank Investments Limited, a subsidiary of The Royal Bank of Scotland plc) which holds 80.1 per cent. of the issued ordinary share capital of SWI. Veolia Water UK PLC (formerly Vivendi Water UK PLC) indirectly holds the remaining issued ordinary share capital of SWI through VWIL. Upon its acquisition of the Issuer, SWI borrowed £233,200,000 mezzanine loans from Royal Bank Investments Limited and £260,000,000 convertible loans from VWIL and issued redeemable participating preference shares to VWIL, the proceeds of which were loaned to the Issuer and applied by the Issuer in, among other things, redeeming certain debt instruments and preference shares originally issued by the Issuer at the time of the First Aqua Acquisition and paying certain fees and other costs in respect of the acquisition of the SWS Financing Group from First Aqua Holdings Limited. Part of such proceeds were also applied by the Issuer in part repayment of borrowings pursuant to a £1.9 billion credit agreement (the ''**Bridge Facility Agreement**'') between the Issuer, The Royal Bank of Scotland plc and certain other banks entered into to fund the First Aqua Acquisition and to fund SWS' working capital requirements and general corporate expenditure.

The Issuer's indebtedness to SWI and all remaining indebtedness incurred by the Issuer and by SWS under the Bridge Facility Agreement and certain termination payments that will fall due to be paid on the Initial Issue Date following the termination of certain existing hedging agreements prior to the Initial Issue Date will be discharged in full on the Initial Issue Date out of the proceeds to be raised by the Issuer through the issuance of, among other things, the first Series of Bonds and borrowings under the Mezzanine Facility Agreements and by SWS through the issuance of the SWS Preference Shares.

The corporate structure of the Group as at the date of this Offering Circular is as set out below in ''*Figure 1 Existing Ownership Structure Prior to the Reorganisation Plan*''.

FIGURE 1 – EXISTING OWNERSHIP STRUCTURE PRIOR TO THE REORGANISATION PLAN



Reorganisation Plan

SWI will complete, immediately prior to the first issue of Bonds on the Initial Issue Date by the Issuer, the implementation of a reorganisation of the corporate and intra-group debt structure of the Group to facilitate, among other things, the creation of the SWS Financing Group (the "**Reorganisation Plan**"). Principally this will involve the Issuer transferring its shares in its immediate subsidiary, SWSG, to SWI; SWI transferring its shares in the Issuer to SWS; and SWS assuming certain existing intra-group indebtedness that SWSG incurred to the Issuer in connection with the First Aqua Acquisition and which will be refinanced out of the proceeds of the Bonds issued, Mezzanine Facilities and any other relevant Authorised Credit Facilities raised on the Initial Issue Date. Upon completion of the Reorganisation Plan, the corporate structure of the Group will be as set out below in "*Figure 2 Ownership Structure from the Initial Issue Date*". SWS' assumption of SWSG's debt obligations to the Issuer will be in consideration of SWSG assuming a debt obligation to SWS after setting off existing intercompany balances owing to

SWSG from SWS (see "*Summary of the Financing Agreements*" under "*SWS/SWSG Loan Agreement*").

The SWS Financing Group

The SWS Financing Group will, from the Initial Issue Date, consist of SWSGH, SWSH, SWS, the Issuer and the Pension Companies (which act as trustees of two pension schemes in which SWS participates). The sole purpose for the creation of the SWS Financing Group is to facilitate the refinancing and future financing of the operating and capital requirements of SWS through the issuance of Bonds, other instruments of financial indebtedness and credit facilities, from time to time, incurred by the Issuer and SWS. The Issuer may on-lend the proceeds of Financial Indebtedness incurred by it to SWS pursuant to the Issuer/SWS Loan Agreements.

FIGURE 2 – OWNERSHIP STRUCTURE FROM THE INITIAL ISSUE DATE

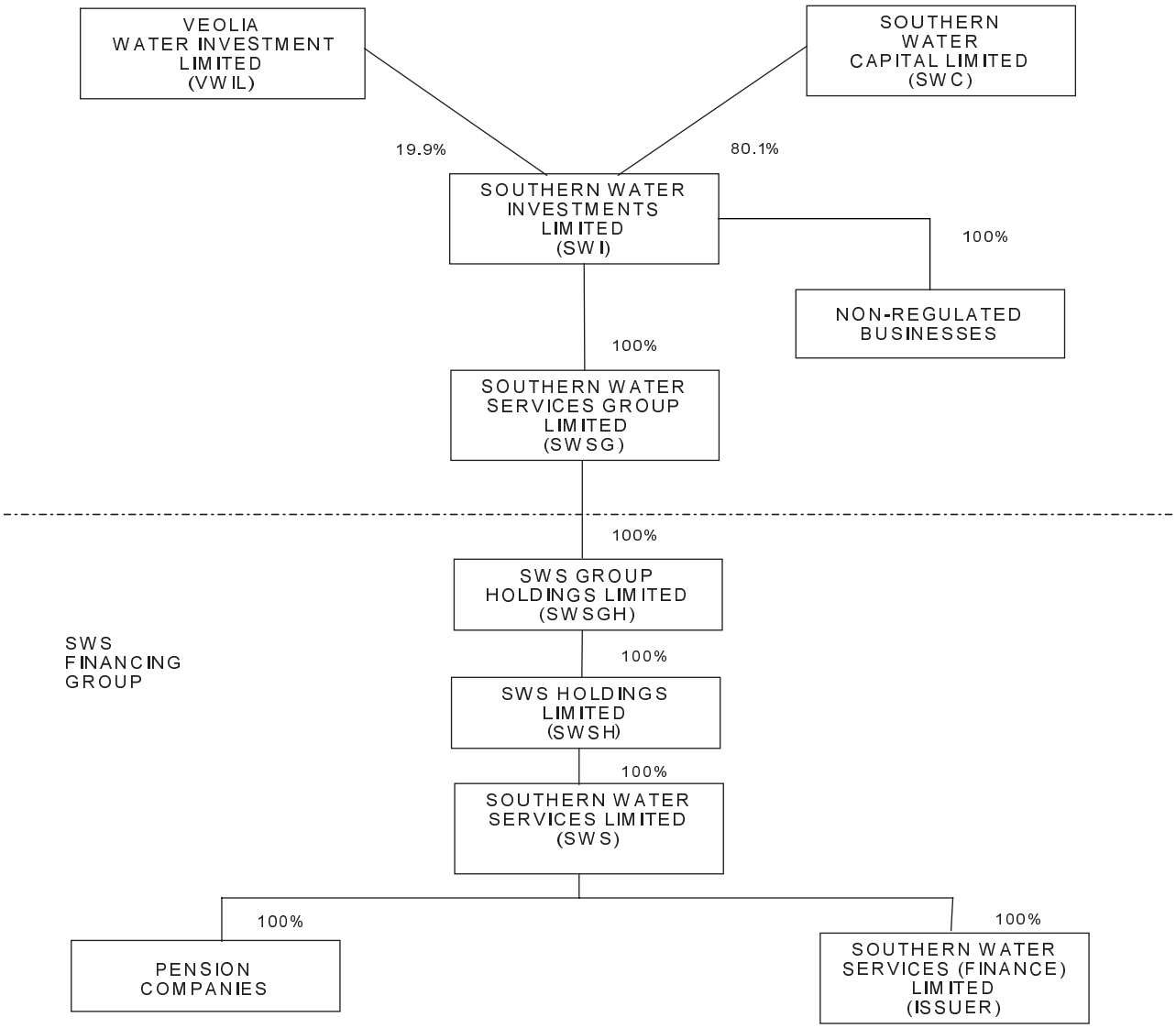


Figure 2 illustrates the ownership structure of the SWS Financing Group as from the Initial Issue Date:

- The Pension Companies and the Issuer are wholly owned subsidiaries of SWS.
- The entire issued ordinary share capital of SWS is held by SWSH, whose entire issued share capital is held by SWSGH.
- SWSGH is a wholly owned subsidiary of Southern Water Services Group Limited ("**SWSG**"), which is a wholly owned subsidiary of SWI.
- 80.1% of the issued ordinary share capital of SWI is held by Southern Water Capital Limited ("**SWC**") and the remainder is held by VWIL.
- The largest shareholder in SWC is Royal Bank Investments Limited, a subsidiary of The Royal Bank of Scotland plc.
- Each of SWSGH and SWSH is a special purpose vehicle incorporated to be the holding company of SWS and the Issuer and (in the case of SWSGH) SWSH, to enter into the Finance Documents and in particular to grant security over the shares of its respective subsidiary pursuant to the Security Agreement.

FIGURE 3 – PROGRAMME STRUCTURE

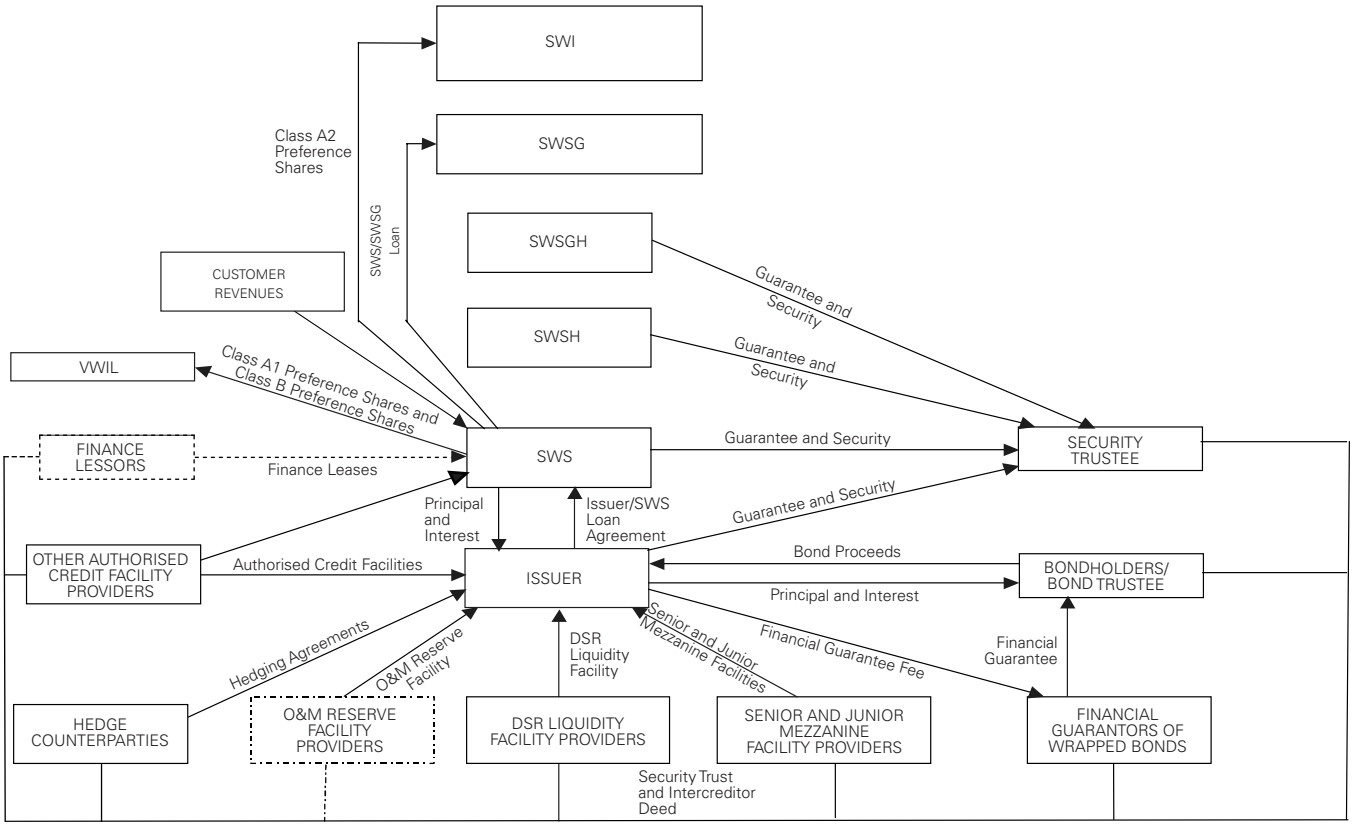


Figure 3 provides an overview of the Programme, as follows:

- The Issuer may under the Programme issue Class A Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor), Class A Unwrapped Bonds, Class B Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor) and Class B Unwrapped Bonds.
- The Issuer and/or SWS may also borrow money from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and capital expenditure requirements of SWS, to service and repay the SWS Financing Group's indebtedness and for the SWS Financing Group's general corporate purposes.
- The Issuer may additionally borrow money from O&M Reserve Facility Providers under O&M Reserve Facility Agreements for funding the operating and maintenance expenditure of SWS.
- The Issuer will on the Initial Issue Date borrow the Senior Mezzanine Facility and the Junior Mezzanine Facility from the Initial Mezzanine Facility Provider.
- SWS will issue the Class A1 Preference Shares and the Class B Preference Shares to VWIL (or syndicatees nominated by VWIL) and the Class A2 Preference Shares to SWI on the Initial Issue Date.
- Finance Lessors may provide financing of equipment to SWS.
- The terms under which the Issuer and/or SWS may incur financial indebtedness, including issuing Bonds under the Programme, are set out in the CTA.
- The Issuer will use the proceeds of the Series of Bonds issued on the Initial Issue Date, the Mezzanine Facilities and any other relevant Authorised Credit Facilities to settle certain termination payments under existing hedging contracts to be terminated prior to the Initial Issue Date and to make advances to SWS under the Initial Issuer/SWS Loan Agreement to enable SWS to repay on the Initial Issue Date all existing intercompany indebtedness owed by it to the Issuer. The Issuer will use the repayment proceeds of the existing intercompany indebtedness owed to it by SWS among other things (i) to repay its existing indebtedness to SWI, (ii) to pay all amounts outstanding

under the term facility of the Bridge Facility Agreement and (iii) to meet certain transaction fees and expenses.

- SWS will use the proceeds of its issue of SWS Preference Shares to VWIL (or syndicatees nominated by VWIL) and to SWI (together with any monies received under the Initial Issuer/SWS Loan Agreement and not required to be applied in repayment of existing indebtedness to the Issuer), (i) to discharge the obligations of SWS under the Bridge Facility Agreement (ii) to fund the Capex Reserve Account and its O&M Reserve Account, (iii) to make an initial payment to the Debt Service Payment Account, (iv) to pay certain transaction fees and expenses, and (v) for general corporate purposes.
- The advances to be made by the Issuer to SWS under the Initial Issuer/SWS Loan Agreement on the Initial Issue Date will reflect the corresponding amount and terms of borrowing by the Issuer of each Sub-Class of Bonds and each borrowing under the Mezzanine Facility Agreements and any other relevant Authorised Credit Facilities on the Initial Issue Date and, to the extent that such borrowing is hedged under a Hedging Agreement, the terms of such Hedging Agreement.
- The Issuer may on-lend to SWS the proceeds of each Series of Bonds issued after the Initial Issue Date and each advance to the Issuer under each Authorised Credit Facility (other than any DSR Liquidity Facility – see below) after the Initial Issue Date, pursuant to Issuer/SWS Loan Agreements. All indebtedness owing by SWS to the Issuer under each Issuer/SWS Loan Agreement will reflect the corresponding amount and terms of borrowing by the Issuer under the relevant Sub-Class of Bonds or the relevant Authorised Credit Facility or, where such borrowing is hedged under a Hedging Agreement, the notional amount and terms of such Hedging Agreement.
- The Issuer is required to hedge its interest rate and currency exposure under the Bonds by entering into interest and currency swap agreements and other hedging arrangements with Hedge Counterparties in accordance with an agreed hedging policy. The economic effect of the hedging will be passed on to SWS through the relevant Issuer/SWS Loan Agreement.
- The Issuer's obligations to repay principal and pay interest on the Bonds and the Mezzanine Debt and under each Authorised Credit Facility to which it is party as borrower are intended to be met primarily from the payments of principal and interest received from SWS under the Issuer/SWS Loan Agreements. Each Issuer/SWS Loan Agreement will provide for payments to become due from SWS 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 small profit margin.
- The Issuer may draw under any DSR Liquidity Facility provided to meet any shortfall in the amounts available to it to meet interest payments on the Class A Bonds and the Class B Bonds and certain other payments ranking in priority to or *pari passu* with the Class A Bonds and Class B Bonds of such Series (excluding any principal repayments on Class A Bonds and any principal repayments and Subordinated Coupon Amounts on Class B Bonds).
- The respective obligations of SWS and the Issuer to its Secured Creditors will be guaranteed by each other in favour of the Security Trustee. SWSH and SWSGH will in turn guarantee in favour of the Security Trustee the respective obligations of SWS and the Issuer and the obligations of each other.
- The obligations of each of SWS, the Issuer, SWSH and SWSGH will be secured in favour of the Security Trustee under the terms of the Security Agreement.
- The guarantees and security granted by the Obligors will be held by the Security Trustee for itself and on behalf of the Secured Creditors under the terms of the STID, which regulates the rights and claims of the Secured Creditors against the Obligors and the duties and discretions of the Security Trustee.

CHAPTER 4

DESCRIPTION OF THE SWS FINANCING GROUP

Introduction

SWS took over its functions as a successor to the former Southern Water Authority in respect of water supply and wastewater services on 1 September 1989 and its principal activity is the provision of water and wastewater services.

It operates under a licence which has a 25 year notice period (see Chapter 6 ''*Water Regulation*'' under ''*Termination of a licence*''). The main provisions of the Licence are described in Chapter 6 ''*Water Regulation*'' under ''*Licences*''.

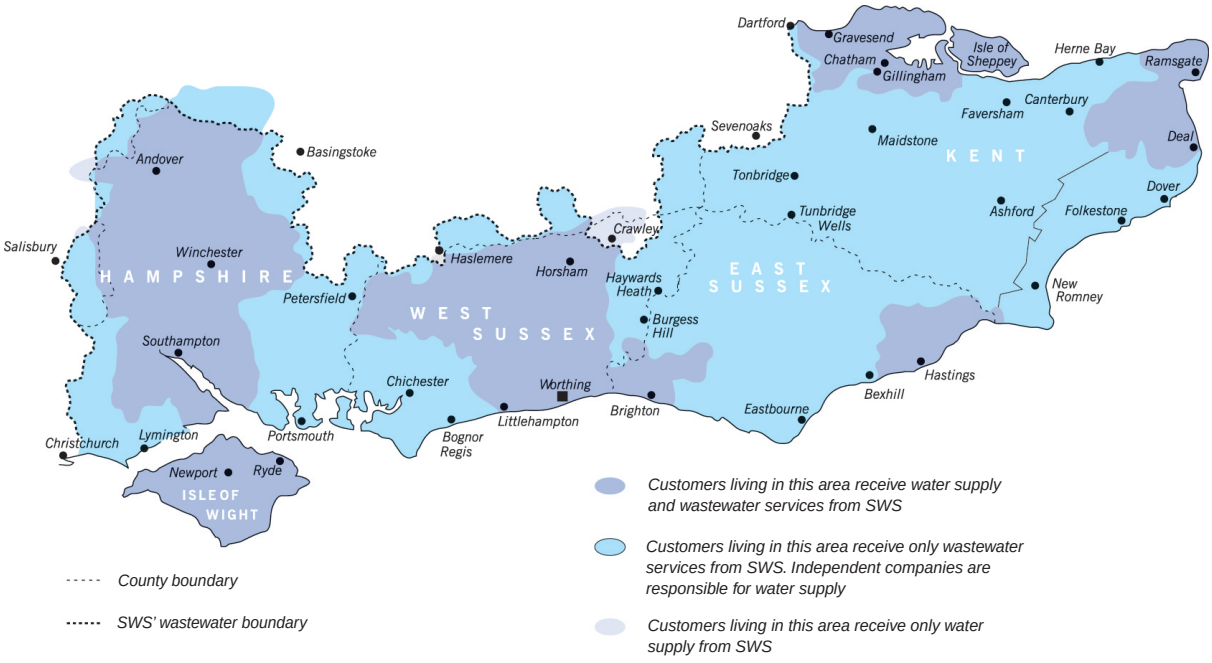
A copy of the Licence can be viewed on Ofwat's website (*www.ofwat.gov.uk*).

SWS is the seventh largest water and wastewater services company in England and Wales, based on turnover (source: Financial Performance and Expenditure of the Water Companies in England and Wales 2001-2002 Report; Ofwat, August 2002).

For the year ending 31 March 2003, SWS had a pre-tax net profit of £99.1 million on turnover of £436 million. As at 31 March 2003, SWS employed a total of approximately 2,150 full time, part time and agency staff. Ofwat estimates (as set out in RD08/03) that SWS' RCV was £2,126 million (at 2001/02 prices) as at 31 March 2003.

SWS was incorporated under the Companies Act 1985 and registered in England and Wales on 1 April 1989 with limited liability under number 02366670. The registered office of SWS is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWS is a wholly-owned direct subsidiary of SWS Holdings Limited and its authorised share capital is £46,050,000 divided into 46,050,000 ordinary shares. 56,000 ordinary shares have been issued of which all have been fully paid up. The only subsidiaries of SWS are, or will be from the Initial Issue Date, the Issuer and the Pension Companies.

The Area Served



SWS operates in an area of approximately 10,450 km^2 in the counties of Kent, East and West Sussex, Hampshire and the Isle of Wight, and small parts of Wiltshire, Berkshire and Surrey (the "**Region**").

Regulation

SWS is principally regulated under the provisions of the WIA. The Secretary of State for the Environment Food and Rural Affairs and the DGWS are the principal regulators of SWS. (See Chapter 6 "*Water Regulation*" for details on the regulation of Regulated Companies (as defined therein) including SWS).

SWS' area of appointment can be varied in certain circumstances by way of, for example, a so-called "**inset**" appointment (see Chapter 6 "*Water Regulation*" under "*Termination of a licence*"). Currently, the only inset appointment in SWS' original area of appointment is in respect of Tidworth Army Camp ("**Tidworth**"), which is on the boundaries of both SWS' and Wessex Water Services Limited's areas of appointment. Operation of Tidworth's water supply and wastewater services, previously undertaken by the Ministry of Defence, was put out to tender in 1996 and the tender was won by Thames Water Utilities Limited, which continues to supply such water and wastewater services.

On 21 February 2002, SWS received information from Mid Kent Water plc ("**Mid Kent Water**") that it proposes to apply to the DGWS for a first inset appointment as both water and sewerage undertaker for some 65 hectares of development land in Broadstairs, Kent. Mid Kent Water has approached SWS over the provision of bulk services, and indicated that other sites in East Kent may follow.

SWS was approached by Mid Kent Water with a proposal for possible inset appointments in Thanet in March 2002. SWS opposed these inset appointments, and has subsequently reached an agreement with Rosefarm Estates (the developer of the Eurokent Business Park), one of the customers in respect of which Mid Kent Water was proposing an inset appointment.

On 15 January 2003, Mid Kent Water made a formal application to the DGWS to make an interim measures direction under section 35 of the Competition Act in respect of this agreement, claiming anti-competitive conduct by SWS. Having considered the information that SWS and other parties provided, the DGWS informed SWS on 10 April 2003 that he had decided not to make any direction under section 35 in respect of the complaint. The Ofwat file on the complaint remains open.

Ofwat agreed to waive the requirement for the maintenance of a listed instrument, for a period of four months from 26 March 2003, following the redemption of the £100,000,000 variable coupon guaranteed bonds due 2008 issued by Southern Water Services Finance PLC (a former subsidiary of SWS), pending the completion of the transactions contemplated in this Offering Circular.

As part of the remedies required by the Secretary of State following the acquisition by SWI of the Issuer, SWS was required to consent to a licence modification requiring the provision of a separate data set of information in respect of the Hampshire and the Isle of Wight water supply area. On 20 June 2003 Ofwat published proposals in respect of the modification which will require SWS to provide extra information to Ofwat on the water services that it supplies to the Hampshire and Isle of Wight water supply area. This will include the condition of SWS' assets, its capital and operating costs and the reliability of water supplies.

Water Supply

Water Supply - Approximate Base Statistics 2002/03

Description	Value
Population served	2.3m
Properties served	1.0m
— Domestic premises	937,100
— Business/non-domestic premises	70,100
Length of mains	13,392km
Number of water treatment works	102
Number of main reservoirs	
— Number of dams and impounding reservoirs	4
— Number of service reservoirs	217
Average daily supply (million litres)	595
— from groundwater	70%
— from surface water	30%

Of the average supply of 595 million litres of water per day during the year 1 April 2002 to 31 March 2003, approximately 72 per cent. was supplied for domestic use and approximately 28 per cent. was supplied for non-domestic and industrial use.

Of this amount, SWS supplied approximately 6.2 million litres of water a day in aggregate (representing approximately 1.04 per cent. of the total water supplied by SWS) to South East Water, Wessex Water and Mid Kent Water under bulk supply agreements. SWS also supplied approximately 8.1 million litres per day to Mid Kent Water pursuant to the Belmont Scheme (comprising three boreholes owned and operated by SWS within Mid Kent Water's appointed area and associated pipelines). By a long-standing arrangement, Mid Kent Water inputs water abstracted from two of its sources into the Eastling Main pipeline for transfer to another of its water supply works. Approximately 0.08 million litres per day of treated water was received from Sutton and East Surrey Water and Folkestone and Dover Water pursuant to bulk supply agreements.

As of 31 March 2003, SWS supplied water to 27 large users (customers with annual water consumption in excess of 100 million litres) which, in the 12 month period to 31 March 2003, accounted for approximately 3.7 per cent. of the total volume of water supplied and 3.5 per cent. of SWS' water supply revenues. SWS could potentially be subject to competition in respect of these customers (see Chapter 6 ''*Water Regulation*'').

As at 31 March 2003, approximately 211,400 households, or approximately 23 per cent. of total households supplied by SWS, had their water measured by meters, compared with 9.6 per cent. of household customers in 1992/93.

Water is treated at 102 water treatment works and is distributed to approximately 1,007,000 premises through a network of approximately 13,392 km of water mains. SWS treats water from 106 sources in the region with approximately 70 per cent. of water supplied coming from groundwater sources (predominantly chalk), approximately 24 per cent. coming from rivers, and the remaining approximately 6 per cent. being abstracted from reservoirs.

At five of the six water treatment works supplied by river sources, underground sources or bankside storage facilities can be utilised to help provide continuity of supply if the river intake is closed due to a temporary pollution hazard.

A central part of the water resources network in Kent and the eastern part of Sussex is the River Medway Scheme, incorporating the Bewl Water Reservoir, originating from a 1968 Private Act of Parliament and a subsequent agreement between SWS and Mid Kent Water. Under this scheme, Mid Kent Water is entitled to 25 per cent. of the yield of water from this reservoir.

SWS owns, operates and maintains 368 water-pumping stations, as well as four impounding reservoirs which have a total storage capacity of approximately 42,390 million litres, the largest, Bewl Water Reservoir (Kent), having a gross storage capacity of 31,000 million litres.

In the 12 month period ending 31 March 2003, approximately 92 million litres per day were estimated to be lost through leakage. About three-quarters of this leakage is estimated to be from SWS' pipes and one-quarter from pipes owned by households and businesses. SWS achieved its leakage target of 92 million litres per day for the year ending 31 March 2003, which is at the economic level of leakage set by Ofwat in determining leakage targets going forward. In the year ending 31 March 2002, SWS had the lowest leakage rate of the ten water and sewerage companies (source: Security of supply, leakage and efficient use of water 2001-02 report, Ofwat, October 2002). The leakage target for the year ending 31 March 2004 remains 92 million litres per day.

In line with industry norms, most of SWS' mains are constructed of iron, asbestos cement and plastics, with iron being the most common material.

As of the date of the 1999 Periodic Review, SWS estimated that of its approximately 13,400 km of mains, 171 km (or 1.28 per cent.) would need to be replaced or renovated in the next five years. Of this approximately 152 km were replaced or renovated by April 2003.

Since 1990/91, the amount of water supplied by SWS has decreased by approximately 15 per cent. However, SWS forecasts that the total volume of water put into supply will increase slightly in the period to 2005 as a consequence of an underlying increase in domestic consumption.

During the 1999 Periodic Review process, SWS carried out a detailed evaluation of its water resource position in conjunction with the EA. This process projected demand 25 years ahead and compared this

with water availability under severe (rarer than one in 50 years) drought conditions. The process concluded that, overall, SWS had, and is expected to have during that period, adequate water resources, although there was a need to move water from areas of surplus to further strengthen its position.

In this context SWS has developed a water resources strategy (the "**SWS Water Resources Strategy**") for the next 25 years, which was audited and submitted for approval to Ofwat and the EA. The plan developed by SWS in order to achieve this strategy is updated every year and submitted to the EA and Ofwat. It includes details of levels of service, population and housing estimates, per capita consumption, water efficiency initiatives, leakage and metering. It also gives details of SWS' position with regard to the supply demand balance and the proposed capital programme to ensure future demands are met, as well as providing key data relating to issues such as climate change and catchment abstraction management strategies for the future.

In parallel with the SWS Water Resources Strategy, SWS has, together with the water only companies in the South East of England, developed a joint water resources strategy for the South East of England as a whole (the "**South East Water Resources Strategy**"). This takes the form of a cooperative, non-binding strategy subscribed to by the relevant Regulated Companies and endorsed by Ofwat and the EA as part of the 1999 Periodic Review.

SWS is planning a number of schemes within the context of the SWS Water Resources Strategy, including a bulk supply arrangement with Portsmouth Water ("**Portsmouth**") for SWS to be supplied with treated water to the Sussex North area (the "**Portsmouth Scheme**"), and a scheme involving transfer of raw water from the Bewl Water Reservoir (a Kent-based catchment) to the Darwell Reservoir (a Sussex-based catchment serving Hastings) (the "**Bewl/Darwell Scheme**"). This latter scheme also benefits South East Water. Both of these schemes have been agreed with Ofwat and feature in the South East Water Resources Strategy.

The Portsmouth Scheme would transfer up to 15 million litres a day from the boundary of Portsmouth's supply area to SWS' Hardham water supply works. Legal and operating agreements are currently being finalised. SWS will pay the capital expenditure cost of approximately £3 million for its 10.5 km pipeline (which has been provided for within the level of capital expenditure for the K3 Period set out in the 1999 Periodic Review). Going forward, SWS will pay an annual charge. Portsmouth Water's licence application has been approved by the Environment Agency and planning permission has been granted by the local planning authorities. Scheme completion is expected by summer 2004. In the event that a public inquiry is required resulting in scheme approval, completion of the scheme could be deferred by approximately one year.

The Bewl Darwell Scheme involves duplication of the existing raw water transfer main between Bewl Water Reservoir and Darwell Reservoir with additional treatment capacity. It will provide an additional 25 million litres a day capacity, giving 17.2 million litres per day transfer yield to the Hastings supply area. Approximately 50% of the increase arising from the transfer of yield will be made available to South East Water at Darwell Reservoir, and the cost of the pipeline and some treatment will be split with South East Water. SWS' estimated total capital expenditure is approximately £19 million (which has been provided for within the level of capital expenditure for the K3 Period set out in the 1999 Periodic Review). Licence and planning applications were submitted in May 2003, with decisions expected by the end of 2003. Completion is expected by March 2005. In the event that there is a public inquiry, resulting in scheme approval, scheme completion could be delayed by approximately one year.

SWS believes that following the above strategies meets the design standards to which SWS is obligated under the price control process operated by the DGWS (see Chapter 6 "*Water Regulation*" under "*Price Control*").

There has not been a restriction on water use in the SWS region since May 1998.

All water supplied is treated at water treatment works before distribution. Water quality is monitored by SWS through a programme of regular sampling and analysis. Sampling of water supplies is carried out in accordance with the Water Supply (Water Quality) Regulations 2000 which sets out the number of samples to be taken depending on the volume of water produced or the population served.

SWS operates a quality assurance system approved to British Standards Institution ("**BSI**") standard ISO 9002. SWS has approved procedures for the production of water up to the supply point from service reservoirs. These are used to monitor the daily activities which control water quality. These procedures are audited by the BSI on a six monthly basis.

Wastewater Services

Wastewater - Approximate Base Statistics 2002/03

Population served	4.49m
Properties served	1.74m
— Domestic	1,643,500
— Business/non-domestic premises	96,800
Length of sewers	21,171km
Number of wastewater treatment works	369
Number of coastal outfalls/marine treatment works	4
— % vol. sludge discharged agriculture	92.5
— % vol. sludge discharged landfill	7.4
— % vol. sludge discharged other	0.1
Number of sewerage pumping stations	2130
Volume of wastewater treated daily	1,400Mld

SWS provides wastewater services to approximately 4.49 million people in Kent, Sussex, Hampshire and the Isle of Wight (the "**Wastewater Region**"). SWS collects and treats approximately 1,400 million litres of wastewater every day via approximately 21,171km of sewers. Approximately one half of the population in SWS' appointed area resides in urban areas along an extensive coastline. Accordingly, the majority of SWS' sewage discharge is into estuarial or coastal waters. This includes an average volume of 34 million litres per day of trade effluent from approximately 1,460 industrial customers, who have permission to discharge trade effluent, subject to specific controls. These figures exclude storm flows and include any infiltration. A number of factors, including rainfall, may cause flows within SWS' wastewater network to vary from time to time. In particular, an influx of visitors into the Wastewater Region during the summer holiday period contributes to an increase in the sewage flow.

As at 31 March 2003, SWS owned, operated and maintained 369 sewage treatment works, four coastal outfalls/marine treatment works and approximately 21,171 kilometres of sewers receiving foul and surface water through a mixture of combined (foul and surface water), separate and partially separate drainage systems. There are approximately 2130 sewage pumping stations within the Wastewater Region, which form an integral part of the wastewater system.

SWS estimates that approximately 85 per cent. of the wastewater received by it is treated, with the remainder discharged through sea outfalls.

The wastewater system has been constructed principally of clay ware, concrete, brick and iron.

SWS has identified sewers as being either "critical" or "non-critical" based on the methodology developed by the Water Research Council. At 31 March 2003, there were some 6543 km of "critical" sewers (sewers located in places where their malfunction would cause material disruption) (constituting 30.9 per cent. of the total length of sewers) in the Wastewater Region. More than 50 per cent. of these "critical" sewers have been inspected by closed circuit television as part of an on-going programme to assess their structural condition. SWS' Underground Asset Management Plan in 1999 concluded that some 70.7 km (or 1.09 per cent. of the total) of "critical" sewers may require renewal or renovation during the next five years. At least 52.5 km (or 0.36 per cent. of the total) of "non-critical" sewers have been or are planned to be replaced or renovated over the same period.

From 1 April 2000 to 31 March 2003, SWS completed the construction of improvements to meet quality obligations at 29 sewage treatment works. The total cost of the work was approximately £297.6 million. As a result of this investment, by 31 March 2003, SWS was providing full biological treatment to approximately 85 per cent. of the sewage it collected, compared with 53 per cent. as at 31 March 1997. The current investment programme which addresses quality improvements at approximately 92 sewage treatment works aimed to ensure that, by 31 March 2005, SWS will provide full biological treatment to all of the sewage it collects. However, planning and land acquisition problems at two sites, Brighton & Hove and Margate & Broadstairs, will result in this not being achieved. For further information in relation to these schemes see "*Capital Investment Programme*" below.

SWS' strategy for sludge disposal is based on environmental factors, planning constraints, the volume of sludge and the unit cost of disposal. As a consequence of existing sludge disposal methods becoming restricted, SWS has implemented new options including further processing its sludge to produce a soil conditioner that can be recycled and sold to the agricultural industry.

In the 2002 bathing season the EA tested 79 designated bathing waters in SWS' Wastewater Region for bacteria, physicochemical parameters, and the presence or absence of enteroviruses. In the 2002 bathing season, only one beach out of 79 failed the mandatory compliance standards. Capital schemes are in progress to reduce further the likelihood of failures in future years.

Any pollution or drinking water quality incident could result in criminal prosecution leading to the imposition of fines on SWS, civil liability in damages to third parties and/or requirements to clean up or otherwise deal with the effects of contamination and/or operational requirements to upgrade plant and equipment.

Rates and Billings

Water supply and wastewater services are charged separately and, therefore, charges are set (within the overall level set by the DGWS) so as to reflect the average costs of providing each service for each class of customers. Each year, SWS submits a pricing structure to the DGWS (within the overall limit set by the DGWS) for approval by the DGWS. The average household bill where both water supply and wastewater services are supplied by SWS for the 2003/04 year is £250, comprising £91 for water supply and £159 for wastewater services. During the year ended 31 March 2003, approximately 67 per cent. of turnover in respect of water and wastewater customers relates to supplies to unmetered customers, and approximately 33 per cent. to customers who pay by meter.

Charges for customers with unmetered water supplies are based on the rateable value of their premises, together with a standing charge, for both water supply and wastewater services. Charges are billed in advance on an annual basis with payment annually, half-yearly or (with the agreement of SWS) by instalments.

Charges for customers with metered water supplies are based on the measured volume of water supplied, together with a standing charge generally according to the size of the meter, for both water supply and wastewater services. Wastewater charges include a fixed allowance against volume to reflect water supplied that is not discharged to a sewer. Charges for small meters are billed half-yearly, and more frequently for larger meters.

SWS' contracts with customers are governed by English law.

No direct charge can be made to highway authorities for highway drainage connected to wastewater, the cost of which is recovered through wastewater charges to customers as a whole.

Domestic Customers

Most domestic customers are unmetered. Although the domestic rating system was discontinued in 1990 (under the provisions of the UK Local Government Finance Act 1988), water companies were originally allowed to continue to use rateable values (as at 31 March 1990) for charging until 1 April 2000 under the WIA. More recently, following a review of water and wastewater charges in England and Wales, the UK Government decided to allow companies to continue using the system after that date. At the same time it proposed changes designed to encourage the use of meters for domestic properties.

Certain changes have been implemented by the Water Industry Act 1999 (the "**WIA 99**") which grants domestic customers the right:

- to resist water metering in their current homes where they are not using water for non-essential purposes (such as swimming pools and sprinklers);
- to have a free meter installed if they wish to have one, where this is practicable; and
- where they have taken up the right to have a free meter installed, to revert to an unmetered basis of charging within 12 months if they so choose.

In addition, new provisions of the WIA, as amended by the WIA 99, serve to:

- prevent disconnection of domestic customers and other protected premises for non-payment;
- empower the Secretary of State to make provisions which protect vulnerable customers with high essential water use, who live in homes with meters, from higher than average bills; and
- prevent charges schemes from taking effect until approved by the DGWS and give the DGWS a duty to take into account guidance from the Secretary of State.

In calculating the wastewater charges of metered domestic customers, the volume of clean water supplied is used as the basis of the charge less a fixed allowance of 7.5 per cent. of such volume made in respect of water not discharged to a sewer (for example, water used outside the home for garden watering and washing cars).

Non-domestic customers

Most industrial and other non-domestic supplies are metered. In calculating the wastewater charges of industrial and commercial metered customers, the volume of clean water supplied is used as the basis of the charge less a fixed allowance of five per cent. of such volume made in respect of water not discharged to a sewer. Certain industrial and commercial metered customers receive a higher allowance where a significantly higher volume of water supplied is not discharged to a sewer. Trade effluent is normally charged separately on a formula basis taking account of the volume of effluent, its strength and costs of removal and treatment.

Collections

SWS' collection methods include full payment or instalments using direct debit, banks, post office or direct payment to SWS, through to doorstep collections and recourse to court procedures in appropriate circumstances. Disconnection of domestic customers from the water supply network for failure to pay charges is prohibited following the introduction of the WIA 99. In the light of this, SWS has reviewed the underlying collections risk of its receivables and, accordingly, increased its bad debt provision for the year ended 31 March 2003 by £9.5 million. Industrial and commercial customers are subject to a range of actions, including disconnection and court proceedings where failure to settle charges occurs.

Revenue Deviations from Ofwat's Projections

In general, SWS is not protected, in respect of each Periodic Review Period, against decreased revenue arising from any revenue deviations during that Periodic Review Period in Ofwat's projections for such Periodic Review Period, including demographic changes affecting SWS' customer base, the loss of a major customer, unexpected reductions in customers or movements in volumes consumed or discharged by customers, and loss of business through inset appointments.

Accordingly, at Periodic Reviews Ofwat factors into its projections assumptions about numbers of customers and volumes consumed or discharged. Until the following Periodic Review, SWS bears the risk that actual numbers of customers and volumes consumed or discharged will fall short of the assumptions reflected in the RPI+K price cap. Since actual out-turn revenues are used as the basis for the setting of price limits in the subsequent five year period, any deviation from revenue projections in the previous five year period may be reflected in such price limits.

In certain circumstances, SWS may apply for an IDOK as described in Chapter 6 "*Water Regulation*" under "*Interim Determinations of K*".

Capital Investment Programme

The Ofwat Final Determination for the five year period starting on 1 April 2000 (the "**K3 Period**") sets out a level of investment for capital projects (both new projects and asset maintenance) of £1,086 million (at May 1999 prices). This amount will be taken into account by Ofwat in determining SWS' RCV over the course of the K3 Period, and SWS will be permitted to recover in respect of such amount through customer charges its depreciation costs and an allowed return intended to compensate it for financing costs and provide a permitted return of capital. Ofwat also defines the obligations associated with that investment and sets out target implementation dates. Approximately £870 million of this expenditure relates to wastewater services, with the balance relating to water supply projects and management and general works.

The three significant categories of construction works contracts under which work is being performed pursuant to this Final Determination are:

- major contracts relating to projects commenced by SWS during the five year period ending 31 March 2000 (the "**K2 Period**"), but which Ofwat was aware, at the time of the 1999 Periodic Review, would continue into the K3 Period (and whose cost was factored into the level of investment for capital projects set out in the Ofwat 1999 Final Determination), which account for approximately £410 million of the capital expenditure for the K3 Period;

- contracts relating to works undertaken or to be undertaken during the K3 Period. A large component of these new works have been undertaken pursuant to two large scale contracts run by integrated teams (comprising SWS, a consultant, a contractor and suppliers). These two contracts cover the east and west halves of SWS' region, with an assured workload over the whole of the K3 Period for a maximum contract price. The total contract price for schemes priced to date in relation to these two contracts is approximately £101 million and the anticipated contract price once all schemes have been priced and performed is approximately £280 million; and
- a number of separate term contracts, each involving large numbers of minor asset and service maintenance works schemes, pursuant to SWS' Regionally Controlled Programmes, which account for approximately £200 million of the capital expenditure for the K3 Period. Each term contract incorporates low value works schemes within particular disciplines. Schemes delivered under the term contracts are instructed on an individual basis in accordance with a set schedule of rates or guaranteed maximum price for each work item.

There is a risk of delays and/or cost overruns on SWS' capital projects, which may result in SWS not completing its capital investment programme in a particular Periodic Review Period within the timing or the level of capital investment set out in the relevant Periodic Review.

Under the current methodology, to the extent that SWS, in fulfilling its defined capital expenditure obligations for a particular Periodic Review Period, exceeds within that Periodic Review Period the level of capital investment set out in the relevant Periodic Review, it will not be able to make any recovery through charges in respect of that excess spend in that Periodic Review Period or any subsequent Periodic Review Period, and the excess will not form part of its RCV.

By comparison, to the extent that SWS fulfils defined capital expenditure obligations for a particular Periodic Review Period, and incurs costs which are less than the prescribed level of capital investment in doing so, SWS will be allowed to retain the difference between the assumed financing charges and the lower financing charges actually incurred in any year for five years. The amount by which actual capital expenditure in fulfilling defined capital expenditure obligations is lower than the amount allowed by Ofwat shall be deducted from SWS' RCV after five years.

SWS achieved significant capital efficiencies in the K2 Period. The financial modelling prepared by SWS for the period 2001-02/2004-05 includes a reduction of £253 million at 2000/01 prices in respect of past efficiencies under the process described above. These adjustments were factored into the price setting process by Ofwat as part of the 1999 Periodic Review.

If SWS does not incur the expenditure necessary to complete the delivery of a defined obligation during the relevant Periodic Review Period, Ofwat would be entitled to reduce SWS' RCV to reflect this. Such reduction may be implemented by Ofwat by way of an IDOK (if the amount of expenditure which has not been incurred is material), or otherwise at the next Periodic Review. Ofwat should then include the relevant defined obligation (and associated capital expenditure) as part of its determination of the level of investment and associated defined obligations for the subsequent Periodic Review Period. In addition to any RCV reduction, Ofwat would be entitled to claw back any benefit received by SWS in the original Periodic Review Period in relation to the defined obligations which have not been fulfilled.

SWS' ability to fulfil defined obligations, and the level of associated expenditure, can be affected by circumstances and third parties (such as planning authorities) beyond SWS' control.

SWS recently updated its forecast of capital expenditure during the K3 Period to £1220 million (at out-turn prices). When adjustments for the impact of the Construction Output Price Index are taken into account this is in line with the allowance made by Ofwat during the 1999 Periodic Review, but the capital expenditure on capital projects forecast to be completed during the K3 Period has changed in some areas.

SWS will not complete during the K3 Period all the projects anticipated by Ofwat in the 1999 Final Determination. In particular, two large schemes - Brighton & Hove and Margate & Broadstairs - for which SWS estimates around £90 million (at out-turn prices) was allowed in the 1999 Periodic Review, will not be completed within the K3 Period (because of issues relating to planning permission and land acquisition) though significant related expenses have already been incurred. Although Ofwat would be entitled to reduce SWS' RCV, to reflect the non-completion of these projects, at the next Periodic Review SWS will include updated forecast expenditure on these delayed projects in its business plan for inclusion in the K4 Period as covered by the 2004 Periodic Review. The non-completion could also be considered for an IDOK depending on materiality and the likelihood of progress on each scheme during

the K3 Period. As mentioned above, Ofwat would also be entitled to claw back any related benefit received by SWS in the K3 Period.

The balance of outputs to be delivered by SWS during the K3 Period has changed. The non-completion of the Brighton & Hove and Margate & Broadstairs projects during the K3 Period is balanced by SWS spending more on other areas during the K3 Period including, in particular, on asset maintenance. In the first three years of the K3 Period, SWS spent around £80 million more than provided for in Ofwat's 1999 Final Determination for SWS on maintaining above-ground assets and expenditure on information technology systems to deliver efficiency. An independent report produced for Ofwat has concluded that it can be argued that, at the time of the 1999 Periodic Review, indicators suggested that SWS needed a greater allowance for asset maintenance. Following initial discussions with Ofwat, SWS is optimistic that Ofwat will recognise this expenditure in its 2004 Periodic Review in determining SWS' RCV.

A risk of a reduction being applied to the regulatory capital value exists if Ofwat believes expenditure has been spent inefficiently or in areas that do not give customer benefit. SWS will discuss the situation with Ofwat and review its expenditure proposals for the remainder of the K3 Period to ensure that the total capital investment set out in Ofwat's 1999 Final Determination would not be exceeded in the light of the results.

Asset Condition and Serviceability

The Licence requires SWS to produce and provide to Ofwat an Underground Asset Management Plan (the "**UAM Plan**") which, among other things, shows the expenditure necessary in each year to ensure that asset condition is maintained in an appropriate state, and tracks the condition of SWS' assets over time (in practice, Ofwat requires information in respect of both above and below ground assets). Information submitted to Ofwat by SWS as part of the 1999 Periodic Review process suggested stable asset condition over the period 1993/94 - 1998/99. Similar information in respect of SWS' assets will need to be submitted to Ofwat in March 2004 as part of the 2004 Periodic Review.

The latest Ofwat assessment of the performance of SWS assets shows stable performance for its water service, an uncertain ranking for sewerage infrastructure and a deteriorating performance for its sewerage non-infrastructure. SWS is committed, under the monitoring plan agreed at the 1999 Periodic Review, to achieve a stable performance on all of its assets by March 2004. Action plans have been discussed with Ofwat on how this will be achieved and Ofwat appear content with these plans. Current information shows that the situation on sewerage infrastructure and non-infrastructure improved in 2002-03 but the indications from Ofwat are that this improvement might not be sufficient to improve the rankings for 2002-03. SWS has provided, in its investment plan, significant sums on asset maintenance to endeavour to maintain this improvement.

Technical Report

W.S. Atkins Consultants Ltd. has undertaken a technical due diligence study of the SWS' Appointed Business. The text of a letter summarising the findings and conclusions of the study is set out at Appendix B.

Information Technology

Over the period from 1997 to April 2003, SWS has replaced the majority of its older information technology systems.

A number of SWS' information technology services are currently provided by Scottish Power plc ("**SP**"), and a number of software applications and support services are provided to SWS under SP group contracts. The transitional services agreement with SP will expire in April 2004. It is anticipated that the information technology services supplied by the SP group will be transferred to alternative providers by 31 October 2003.

Thus plc provides SWS' strategic telecommunications facilities management and information technology systems operation facilities management. The agreement with Thus plc will terminate on 30 November 2003, and SWS anticipates that a replacement agreement will be awarded to commence on 1 December 2003 for a period of three years with an option to extend for a further period of two years.

Property

SWS' property interests consist substantially of freehold interests, and there are estimated to be between 3,000 and 4,000 separate titles (excluding pipeline interests). As a result of the reorganisations

of local government and water-related services in 1974 and privatisation of the water industry in 1989, SWS inherited many of its sites, and is not able to deduce full legal title to all of its real property. Those properties where this is true fall into the following broad categories:

- properties in respect of which SWS is believed to have legal title but does not possess full documentary evidence to prove such title (the deeds having been lost or destroyed or never provided by the previous title holder); and/or
- properties in respect of which SWS has acquired or could acquire the necessary rights by compulsory purchase, or claim prescriptive rights or adverse possession.

SWS is not involved in any ongoing disputes, in relation to title to property, of a material nature.

Insurance

SWS maintains insurance cover which it believes is consistent with the generally accepted practices of prudent water and sewerage undertakers, including insurance policies against property damage and business interruption, employer's liability, public liability and directors' and officers' liability.

Litigation/Actions

In common with other companies in the water and wastewater industry, SWS is frequently involved in, or is the subject of, civil and criminal proceedings, but SWS is not, and has not been, involved in any litigation or arbitration proceedings which have, may have or have had, within the period of 12 months preceding the date of this Offering Circular, a material effect on the financial position of SWS, nor is SWS aware of any such proceedings being pending or threatened.

Management and Employees of SWS

Directors and Secretary of SWS

The directors and secretary of SWS are set out below each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

Chairman - Robert Thian

Robert Thian was appointed Chairman of SWS in May 2003. He is the founder and chief executive of Renex Limited, a private equity acquisition vehicle. He is also a director and chairman of each of Whatman Plc, Orion Group Limited and Astron Group Limited as well as being a director of the Issuer, SWSG, Southern Water (NR) Limited, Southern Water Limited and SWI. From 1990 to 1993, Mr. Thian was group chief executive of North West Water Group Plc.

Managing Director - Stuart Derwent

Stuart Derwent is the Managing Director and has worked for SWS for 29 years. Mr. Derwent is also a director of each of the other companies in the SWS Financing Group, SWI, SWSG, Southern Water (NR) Limited, Southern Water Limited, Scottish Power Group Money Purchase Pension Scheme Limited, WaterAid, Water UK and WTI. Mr. Derwent also holds a number of other directorships which are not significant with respect to the activities of the SWS Financing Group.

Barrie Delacour - Corporate Strategy Director

Barrie Delacour has worked for SWS for 27 years. He is also a director of SWSGH, SWSH and UK Water Industry Research Limited.

Tony Fegan - Projects Delivery Director

Tony Fegan has worked for SWS for the past six years.

David Stainthorpe - Customer Services Director

David Stainthorpe has worked for SWS for the past 29 years.

Martin Baggs - Operations Director

Martin Baggs has worked for SWS for the past 16 years. He is also a director of Construction Industry Research and Information Association.

John Harris - Non-executive Director

John Harris has been a SWS non-executive director for the past five years. He is also a director of Clement Harris (Developments) Limited, David John (Worthing) Limited, and Hastings Court Management Co. (Worthing) Limited.

Christopher Chapman - Non-executive Director

Christopher Chapman has been a SWS non-executive director for the past five years.

Jean Claude Banon - Non-executive Director

Jean Claude Banon was appointed as a SWS non-executive director in May 2003. He is also a director of the Issuer, SWI, SWSG, Southern Water (NR) Limited, Southern Water Limited, a number of Veolia Group companies, CGEA U.K. PLC, Dalkia UK PLC, Folkestone and Dover Water Services Limited, General Utilities Holdings Limited, Onyx Environmental Group PLC, Tendring Hundred Water Services Limited, Three Valleys Water PLC and VINCI PLC. Mr. Banon also holds a number of other directorships which are not significant with respect to the activities of the SWS Financing Group.

Rory Cullinan - Non-executive Director

Rory Cullinan is the head of Equity Finance at The Royal Bank of Scotland plc and has 20 years experience in the private equity industry and investment banking. Mr Cullinan was appointed as a non-executive director of SWS in May 2003. He is also a director of the Issuer, SWI, SWC, SWSG, Southern Water (NR) Limited and Southern Water Limited. Mr. Cullinan also holds a number of other directorships which are not significant with respect to the activities of the SWS Financing Group.

Francois Darley - Non-executive Director

Francois Darley was appointed as a SWS non-executive director in May 2003. He is also a director of a number of Veolia Group companies, Veolia Water UK PLC, Folkestone and Dover Water Services Limited, Tendring Hundred Water Services Limited and Veolia Water Projects Limited.

Cyril Roger-Lacan - Non-executive Director

Cyril Roger-Lacan was appointed as a SWS non-executive director in May 2003. He is also a member of the executive board of Veolia Water S.A. and a director of a number of Veolia Group companies including Seureca, Proactiva Medio Ambiente, Apanova Bucaresti as well as Berlin Wasser Holding AG and other Berliner Wasser companies.

Don Richardson is acting finance director while SWS seek a replacement finance director for Eric Hutchinson who resigned as finance director in May 2003. Don Richardson has worked for SWS for the past 29 years.

Kevin Hall is company secretary of SWS. Kevin Hall has worked for SWS for the past 28 years. Kevin is also company secretary of each other member of the SWS Financing Group, SWI, Southern Water (NR) Limited, Southern Water Limited, SWSG and a number of other companies which are not significant with respect to the activities of the SWS Financing Group.

Following completion of the securitisation, SWS will introduce an incentive package for senior managers. Whilst this will be developed from schemes which have been used by SWS in recent years with a continuing focus on criteria relating to both financial and service performance, the financial aspects will be repositioned in respect of the key ratios relevant to a securitised business.

To ensure the continuing strong performance of SWS, the criteria will be in two parts: the first focussing on current year performance and the second on the longer term.

Pensions

Pensions for SWS employees are currently provided through six occupational pension schemes. Two of these relate predominantly to SWS employees. The other four schemes predominantly provide benefits for the Scottish Power group ("**SP Group**") employees although SWS employees also participate in these. As at 3 June 2003 there were approximately 150 SWS employees who are not members of an occupational pension scheme. Employees on fixed term contracts are offered access to stakeholder pension scheme arrangements.

The two pension schemes which operate predominantly for SWS employees are the Southern Water Pension Scheme ("**SWPS**") and the Southern Water Executive Pension Scheme ("**SWEPS**"). As at 3 June 2003, there were 1376 active, 1172 deferred and 1395 pensioner members of SWPS and three

active, two deferred and 26 pensioner members of SWEPS. Both schemes are funded defined benefit arrangements. As SWS is the principal sponsoring employer for the purposes of both these schemes, they will both continue to operate for the benefit of SWS employees following the Initial Issue Date.

Pensions management services and secretarial support are currently provided by the Scottish Power plc pensions team. It is envisaged that this service will continue to be provided by Scottish Power plc until 23 October 2003 on the basis of agreed charge back arrangements.

The remaining occupational pension schemes in which SWS employees participate currently cover approximately 26 per cent. of SWS employees. 25 per cent. of these participate in the ScottishPower group Final Salary LifePlan. The remainder participate in the ScottishPower group Money Purchase LifePlan, the Manweb Group of the Electricity Supply Pension Scheme (comprising two SWS members of which one is a ''protected person'' under the Electricity (Protected Persons) (England and Wales) Pension Regulations 1980), and the ScottishPower group Pension Scheme. With the exception of the ScottishPower group Money Purchase LifePlan, which is a defined contribution scheme, the other three schemes are funded defined benefit arrangements.

It is envisaged that all the SWS employees currently in the four SP group pension schemes will be transferred, either into the SWPS in the case of employees who are currently members of the defined benefit schemes, or into an alternative pension scheme to be established for employees who are currently members of the defined contribution scheme, after the establishment of the Programme and the Initial Issue Date, subject to the terms of those schemes.

The funding level of the SWPS and SWEPS equated to a combined net FRS 17 deficit of £142.2 million before deferred tax and £99.5 million after deferred tax as at 31 March 2003 (updated from a full actuarial valuation carried out as at 1 April 2001 by Mercer Human Resource Consulting). The deficit has arisen mainly as a result of such factors as turbulence in the stock market, low interest rates and increased actuarial mortality rates. The Projections set out on pages 40 to 44 of this Offering Circular incorporate an assumed increased level of pension funding. However, a new actuarial valuation is currently being prepared which may result in an increase in pension contributions beyond that projected.

The DGWS has indicated a general willingness subject to certain conditions to take into account increases in pension contributions as allowable operating expenditure when determining K for Regulated Companies.

SWSGH Group Financial Information

Financial Information

Attached as Appendix D to this Offering Circular is the accountants' report on the SWSGH Group for the two financial years ended 31 March 2003.

Capitalisation and Indebtedness Statement of the SWSGH Group

The following table sets out the unaudited capitalisation and indebtedness of the SWSGH Group as at 31 March 2003, which has been extracted without material adjustment from the accountants' report dated 17 July 2003 of the SWSGH Group.

	As at 31 March 2003 £ million
Capital and reserves	
Share capital	
Authorised	
101,000 ordinary shares of £1 each	0.1
Issued	
100,100 ordinary shares of £1 each	0.1
Share premium	46.2
Merger reserve	0.1
Profit and loss	755.7
Total shareholders' funds	802.1
Bank overdraft and other borrowings(4)	46.7
Loan from Southern Water Limited	495.6
Loan from the Issuer (formerly First Aqua (JVCo) Limited)(5)	120.6
Loan from SWSG (formerly First Aqua Limited)	594.4
Accrued loan interest(6)	8.0
Indebtedness(1)	1,265.3
Total capitalisation and indebtedness	2,067.4

Notes:

(1) All indebtedness is unsecured and unguaranteed other than as set out at (3) and (7) below.

Contingent Liabilities and Guarantees

(2) As at 31 March 2003 SWSGH Group had contingent liabilities in respect of contractors' claims amounting to £22.5 million.

(3)(a) SWSGH and SWSH have given security over their assets (primarily their investment in the shares of SWS) to secure and guarantee the borrowings of the Issuer and SWS under the Bridge Facility Agreement, which as at 31 March 2003 stood at approximately £1,747 million.

(3)(b) Each of SWSG, Southern Water (NR) Limited, Southern Water Limited and the Issuer guarantees, and has also given security over its assets to secure its obligations under its guarantee, the borrowing of SWS under the Bridge Facility Agreement, which as at 31 March 2003 stood at approximately £38 million.

Changes in shareholders' funds and indebtedness since 31 March 2003

(4) Bank overdraft and other borrowings have increased by approximately £16 million.

(5) The loan from the Issuer has increased by approximately £29 million.

(6) Accrued loan interest has increased by approximately £8 million.

(7) As at the date of this Offering Circular, the total amount of secured and guaranteed indebtedness of the SWSGH Group is approximately £49 million, guaranteed by and secured on the assets of SWSGH, SWSH, SWSG, Southern Water (NR) Limited and the Issuer in respect of the payment and performance obligations of SWS. As at the date of this Offering Circular, the total indebtedness of the Issuer guaranteed and secured by SWSGH and SWSH is £1,568.7 million. The remaining indebtedness of the SWSGH Group is unsecured and unguaranteed.

(8) Save as disclosed above, there has been no material change in the capitalisation, indebtedness, guarantees and contingent liabilities of the SWSGH Group since 31 March 2003.

Following the proposed issue of Bonds of approximately £1.7 billion and the borrowing by the Issuer of the Mezzanine Debt (£233.2 million) and of an Initial Authorised Credit Facility (£165 million) on the Initial Issue Date and the lending by the Issuer to SWS of the gross proceeds from such Bonds, Mezzanine Debt and Initial Authorised Credit Facilities pursuant to the Initial Issuer/SWS Loan Agreement, as well as the proposed issue of SWS Preference Shares for approximately £260 million by SWS, all debt of the SWSGH Group existing as at the date hereof will be either repaid or novated to companies outside the SWSGH Group. SWS' obligations under the Initial Issuer/SWS Loan Agreement will be secured on all of SWS' assets (to the extent permitted by the WIA and the Licence). SWS, SWSH and SWSGH will guarantee the obligations of the Issuer under the Bonds, the Mezzanine Debt, such Initial Authorised Credit Facility and other Authorised Credit Facility entered into by the Issuer; and SWSH and SWSGH will guarantee the obligations of each of SWS, the Issuer, SWSGH and SWSH under the Finance Documents and their obligations in respect of such guarantees will be secured on all of their respective assets (in the case of SWS, to the extent permitted by the WIA and the Licence).

Illustrative Financial Projections of the SWS Financing Group

The table below sets out illustrative financial projections of the SWS Financing Group and of the key components of certain financial ratios required by the Common Terms Agreement (see Chapter 7 ''*Summary of the Financing Agreements*''), together with the ratios themselves, over the next two financial years up to the beginning of the next Periodic Review Period (the ''**Projections**''). The Projections are the sole responsibility of the directors of SWSGH and have been prepared by the management of SWS after due and careful consideration on the basis of assumptions which SWSGH considers to be reasonable at the date hereof and its present knowledge and estimates which it believes to be fair at the date hereof. The ratios and their key components have been prepared on a basis consistent with the definitions of such ratios in Chapter 7 ''*Summary of the Financing Agreements*''. The report of PricewaterhouseCoopers LLP on the Projections is attached as Appendix E (''*Accountants' Report on the SWS Financing Group Illustrative Financial Projections*'').

The Projections do not constitute forecasts of the respective items, and no warranty or any other form of comfort is given by SWSGH, the Issuer, PricewaterhouseCoopers LLP or any other person as to the likelihood that the Projections will prove to be reliable or accurate. The assumptions made for the purposes of preparing the Projections are with respect to general business and economic conditions, other material contingencies and other matters not within the control of the SWS Financing Group; actual events and circumstances may vary from the assumptions made, perhaps materially.

No representation is made or intended, nor should any be inferred, with respect to the likely occurrence or existence of any particular fact or circumstance. If facts or circumstances occur which are less favourable than those projected, or if the assumptions used in formulating the Projections prove to be incorrect, the SWS Financing Group may be unable to satisfy its obligations under, among other things, the Issuer/SWS Loan Agreements, which may result in the Issuer being unable to meet its obligations under the Bonds. These assumptions depend on subjective judgments and are inherently subject to significant uncertainties and their outcome cannot be predicted by the SWS Financing Group, the Issuer or any other person with any expectation of accuracy. As the Projections cover a period of two years, the assumptions made are even more subjective than they would have been if the Projections had been for a shorter period. Actual results are likely to differ, perhaps materially, from those projected due to a number of factors, including in particular the effect of those matters described in Chapter 5 ''*Investment Considerations*'' and your attention is drawn in particular to the ''*Financial Projections*'' section of Chapter 5 ''*Investment Considerations*''. Accordingly, the Projections are not necessarily indicative of future performance and have been prepared for inclusion in this Offering Circular for illustrative purposes only. The principal assumptions on which the Projections are based are summarised after the table below.

Potential investors should regard the assumptions and Projections with considerable caution and are urged to evaluate the potential for actual results to deviate from those set out below and the implications of deviations in different assumptions, or other assumptions, on the cash flows of the SWS Financing Group.

	Year Ending 31 March 2004	2005
	(All figures in £m)	
Turnover	451	466
Operating expenditure	(171)	(174)
Movement in working capital	(13)	(7)
Net cash flow pre capital expenditure	267	285
Net capital expenditure	(223)	(256)
	44	29
Net Senior Debt interest payable	(100)	(114)
Net cash outflow before interest on Mezzanine Debt, dividends on the SWS Preference Shares and ordinary dividends	(56)	(85)
Net Senior Debt (after indexation)	1,800	1,951
SWS Preference Shares and Mezzanine Debt (Note 1)	496	499
Regulatory Capital Value (RCV)	2,334	2,401
Set out below are selected financial ratios (Note 2)		
Class A ICR (default)	3.0	3.0
Class A Adjusted ICR (trigger)	1.6	1.5
Senior ICR	2.5	2.5
Senior Adjusted ICR (trigger)	1.3	1.3
Senior RAR (trigger and default)	0.771	0.813

Note 1 – No payments are permitted on these instruments unless the Restricted Payment Condition is satisfied - see Chapter 7 "*Summary of the Financing Agreements*" under "*Mezzanine Facility Agreements*" and "*SWS Preference Shares*". The initial nominal amount of the Mezzanine Debt is £233.2 million and the nominal amount of the SWS Preference Shares is £260 million and the movement reflects the allocation to the Relevant Period of the future fixed step-up in SWS Preference Share dividends.

Note 2 – In order to provide comparability with the ratios to the year ending 31 March 2005, the Class A ICR, Class A Adjusted ICR, Senior ICR and Senior Adjusted ICR for the year ending 31 March 2004 have been calculated by annualising the projected interest payable by the SWS Financing Group from 1 July 2003, the date on which the refinancing is assumed to be effective. The definitions of ratio components are set out in "*Index of Defined Terms*". Attention is drawn to the ratio limits and the associated consequence of any breach of those limits set out in Chapter 7, "*Summary of Financing Agreements*" under "*Common Terms Agreement: Trigger Events*" and "*Summary of Financing Agreements"* under "*Common Terms Agreement: Events of Default*".

These figures are all estimations on the basis of maximum issuance on the Initial Issue Date of £1,870 million in principal amount of the aggregate of the Bonds and the index-linked term facilities. The Issuer may elect to issue fewer Bonds.

Bases and Assumptions

The following are the key bases and assumptions used by the management of SWSGH and SWS for the purpose of preparing the Projections set out in the table above for the period from, and including, 1 April 2003 to, and including, 31 March 2005 (the "**Relevant Period**").

The Projections exclude payments between the SWS Financing Group and SWSG in respect of:

- Interest payable by SWSG to SWS;
- Group tax relief payments by SWS to SWSG, and
- Dividend payments between SWS, SWSH, SWSGH and SWSG in order to allow SWSG to make payments under the SWS/SWSG Loan Agreement.

These payments allow SWSG to continue to service its interest obligations on the SWS/SWSG Loan Agreement and will aggregate to zero. It is anticipated that these payments will be made quarterly on the same date such that the net cash movement is zero. Please see "*SWS/SWSG Loan Agreement*" in Chapter 7 "*Summary of the Financing Agreements*" for further explanation.

General Bases and Assumptions

Economic and business environment

It has been assumed that no material change will occur in the general economic, political, regulatory and business environment in which the SWS Financing Group operates during the Relevant Period.

Composition of the SWS Financing Group

It has been assumed that the composition of the SWS Financing Group as at the Initial Issue Date will not change during the Relevant Period.

Legislation

The Projections have been prepared on the basis of principal legislative provisions relevant to the SWS Financing Group activities currently in force, including, in particular, environmental and taxation legislation. It is assumed that no material changes in such legislation will occur during the Relevant Period. The Water Bill is considered in Chapter 6 "*Water Regulation*".

Effective Date

It has been assumed in the projections that the refinancing of the SWS Financing Group will be completed on 1 July 2003 and that the new financing structure will be in place at that date.

Future Financing

It has been assumed that the SWS Financing Group will be able to raise further new debt from time to time to finance the future capital enhancement expenditure of the SWS Financing Group and to refinance any debt, the terms of which have become inefficient, on terms similar to those currently expected to be available in the debt capital market.

It has been further assumed that no repayment of the new debt raised under the Programme will occur during the Relevant Period.

Claims against the SWS Financing Group

It is assumed that no material claims, whether arising from principal legislative or contractual provisions, which may give rise to an entitlement to compensation, payment of fines or other penalties or charges, will arise during the Relevant Period. The potential impact of the recent Court of Appeal decision in the *Peter Marcic v Thames Water Utilities Ltd* case is considered in Chapter 5 "*Investment Considerations*" under "*Weather*".

Inflation

Published RPI inflation factors in accordance with the Licence provisions have been applied throughout the term of the Relevant Period where available. An inflation rate of 2.5 per cent. per annum has been used for the Projections for the two years ending 31 March 2005, other than for customer charges for the year ending 31 March 2004 where specific provision is made in the Licence for determining the inflation factor to be applied being 2.65 per cent. (being the movement in the RPI for the year ended November 2002).

Regulatory Capital Value (RCV)

The RCV set out in the Projections at 31 March 2004 and 31 March 2005 is based upon a RCV of £2,208 million for 31 March 2004 and a RCV of £2,217 million for 31 March 2005, respectively, each at 2001-02 prices, as published by Ofwat in its letter to the regulatory directors of water and sewerage and water only companies dated 18 March 2003 (RD 08/03).

Accounting Policies

It has been assumed that the accounting policies applied by each of the companies comprising the SWS Financing Group in their audited accounts for the financial year ended 31 March 2003 will continue to be applied throughout the Relevant Period.

Net Cash flow pre capital expenditure

Net cash flow pre capital expenditure is based on projected post tax operating cash flows for the Appointed Business and the Permitted Non-Appointed Business that would be available for meeting interest and principal repayments on debt. Projected post tax operating cash flows are derived from, among other things, projected turnover, projected operating expenditure and projected taxation payments.

Turnover

Projected turnover is based upon reported turnover for the financial year ended 31 March 2003 adjusted to take account of:

- the effect on regulated prices of the 1999 Periodic Review;
- specific initiatives of SWS to maximise appointed revenues; and
- specific volume assumptions in respect of the growth of the domestic customer base, metered water consumption, the numbers of customers switching from unmeasured to measured supply and the level of surface water rebates.

The price limits (K) of the 1999 Periodic Review are shown below:

		2000-01	2001-02	2002-03	2003-04	2004-05
Price Limits (K)	%	(13.0)	0.0	0.0	1.6	0.8

Appropriate price adjustments have been made to restate projected income to out-turn price levels using the inflation factors described above.

Operating expenditure

Projected operating expenditure reflects the current forecasts for the Relevant Period and are based on actual operating costs for the year ended 31 March 2003 adjusted to take account of specific assumptions in relation to additional expenditure arising from projected capital expenditure during the Relevant Period and anticipated cost savings. The projected operating expenditure excludes depreciation and infrastructure renewals charges, but is net of projected other operating income in both years. Appropriate price adjustments have been made to restate projected operating expenditure to out-turn price levels using the inflation factors described above.

Working capital

Movement in working capital reflects the current forecasts for the Relevant Period.

Taxation

Projected taxation payments have been calculated in accordance with current tax legislation and, other than as noted in "*Bases and Assumptions*" above, it is projected that no corporation tax will be payable during the Relevant Period.

Net Interest on Senior Debt

Net Interest on Senior Debt includes only the cash interest payments made in the Relevant Period and is based on current expectations of the interest rates (net of the effect of the projected hedging arrangements) that will be applicable to the debt using the following assumptions:

- interest arising on the Bonds issued and other Senior Debt borrowed on the Initial Issue Date is assumed at a weighted average interest rate of 6.8 per cent. per annum (including the non cash impact of indexation on the Indexed Bonds and other index-linked debt); and
- interest arising on subsequent debt raised has been assumed at a weighted average rate of 6.0 per cent. per annum (including the non cash impact of indexation on the Indexed Bonds).

Interest for the year ending 31 March 2004 has been calculated based on the assumption that the new financing structure was in place on 1 July 2003. Accordingly, interest for the first three months to 30 June 2003 is calculated in respect of the capital structure of the SWS Financing Group prior to the assumed Initial Issue Date. It is assumed that interest income is received in the year it is earned and that interest expense (other than the indexation of Indexed Bonds and other index-linked debt which have no cash impact in the Relevant Period) is paid in the year it is charged. It has been further assumed that the creditworthiness of the Hedge Counterparties will remain unchanged during the Relevant Period.

Net Interest on Senior Debt does not include interest received from SWSG under the SWS/SWSG Loan Agreement as noted in "*Bases and Assumptions*" above.

Net Capital Expenditure

Capital expenditure is the aggregate of capital maintenance expenditure and capital enhancement expenditure less grants and contributions received and projected property disposal proceeds.

Projected capital maintenance expenditure reflects the current forecasts for the Relevant Period based on specific assumptions in relation to the five year capital maintenance programme determined by Ofwat at the 1999 Periodic Review. The current forecasts take account of differences in phasing and current projected spend levels from the 1999 Final Determination. Appropriate price adjustments have been made to restate projected capital maintenance expenditure to out-turn price levels using the inflation factors described above.

Projected capital enhancement expenditure reflects the current forecasts for the Relevant Period based on specific assumptions in relation to the five year capital enhancement expenditure programme defined by Ofwat at the 1999 Periodic Review. The current forecasts take account of differences in phasing and current projected spend levels from the 1999 Final Determination. Appropriate price adjustments have been made to restate projected capital enhancement expenditure to out-turn price levels using the inflation factors described above.

Net Senior Debt

Net Senior Debt in the Projections, which excludes the Mezzanine Debt and SWS Preference Shares, is the expected senior debt at each respective year end less the expected cash at that date. The amounts increase by, among other things, net cash outflow in each year and reflect the adjustments made to restate Indexed Bonds and other index-linked debt using the inflation factors described above and interest on Mezzanine Debt and SWS Preference Shares distribution payments.

Interest on Mezzanine Debt, dividends on the SWS Preference Shares and ordinary dividends

Subject to covenants set out in the CTA and the availability of distributable reserves as appropriate (see Chapter 7, ''*Summary of the Financing Agreements*'' under ''*Common Terms Agreement*''), it has been assumed that payments totalling approximately £34 million and £46 million in the years ending 31 March 2004 and 31 March 2005 respectively will be made in accordance with the terms of the Mezzanine Debt and SWS Preference Shares.

It is assumed that ordinary dividends are paid to SWSGH's shareholders totalling approximately £3.8 million and £5.0 million in the years ending 31 March 2004 and 31 March 2005, respectively (in addition to dividend payments by SWS in relation to the SWS / SWSG Loan which are explained in ''*Bases and Assumptions*'' above). SWS may choose to make ordinary dividend payments subject to the covenants set out in the CTA and the availability of distributable reserves.

SWSGH

SWSGH was incorporated under the Companies Act 1985 and registered in England and Wales on 19 November 2001 with limited liability under number 04324498. The registered office of SWSGH is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWSGH is a wholly-owned direct subsidiary of SWSG and its authorised share capital is £101,000 divided into 101,000 ordinary shares. 100,100 ordinary shares have been issued of which all have been fully paid up. SWSGH's subsidiaries are SWSH, SWS, SWEPST and SWPT.

Directors and Company Secretary

The directors and company secretary of SWSGH are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

The Directors of SWSGH are Stuart Derwent and Barrie Delacour. Descriptions of their principal activities outside the SWS Financing Group can be found above under *"Management and Employees of SWS – Directors and Secretary of SWS*".

Kevin Hall is company secretary of SWSGH.

SWSH

SWSH was incorporated under the Companies Act 1985 and registered in England and Wales on 19 November 2001 with limited liability under number 04324499. The registered office of SWSH is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX. SWSH is a wholly-owned direct subsidiary of SWSGH and its authorised share capital is £101,000 divided into 101,000 ordinary shares. 100,100 ordinary shares have been issued of which all have been fully paid up. SWSH's subsidiaries are SWS, SWEPST and SWPT.

Directors and Company Secretary

The directors and company secretary of SWSH are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

The Directors of SWSH are Stuart Derwent and Barrie Delacour. Descriptions of their principal activities outside the SWS Financing Group can be found above under "*Management and Employees of SWS - Directors and Secretary of SWS*".

Kevin Hall is company secretary of SWSH.

The Issuer

The Issuer was incorporated and registered in the Cayman Islands under the Companies Law (2001 Second Revision) on 17 August 2001 with limited liability under number 112331 and under the name London 70 Limited. On 4 March 2002, it changed its name to First Aqua (JVCo) Limited, and pursuant to a resolution of the shareholder dated 9 June 2003 again changed its name to Southern Water Services (Finance) Limited (effective from 9 June 2003) as evidenced by a certificate of incorporation on change of name issued by the Cayman Islands Registrar of Companies dated 17 June, 2003. The registered office of the Issuer is c/o M&C Corporate Services Limited, PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. As from the Initial Issue Date, as a result of the Reorganisation Plan, the Issuer will be a wholly-owned direct subsidiary of SWS and will have no subsidiaries. The authorised share capital is £400 million divided into 400,000,000 ordinary shares of £1 each, of which 1,000 such shares are in issue and are fully paid up.

Financial Information

Attached as Appendix F to this Offering Circular is the accountants' report on the Issuer for the period ended 31 March 2003.

Capitalisation and Indebtedness of the Issuer

The following table sets out the unaudited capitalisation and indebtedness of the Issuer as at the date of this Offering Circular.

	As at 17 July 2003 £ million
Capital and reserves	
Share capital	
Authorised	
25,000 ordinary shares of £1 each[(1)]	—
Issued	
1,000 ordinary shares of £1 each[(2)]	—
Share premium	—
Profit and loss	(5.7)
Total shareholder's funds	(5.7)
Loan finance	1,568.7
Loan from SWI	538.5
Accrued loan interest	21.7
Indebtedness[(3)]	2,128.9
Total capitalisation and indebtedness	2,123.2

Notes:

(1) Authorised share capital amounts to £25,000.

(2) Issued share capital amounts to £1,000.

(3) As at the date of this Offering Circular, the total amount of secured and guaranteed indebtedness of the Issuer is £1,568.7 million, guaranteed by SWSGH, SWSH, SWSG, Southern Water (NR) Limited and Southern Water Limited and secured on the assets of the Issuer, SWSGH, SWSH, SWSG, Southern Water (NR) Limited and Southern Water Limited in respect of the

payment and performance obligations of the Issuer. Subject to (4) below, the remaining indebtedness of the Issuer is unsecured and unguaranteed.

(4) As at the date of this Offering Circular, the Issuer has no contingent liabilities and has not given any guarantees other than a guarantee of SWS' obligations under the Bridge Facility Agreement; the obligations of the Issuer under this guarantee are secured on all of the Issuer's assets. As at the date of this Offering Circular, SWS' outstanding drawings under the Bridge Facility Agreement are approximately £49 million.

Following the proposed issue of Bonds (approximately £1.7 billion) and the borrowing by the Issuer of the Mezzanine Debt (£233.2 million) and of an Initial Authorised Credit Facility (£165 million) at the Initial Issue Date, all debt of the Issuer existing as at the date hereof will be repaid. Each of SWSGH, SWSH and SWS will guarantee the obligations of the Issuer under the Bonds, the Mezzanine Debt and other Authorised Credit Facilities entered into by the Issuer, and their obligations in respect of such guarantees will be secured on all of their respective assets (in the case of SWS, to the extent permitted by the WIA and the Licence).

Directors and Company Secretary

The directors and company secretary of the Issuer are set out below, each of whose business address is Southern House, Yeoman Road, Worthing, West Sussex BN13 3NX.

The Directors of the Issuer are Robert Thian, Jean Claude Banon, Rory Cullinan and Stuart Derwent. Descriptions of their principal activities outside the SWS Financing Group can be found above under ''*Management and Employees of SWS - Directors and Secretary of SWS*''.

Kevin Hall is the company secretary of the Issuer.

CHAPTER 5

INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the Programme documentation and the activities of the SWS Financing Group about which prospective Bondholders should be aware. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or results of operations of the Issuer, SWS or the other Obligors and could lead to, among other things:

(a) *an SWS Event of Default;*

(b) *an Event of Default under the terms and conditions of the Bonds;*

(c) *non-payment of scheduled principal and/or interest in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds (if, additionally, the relevant Financial Guarantor were to default on its obligations under any Financial Guarantee);*

(d) *non-payment of unguaranteed amounts under the Class A Wrapped Bonds or Class B Wrapped Bonds; and*

(e) *non-payment of amounts in respect of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds.*

This summary is not intended to be exhaustive and 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 its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment.

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 the Bonds of any Sub-Class receive payment of interest or repayment of principal from the Issuer in respect of such Bonds, or from a Financial Guarantor in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds, on a timely basis or at all.

Regulatory and Competition Considerations

The water industry is subject to extensive legal and regulatory obligations and controls, and SWS must comply with all applicable laws, regulations and regulatory standards (see Chapter 6 ''*Water Regulation*''). The application of these laws, regulations and regulatory standards and the policies of the DGWS and Ofwat could have a material adverse effect on the operations and financial condition of SWS.

Although (i) the DGWS has a duty to exercise his powers in the manner that he considers is best calculated, among other things, to ensure that SWS is able to finance the proper carrying out of any of its functions and (ii) certain changes in circumstances can trigger adjustments to price limits between periodic reviews under the interim determinations provisions of the Licence, as with any Regulated Company, no assurance can be given that the laws, regulations, regulatory standards or policies will not change in a manner that could adversely affect the operations and financial condition of SWS.

In this context, in particular, potential investors should be aware of the following:

Licence

Under the WIA, the conditions of the Licence may be modified by the DGWS with the consent of SWS or without SWS' consent following a reference to the Competition Commission which concludes that there are effects adverse to the public interest which can be remedied or prevented by modifications. This outcome could also result from a merger or market investigation reference. In addition, the Secretary of State has a power to veto certain proposed modifications agreed by the DGWS and SWS. Other proposed modifications agreed by the DGWS and SWS 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 Competition Commission. Finally, primary legislation can create powers for the making of modifications by the DGWS without the consent of Regulated Companies. The Water Bill currently before Parliament provides Ofwat with powers to make unilateral modifications, following consultation with Regulated Companies, to give effect to the new competition arrangements and to provide for the payment of fees to cover the expenses of the new Consumer Council for Water (see also Chapter 6 ''*Water Regulation*'' under ''*Modification of a Licence*'').

Any restrictive modification to the Licence could have a material adverse impact on SWS.

A failure by SWS to comply with the conditions of its Licence, as modified from time to time, may lead to the making of an enforcement order by the DGWS or the Secretary of State which could have an adverse impact on SWS. Failure by it to comply with any enforcement order (as well as certain other defaults) may lead to the making of a Special Administration Order (as defined below). See Chapter 6 ''*Water Regulation*'' under ''*Special Administration Orders*''.

The area of appointment of SWS can also be varied in accordance with an inset appointment (see Chapter 6 ''*Water Regulation*'' under ''*Termination of a licence*'').

Termination of the Licence

Under the terms of the Licence, SWS' appointment may be terminated following the giving of notice by the Secretary of State of at least 25 years. The Licence may also be transferred from SWS at any time following the making of a Special Administration Order. The termination, non-renewal or transfer of the Licence could have a material adverse impact on SWS and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

If the Secretary of State or the DGWS were to make an appointment or variation replacing SWS as the regulated water and sewerage undertaker for its currently appointed area, it would have a duty to ensure (so far as consistent with its other duties under the WIA) that the interests of SWS' creditors were not unfairly prejudiced by the terms on which the successor Regulated Company (or Companies) replacing SWS could accept transfers of property, rights and liabilities from SWS.

So far, no compulsory licence terminations or Special Administration Orders have been made in connection with any appointed business of any Regulated Company in England and Wales. There is therefore no precedent to indicate how such processes would work in practice and the extent to which creditors' interests would be protected (see paragraphs on ''*Security*'' and ''*Special Administration*'' below).

Competition Act 1998

The Competition Act contains prohibitions relating to anti-competitive agreements and conduct and powers of investigation and enforcement (see Chapter 6 ''*Water Regulation*'' under ''*Competition in the Water Industry*''). The DGWS has stated that he will use these powers to ensure that the competition process is unhindered by anti-competitive activity in the water and wastewater sectors. These powers include powers for the DGWS to enforce directions in order to bring an infringement to an end and to impose fines of up to 10 per cent. of UK group-wide turnover for each year of infringement up to a maximum of three years. Also, any agreement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties.

The Water Bill

The Water Bill proposes a number of provisions which may affect the finances of Regulated Companies, including SWS. It contains provisions which would create a new framework for competition in water supply, under which new types of ''water supply licence'' will be available to entrants wishing to use Regulated Companies' networks to transport water to customers (common carriage) or wishing to purchase wholesale water from undertakers for ''retail'' to customers. SWS may lose customers to new market entrants, and suffer reductions in revenue as a result.

However, the new market is to be limited to customers using in excess of 50 megalitres of water per annum. SWS estimates that it has 57 of these customers as at 31 March 2003, which accounts for 4.6 per cent. of the water services turnover.

In addition, the proposals include a requirement on Regulated Companies to charge entrants for common carriage and wholesale services in such a way as to recover appropriate costs.

The Water Bill also proposes a new power for the DGWS and the Secretary of State to impose financial penalties on a Regulated Company for contraventions of its licence, statutory or other requirements including performance standards. Penalties may be up to 10 per cent. of a Regulated Company's turnover, but they must be reasonable in the circumstances of the case. Each of the above enforcement authorities would be required to publish a statement of policy on the imposition of penalties, and to have regard to that statement when implementing the new provisions (see Chapter 6 ''*Water Regulation*'' under ''*The Water Bill*'').

Current and proposed methods for introducing or extending competition are outlined in Chapter 6 ''*Water Regulation*''. It is not possible to assess if, or how, such methods will affect the interests of Bondholders.

SWS Revenue and Cost Considerations

The net operating revenues generated by SWS from its water and wastewater business may not be sufficient to enable it to make full and timely payment of amounts due to creditors including under the Issuer/SWS Loan Agreements. This could have a material adverse impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds. In addition to the regulatory and competition risks described above which could adversely affect the revenues and costs of SWS, other potential events which could result in SWS having insufficient net operating revenues to meet its financing obligations and/or the Issuer being unable to meet its obligations under the Bonds include:

Periodic Review

In carrying out a Periodic Review, the DGWS sets targets on the basis of his 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 the DGWS) including a company specific tax charge, and to allow a reasonable return on capital (based on an assumed notional gearing level of 45 per cent. to 55 per cent.). However, the DGWS is under no duty to ensure the continued solvency of a Regulated Company in all circumstances, and there is no assurance that price limits imposed by the DGWS at Periodic Reviews will permit SWS to generate sufficient revenues to enable it to finance its functions or discharge its obligations under the Issuer/SWS Loan Agreements.

Although the methodology introduced in the 1994 Periodic Review - in particular the derivation of the ''regulatory capital value'' (the ''**RCV**'') as the measure of capital to be remunerated - was also applied with modifications in the 1999 Periodic Review and is expected by the DGWS to be applied with further modifications in 2004, the DGWS is not required to apply the same or a similar methodology in future Periodic Reviews (see Chapter 6 ''*Water Regulation*'' under ''*Periodic Reviews of K*'').

As described in Chapter 6 ''*Water Regulation*'' under ''*Interim Determinations of K*'', an interim determination of price limits (an ''**IDOK**'') may be made between Periodic Reviews in specified circumstances, including, in the cases of SWS and most other Regulated Companies, which have the benefit of a Shipwreck Clause in the licence, the circumstances contemplated by that clause. In contrast to Periodic Reviews, the methodology to be applied for any IDOK is set out in detail in the Licence and the scope for discretion is narrower.

There is however no assurance that any IDOK sought by SWS will be made or, if an IDOK or determination pursuant to the provisions of the Shipwreck Clause is made, that any adjustment made pursuant to such an IDOK, or determination pursuant to the Shipwreck Clause, as the case may be, will provide adequate revenue compensation to SWS.

If the DGWS makes no IDOK within three months from the Regulated Company's application for such an IDOK or if the Regulated Company disputes an IDOK or a determination pursuant to the Shipwreck Clause made in relation to it by the DGWS, the Regulated Company may require the DGWS to refer the matter to the Competition Commission for determination. Again, there is no assurance that the Competition Commission's determination of the relevant adjustment(s) will provide adequate revenue compensation to SWS.

As with a number of other Regulated Companies, the Licence does not contain a condition providing for interim adjustment to price limits to reflect variations in capital cost inflation for capital projects outside Periodic Reviews. However, Ofwat has indicated that it proposes to offer to extend this condition to all Regulated Companies' licences as part of the next Periodic Review.

Deviations from DGWS's Projections

Under Condition B of the Licence, the RPI+K price cap limits the annual ''weighted average increase'' in the standard charges of SWS. This, in turn, is calculated by reference to the ''tariff basket formula'' (see Chapter 6 ''*Water Regulation*'' under ''*Price Control*''), which is constructed so as to provide some compensation in respect of certain risks (for example, high rateable value customers opting for a meter). However, generally SWS is not protected, in respect of each Periodic Review Period, against revenue loss arising from any deviations during that Periodic Review Period from projections, including demographic changes affecting SWS' customer base, the loss of a major customer, unexpected

reductions in customers or movements in volumes consumed/discharged by customers, and loss of business through inset appointments.

Accordingly, at Periodic Reviews, the DGWS factors into his projections assumptions relating to numbers of customers and volumes consumed/discharged. Until the following Periodic Review, SWS bears the risk that actual numbers of customers and volumes consumed/discharged will fall short of the assumptions reflected in the RPI+K price cap. Since actual out-turn revenues are used as the basis for the setting of price limits in the subsequent five year period, any deviation from revenue projections in the previous five year period may be reflected in such price limits.

Weather

SWS is at risk both from the effects of water shortages, caused by prolonged periods of drought, and from the effects of flooding.

SWS obtains a high proportion (approximately 70 per cent.) of the water which it supplies from underground sources rather than rivers and reservoirs, and inadequate winter rainfall over two or more years may prejudice the adequate recharging of such sources.

If there are supply shortfalls caused by prolonged periods of drought, additional costs may be incurred by SWS in order to provide emergency reinforcement to supplies in areas of shortage. Restrictions on water use may adversely affect revenues from metered customers and may, in very extreme circumstances (which have never been experienced by SWS), lead to significant compensation having to be paid to customers who suffer interruptions in supply.

The financial costs of measures taken to deal with flooding could also be significant and may adversely impact on SWS' operations and financial condition. The fact that it is not possible to forecast the occurrence of flooding makes forward planning and the making of provision for the effects of flooding difficult. Costs incurred by SWS arising from the flooding of its own property which are not fully covered by insurance, compensation to customers in relation to the effects of the inundation of the sewerage system with surface water and work undertaken to prevent reoccurrence may not be recoverable by SWS through adjustments to the price cap formula. Eastney Pumping Station, the principal pumping station draining Portsmouth, was flooded in September 2000 as a result of a storm of a severity encountered on average once every 108 years. The total damage was £2,677,000. Since this incident a number of improvements have been implemented to provide additional protection from any such future event, including an investment of around £1,000,000 currently underway to optimise the existing pumping facilities.

Pursuant to the decision of the Court of Appeal in February 2002 in the case of *Peter Marcic v Thames Water Utilities Ltd*, a water and sewerage undertaker may be liable in nuisance to home owners who have been the subject of repeated flooding where the company has failed to take reasonable steps to abate the nuisance. The court found that this duty is applicable even when the undertaker did not cause the nuisance or could not abate the nuisance without disproportionate expenditure. The Regulated Companies potentially face an increased risk of claims for compensation for damage caused by flooding. The financial impact of compensation awards made pursuant to such claims could be significant, as could the costs of measures taken, where appropriate, to mitigate the risk of flooding. SWS has currently made no provisions for any claims based on the *Marcic* case and if compensation awards are not recoverable through adjustments to the price cap formula, insurance or otherwise, this could have a material adverse effect on the financial condition of SWS.

Further, under the *Marcic* case, a failure or omission by a statutory sewerage undertaker to conduct works to fulfil its statutory duty of drainage in a particular area may constitute a breach of certain rights arising under the Human Rights Act 1998 (the "**HRA**"), which came into effect on 2 October 2000, and could entitle a claimant to compensation for damage suffered subsequent to the date on which the HRA came into effect. The House of Lords is due to hear this case on appeal in October 2003.

Depending on developments in case law, sewerage undertakers may in future have to negotiate contracts with the owners of watercourses in order to be able to discharge into them. The additional costs involved are expected to be significant.

There can be no assurance as to whether or not existing weather patterns will have an adverse effect on the operations or financial condition of SWS, or that existing weather patterns will continue in the future. It is not possible to assess the impact that any climate change may have on the operations or financial condition of SWS.

Certain Legal Considerations

Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, all licences (including SWS' Licence) restrict a Regulated Company's ability to dispose of Protected Land (as explained in Chapter 6 ''*Water Regulation*'' under ''*Protected Land*'', below). Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land. In the case of SWS, the Issuer estimates that the vast majority of SWS' assets by value is tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of SWS to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right of a floating charge holder under the WIA to block the appointment of a Special Administrator.

The Secretary of State and the DGWS have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of SWS and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security.

There are also certain legal restrictions which arise under the WIA and SWS' Licence affecting the enforcement of the security created under the Security Agreement. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to the DGWS or the Secretary of State, giving him time to petition for the appointment of a Special Administrator (see Chapter 6 ''*Water Regulation*'' under ''*Security*'').

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

The considerations described above do not apply to the fixed and floating charges created under the Security Agreement by SWSGH, SWSH and the Issuer. The enforcement of the security granted under the Security Agreement over the shares in any company in the SWS Financing Group (other than the Issuer), including any holding company of SWS, would not be subject to the moratorium set out in the WIA nor would it be an event which would itself result in the making of the Special Administration Order. However, it is anticipated that any intended enforcement directly or indirectly of the security created by SWSH or SWSGH under the Security Agreement, to the extent that such enforcement would amount to a change of control for the purposes of the Fair Trading Act 1973, would require consultation with the DGWS and would be reviewable by the OFT.

Notice of the creation of the SWS Security will not be given initially to SWS' customers or to SWS' contractual counterparties in respect of its contracts (other than certain material contracts). Also, any security over any amounts due from customers that constitute statutory receivables may be limited by law. In addition, if SWS were to acquire any land that was not Protected Land the charge over that land granted by the Security Agreement would take effect in equity only. Accordingly, until any such assignment is perfected, registration effected with HM Land Registry in respect of registered land or certain other action is taken in respect of unregistered land, any such assignment or charge may be or become subject to prior equities arising (such as rights of set-off).

Special Administration

The WIA contains provisions enabling the Secretary of State or the DGWS (with the permission of the Secretary of State) to secure the general continuity of water and wastewater services by petitioning the High Court for the appointment of a Special Administrator in certain circumstances (for example, where SWS is in breach of its principal duties under its Licence 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 SWS to continue to hold its Licence) or is unable, or is unlikely to be able, to pay its debts). In addition, a petition by a creditor of SWS to the High Court for the winding up of SWS might result in the appointment of a Special Administrator where the Court is satisfied that it would be appropriate to make such a winding-up order if the company were not a company holding an appointment under the WIA. The duties and functions of a Special Administrator differ to those of an administrator of a company which is not a Regulated Company.

During the period of the Special Administration Order, SWS has to be managed by the Special Administrator for the purposes of the order and in a manner which protects the interests of shareholders and creditors. As noted above, while the order is in force, no steps may be taken to enforce any security

over the property of SWS 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 the UK 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 the DGWS 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). (See Chapter 6 ''*Water Regulation*'' under ''*Special Administration Orders*'').

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

Insolvency Considerations: The Enterprise Act

The Enterprise Act 2002 (the ''**Enterprise Act**'') sets out certain reforms to corporate insolvency law, including the introduction of a prohibition on appointment of an administrative receiver in relation to companies such as the Issuer, SWSH and SWSGH.

The Enterprise Act will come into effect in stages on dates to be appointed by order of the Secretary of State. The appointed date is not expected to be any earlier than sometime in September 2003. During debate of the Standing Committee of the House of Commons considering the Enterprise Bill it was stated that this appointed date will not be applied retrospectively to security created prior to such appointed date.

In any event, the ability to appoint an administrative receiver to prevent an administration is unlikely to be of significance in the case of entities such as the Issuer, SWSH and SWSGH, which are subject to substantial restrictions on their activities. In addition, such ability will not be applicable in the case of SWS which is subject to the special administration regime.

The Enterprise Act will also provide that, on an insolvency of a company, a certain proportion of realisations (in an amount to be determined) in respect of certain classes of assets subject to a floating charge shall be made available for the satisfaction of unsecured creditors. However, the directors of the Issuer have been advised that this provision will only apply to floating charges created after the appointed date.

Environmental Considerations

SWS' water supply and sewerage operations are subject to a number of laws and regulations relating to the protection of the environment and human health governed primarily by the DWI and the EA as described in Chapter 6 ''*Water Regulation*'' under ''*Drinking Water and Environmental Regulation*''.

It is likely that SWS and other Regulated Companies will incur significant costs in future in order to comply with requirements imposed under existing or future environmental laws and regulations (including nature conservation legislation). Although the costs arising from such changes in legal requirements (see Chapter 6 ''*Water Regulation*'' under ''*Drinking Water and Environmental Regulations*'') may, in certain cases, be eligible for the purposes of the interim determination provisions or fall to be considered as part of a Periodic Review (see Chapter 6 ''*Water Regulation*'' under ''*Interim Determinations of K*''), there can be no certainty as to how and whether future environmental laws and regulations will impact the business and financial condition of SWS and/or the interests of the Bondholders. It is possible that Ofwat may determine that the cost of fulfilling certain obligations is likely to be less than the cost actually incurred by SWS in fulfilling such obligations. In such circumstances, the

funding allowed by Ofwat may not totally cover the actual costs and SWS would bear this additional element. In practice the funding allowed by Ofwat is set for a package of obligations and some will cost more and some less.

Given the nature of SWS' operations, there is a risk that pollution or drinking water quality incidents may occur. The possible consequences of any such incident include criminal prosecution leading to the imposition of fines on SWS, civil liability in damages to third parties and/or requirements to clean up or otherwise deal with the effects of contamination and/or operational requirements to upgrade plant and equipment. The imposition of (potentially unlimited) fines, civil liability, clean-up or upgrade costs may materially and adversely affect the business and financial position of SWS. Any such incidents may also give rise to breaches of any operational environmental permits held by SWS, which could result in fines and/or termination.

In addition to environmental costs imposed upon SWS by law or regulation, SWS may be subject to additional costs resulting from public concern regarding environmental matters. For example, farms that use sludge from SWS' sewerage 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 SWS.

Catastrophe Risk

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 to or destruction of SWS' operational assets. Any costs resulting from suspension of operations of SWS could have a material adverse effect on the ability of SWS to meet its financing obligations.

Although the Common Terms Agreement requires SWS to maintain insurance (including business interruption insurance) to protect against certain of these risks, the proceeds from such insurance may not be adequate to cover reduced revenues, increased expenses or other losses or liabilities arising from the occurrence of any of the events described above. Moreover, there can be no assurance that such insurance coverage will be available for some or all of these risks in the future at commercially reasonable rates or at all. (See Chapter 4 "*Description of the SWS Financing Group*" under "*Insurance*").

High Leverage

The SWS Financing Group will have indebtedness that is substantial in relation to its shareholders equity. As part of the Programme, the SWS Financing Group anticipates issuing new debt to increase the aggregate of Class A Debt and Class B Debt of the SWS Financing Group to approximately £1.87 billion. The SWS Financing Group is expected to be leveraged initially to approximately 85 per cent. as a percentage of the aggregate of Class A Debt and Class B Debt to RCV. Taking into account retained cash reserves, such leverage of the SWS Financing Group is expected initially to be 78 per cent. of RCV. In addition, on the Initial Issue Date, the Issuer will borrow £233.2 million under the Mezzanine Facilities and SWS will issue the SWS Preference Shares for a consideration of £260 million, each of which are subordinated to the Class A Debt and the Class B Debt pursuant to the Intercreditor Arrangements. The ability of SWS 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.

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

Future Financing

The SWS Financing Group will need to raise further debt from time to time in order, among other things, to:

(i) finance future capital enhancements to SWS' asset base;

(ii) on each Interest Payment Date on which principal is required to be repaid and on the maturity date of the relevant Sub-Classes of Bonds, refinance the Bonds; and

(iii) 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.

While the Common Terms Agreement and the STID contemplate the terms and conditions on, and circumstances under, which such additional indebtedness can be raised, there can be no assurance that the SWS Financing Group will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on the Bonds or any other maturing indebtedness will be capable of being so paid when due.

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

Issuer and Bond Considerations

Special Purpose Vehicle Issuer

The Issuer is a special purpose financing entity with no business operations other than raising the original acquisition finance for the First Aqua Acquisition, refinancing part of such financing, upon the acquisition by SWI of the Issuer, and further refinancing the same and raising external funding for SWS through the issuance of the Bonds and borrowing under the Mezzanine Facilities, the Liquidity Facilities and Authorised Credit Facilities and entering into various Hedging Agreements. After the Initial Issue Date, other than the proceeds of the issuance of additional Bonds, the Issuer's principal source of funds will be pursuant to the Issuer/SWS Loan Agreements and funds available to it pursuant to the Liquidity Facilities and other Authorised Credit Facilities.

Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which SWS is subject. Such risks could limit funds available to SWS to enable SWS to satisfy in full and on a timely basis its obligations under the Issuer/SWS Loan Agreements and its guarantee under the Security Agreement (See "*SWS Revenue and Cost Considerations*" above).

Source of Payments to Bondholders

Although the Class A Wrapped Bonds and Class B Wrapped Bonds will have the benefit of the relevant Financial Guarantee, none of the Bonds of any Class will be obligations or responsibilities of, nor will they be guaranteed by, any of the Other Parties (other than the Guarantors and, in the case of the Wrapped Bonds, the relevant Financial Guarantor). The guarantees by SWSGH and SWSH may be of limited value, because neither of them own, nor will own, any significant assets other than their direct or indirect shareholding in SWS.

In addition, a Financial Guarantor will guarantee to the holders of the Class A Wrapped Bonds and holders of the Class B Wrapped Bonds only the payment of scheduled principal and interest; it will not guarantee FG Excepted Amounts.

Subordination of the Class B Bonds

Payments under the Class A Wrapped Bonds and the Class A Unwrapped Bonds (each of whatever Sub-Class) will rank in priority to payments of principal and interest due on all Sub-Classes of the Class B Bonds. The Class A Wrapped Bonds and the Class A Unwrapped Bonds (each of whatever Sub-Class) will rank *pari passu*.

If, on any Interest Payment Date, prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer to pay accrued interest or principal on the Class B Unwrapped Bonds (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Account), the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the

date on which all Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination or a Permitted Lease Termination) and, in the case of a Permitted Share Pledge Acceleration, only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred amounts (including accrued interest thereon). Interest will, however, accrue on such deferred amounts.

Notwithstanding the subordination of, and credit enhancement provided by, the Class B Bonds to the Class A Wrapped Bonds and Class A Unwrapped Bonds, the Issuer may, subject to certain conditions, optionally redeem some or all of the Bonds subordinated and providing credit enhancement to other Classes of Bonds.

It should be noted that all of the Payment Dates for the various different types of Class A Debt and Class B Debt will not necessarily coincide and that, until a Standstill Period has commenced, there is no obligation to ensure that a payment made to a holder of a Class B Bond (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 falls due on a later date.

Hedging Risks

The Issuer may be left exposed to interest rate risk or currency risk in the event that there is an early termination of any Hedging Agreement. A Hedging Agreement may be terminated in the circumstances set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Hedging Arrangements*", including where the Hedge Counterparty is required to gross up for, or receive, payments from which tax has been required to be deducted or withheld by law, which requirement has not been able to be avoided, notwithstanding the Issuer and the Hedge Counterparty having used reasonable endeavours so to do in accordance with the relevant Hedging Agreement. 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, as a result of adverse fluctuations in interest rates and exchange rates or making any termination payment to the Hedge Counterparty, which payment will be in accordance with the Payments Priorities (see Chapter 7 "*Summary of the Financing Agreements*" under "*Cash Management*").

The DSR Liquidity Facilities

The DSR Liquidity Facilities and any amounts credited to the Debt Service Reserve Account are intended to cover certain shortfalls in the ability of the Issuer to service payments in relation to the Class A Debt and Class B Debt on any Interest Payment Date (excluding the repayment of principal under the Bonds and the payment of any Subordinated Coupon Amounts under the Class B Bonds). However, on any such Interest Payment Date, there are no assurances that any such shortfalls will be met in whole or in part by amounts standing to the credit of the Debt Service Reserve Account or by the DSR Liquidity Facilities.

Rights Available to Bondholders

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise). Where, in the sole opinion of the Bond Trustee, there is a conflict of interest between the holders of two or more Sub-Classes of Bonds of such Class, the Bond Trustee shall consider the interests of the holders of the Sub-Class 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 any other Bondholders or any other person. To the extent that the exercise of any rights, powers, trusts and discretions of the Bond Trustee affects or relates to any Class A Wrapped Bonds or Class B Wrapped Bonds, the Bond Trustee shall only act with the consent of the relevant Financial Guarantor(s) in accordance with the Bond Trust Deed. The STID provides that the Security Trustee (except in relation to certain Reserved Matters and Entrenched Rights as set out in the STID) will act on instructions of the relevant DIG Representative(s). When so doing, the Security Trustee is not required to have regard to the interests of any Finance Party (including the Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

Intercreditor Rights of Bondholders

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 7 "*Summary of the*

Financing Agreements" under "*Security Trust and Intercreditor Deed – Entrenched Rights and Reserved Matters*" below. 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. Prior to a Default Situtation, a Bondholder will not be entitled to vote other than in respect of Entrenched Rights and Reserved Matters.

Prior to a Default Situation, the Bond Trustee may vote on behalf of the Unwrapped Bondholders and (if an FG Event of Default has occurred and is continuing in relation to the relevant Financial Guarantor) the Wrapped 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 Wrapped Bonds (following the occurrence of an FG Event of Default in relation to the relevant Financial Guarantor) and the Unwrapped 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 7 "*Summary of the Financing Agreements*" under "*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 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

Under the terms of the STID and the CTA any further issues of debt securities by the Issuer 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.

These Entrenched Rights and Reserved Matters may materially and adversely affect the exercise and proceeds of any enforcement of the Security.

Subject to such Entrenched Rights and Reserved Matters, the Majority Creditors or, where appropriate, Super-Majority Creditors may make a modification to, or grant any consent or waiver in respect of, the Finance Documents without the need to seek a confirmation from the Rating Agencies as to the then current ratings of the Bonds.

Limited Liquidity of the Bonds; Absence of Secondary Market for the Bonds

Notwithstanding the fact that an application has been made to admit the Bonds to trading on the London Stock Exchange, 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 SWS, developments and trends in the water industry generally and events in the appointed area of SWS.

Rating of the Bonds

The ratings anticipated to be assigned by the Rating Agencies to the Class A Wrapped Bonds to be issued on the Initial Issue Date are based solely on the claims paying ability of MBIA and reflect only the views of the Rating Agencies. The ratings anticipated to be assigned by the Rating Agencies to the Class A Unwrapped Bonds and Class B Bonds reflect only the views of the Rating Agencies and in assigning the ratings the Rating Agencies take into consideration the credit quality of SWS and structural features and other aspects of the transaction.

A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of SWS or, in the case of the Wrapped Bonds, of the relevant Financial Guarantor from time to time.

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

Withholding Tax under the 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. The Issuer will, in such event, have the option (but not the obligation) of:

(i) redeeming all outstanding Bonds in full; or

(ii) arranging for the substitution of another company in an alternative jurisdiction (subject to certain conditions).

(See Chapter 8 "*The Bonds*" under "*Terms and Conditions of the Bonds*" and Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*).)

Likewise, in the event withholding taxes are imposed in respect of payments due under the Wrapped Bonds and the relevant Financial Guarantor is called upon under its Financial Guarantee or Financial Guarantees to make payments in respect of such payments, such Financial Guarantor is not obliged to gross-up or otherwise compensate the holders of such Wrapped Bonds for the fact that such Wrapped 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.

EU Savings Directive

On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payment of interest or other similar income paid by a person within its jurisdiction to, or for the benefit of, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Change of Law

The structure of the transaction and, among other things, the issue of the Bonds and ratings assigned to the Bonds are based on law, tax and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law, tax and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the Initial Issue Date which change might impact on the Bonds and the expected payments of interest and repayment of principal.

European Monetary Union

Prior to the maturity of the Bonds, the United Kingdom may become a participating member state in the Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. Adoption of the euro by the United Kingdom may have the following consequences:

(i) all amounts payable in respect of the sterling denominated Bonds may become payable in euro;

(ii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates

of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed; and

(iii) the Issuer may choose to redenominate the Bonds into euro and take additional measures in respect of the Bonds. (See Chapter 8 "*The Bonds*" under "*Terms and Conditions of the Bonds*".) The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Bonds.

The potential costs to SWS of implementing procedures to deal with any possible future adoption of the euro by the United Kingdom are unclear but could be significant.

Financial Projections

The financial projections set out in Chapter 4 "*Description of the SWS Financing Group*" under "*Illustrative Financial Projections of the SWS Financing Group*" have been prepared for illustrative purposes only. Actual events and circumstances may vary materially from the assumptions made. No representation is made or intended, nor should any be inferred, with respect to the likely occurrence or existence of any particular fact or circumstance. If facts or circumstances occur which are less favourable than those projected, or if the assumptions used in formulating the financial projections prove to be incorrect, SWS may be not be able to satisfy its obligations under the Issuer/SWS Loan Agreements, which may result in turn in the Issuer being unable to meet its obligations under the Bonds.

Potential investors should regard the assumptions and projections with considerable caution and are urged to evaluate the potential for any assumption to deviate from those set out in Chapter 4 "*Description of the SWS Financing Group*" and the implications of deviations in different assumptions on other assumptions and the revenues and the cash flows of SWS.

CHAPTER 6

WATER REGULATION

Water Regulation Generally

Regulatory Framework

The activities of a company which is appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA (a "**Regulated Company**") are principally regulated by the provisions of the WIA, regulations made under the WIA and the conditions of their appointments as water undertakers and sewerage undertakers (together "**licences**" and each a "**licence**"). Under the WIA, the Secretary of State has a duty to ensure that at all times there is a Regulated Company for every area of England and Wales. Appointments may be made by the Secretary of State or, in accordance with a general authorisation given by him/her, the DGWS. Legislation currently before Parliament would make certain amendments to the WIA (see "*The Water Bill*" below).

The economic regulator for water is the DGWS who is aided in his duties by Ofwat, a non-ministerial government department, of which he is head. The DGWS is responsible for, among other things, setting limits on charges and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their affairs. The two principal quality regulators are the Drinking Water Inspectorate (the "**DWI**"), which is part of DEFRA, and the EA.

The DGWS and the Secretary of State

The DGWS is appointed for a fixed term by the Secretary of State. He is independent of government ministers and may only be removed for incapacity or misbehaviour.

Each of the Secretary of State and the DGWS has a primary duty under the WIA to exercise and perform his powers and duties under the WIA in the manner he considers best calculated to secure that:

- the functions of Regulated Companies are properly carried out throughout England and Wales; and
- Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions.

Subject to this primary duty, each of the Secretary of State and the DGWS is required to exercise and perform his powers and duties in the manner he considers best calculated to:

- protect the interests of customers (especially rural customers) in connection with the fixing and recovery of water and drainage charges, such that no undue preference or discrimination is shown in the fixing of those charges;
- protect the interests of customers in connection with the terms on which services are provided and the quality of those services;
- protect the interests of customers as regards non-regulated activities of Regulated Companies (and companies connected with them) in particular by ensuring that (i) transactions are carried out at arm's length; and (ii) in relation to their Appointed Business, Regulated Companies maintain and present accounts in a suitable form and manner;
- protect the interests of customers in connection with the benefits that could be secured for them by the disposal by Regulated Companies of "Protected Land";
- promote economy and efficiency on the part of Regulated Companies; and
- facilitate effective competition between Regulated Companies and those seeking appointments as Regulated Companies.

Licences

Under the WIA, each Regulated Company holds a licence and is regulated through the conditions of such licence as well as the WIA. Each licence specifies the geographic area served by the company and imposes a number of conditions on the licence holder which relate to the determination and regulation of price limits and other matters (see below). The main provisions of SWS's Licence are typical of those of all licences of Regulated Companies. The DGWS is responsible for monitoring compliance with the conditions of the licence and, where necessary, enforcing compliance through procedures laid down in the WIA (see "*Enforcement Orders*" below).

In addition to the conditions regulating price limits (see ''*Economic Regulation*'' below), the Licence also contains conditions regulating infrastructure charges and the making of charges schemes, and imposes prohibitions on undue discrimination and undue preference in charging. Other matters covered by the Licence include (but are not limited to) provisions in relation to: accounts and the provision of accounting information (including a requirement to prepare and publish accounts showing the Appointed Business separately from all other businesses and activities); provisions governing the ''financial ring-fencing'' of SWS, transactions with associated companies (as defined by the Licence), certain restrictions as to the indebtedness entered into or provided by SWS, certain conditions as to the payment of dividends; a requirement that SWS has at its disposal sufficient financial and managerial resources to carry out its regulated activities; a requirement that SWS must at all times conduct its Appointed Business as if such business were substantially its sole business and SWS were a separate public limited company, including requirements as to corporate governance arrangements and maintenance of a listed financial instrument; and a requirement that SWS, or any associated company (as defined by the Licence) issuing corporate debt on its behalf, uses all reasonable endeavours to ensure that it maintains an investment grade issuer credit rating in relation to corporate debt. Further matters covered by the Licence include: provisions relating to levels of service and service targets; restrictions on disposal of land; asset management plans; the payment of fees to Ofwat and payments to customers for supply interruptions because of drought.

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 the DGWS has the authority to appoint a new licence holder;
- under condition O of the licence, provided at least 25 years' notice has been given by the Secretary of State;
- under the provisions of the special administration regime (the licence may be terminated and the Special Administrator may transfer the business to a successor (see ''*Special Administration Orders*'' below)); or
- by the granting of an ''inset'' appointment 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, the DGWS or the Secretary of State must consider any representations or objections made. In making an appointment or variation replacing a Regulated Company and where the Secretary of State or DGWS is to determine what provision should be made for fixing charges, it is the duty of the Secretary of State or the DGWS 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.

An ''inset'' appointment can be granted to a company seeking to provide water and/ or sewerage services on a greenfield site, or to a large user of water and/or sewerage services within an existing Regulated Company's area, or where the incumbent Regulated Company consents to the variation. The threshold for large user insets in England is 100 megalitres of water per annum.

Modification of a licence

There are a number of circumstances in which the conditions of a licence can be modified (see Chapter 5, ''*Investment Considerations*'' under ''*Licence*''). These include any specific powers to make certain modifications which are granted by Parliament to give effect to new legislation (see ''*The Water Bill*'' below).

Enforcement Orders

The general duties of Regulated Companies are enforceable by the Secretary of State or the DGWS or both. The conditions of each licence (and other duties) are enforceable by the DGWS alone whilst other duties, including those relating to water quality, are enforceable by the Secretary of State.

Where the Secretary of State or the DGWS is satisfied that a Regulated Company is contravening, or has contravened and is likely to do so again, its licence, or a relevant statutory or other requirement, either the Secretary of State or the DGWS 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 the DGWS more appropriate to make a provisional enforcement order, he may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or DGWS 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 the DGWS 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 which is in breach.

There are exemptions from the Secretary of State's and the DGWS'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;
- where the company has given, and is complying with, an undertaking to secure or facilitate compliance with the condition or requirement in question; or
- where duties in the WIA preclude the making or confirmation of the order.

Special Administration Orders

The WIA contains provisions enabling the Secretary of State or the DGWS, with the consent of the Secretary of State, to secure the general continuity of water supply and sewerage services. In certain specified circumstances, the High Court (the "**Court**") may, on the application of the Secretary of State or, with his consent, the DGWS, 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 sewerage 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;
- where the Regulated Company is, or is likely to be, unable to pay its debts;
- where, 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 440 of the Companies Act 1985, 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
- where the Regulated Company is unable or unwilling adequately to participate in arrangements certified by the Secretary of State or the DGWS to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination of the existing Regulated Company's licence.

In addition, on an application being made to a court, whether by the Regulated Company itself or by its directors, creditors or contributories, for the compulsory winding up of the Regulated Company, a 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, a court shall instead make a Special Administration Order.

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, and 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 modifications: an administrative receiver can no longer be appointed (with or without the leave of the Court) and, where any action does require the Court's leave, the consent of the Special Administrator is acceptable in its place (see "*Restrictions on the enforcement of security*" below).

A Special Administrator has extensive powers under the WIA similar to those of an administrator under UK insolvency law applicable to companies which are not Regulated Companies, but with certain important differences. A Special Administrator would be charged with managing the affairs, business and property of the Regulated Company: (i) for the achievement of the purposes of the Special Administration Order; and (ii) in such a manner as protects the respective interests of the members and creditors of the Regulated Company. The purposes of the Special Administration Order consist of: (a) transferring to one or more different Regulated Companies, as a going concern, as much of the business of the Regulated Company as is necessary in order to ensure that the functions which have been vested in the Regulated Company by virtue of its licence are properly carried out; and (b) pending the transfer, the carrying out of those functions. It would therefore not be open to him 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 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 the DGWS. The Special Administrator agrees the terms of the transfer of the existing Regulated Company's business to the new Regulated Company(ies), on behalf of the existing Regulated Company. The transfer is effected by a Transfer Scheme which the Special Administrator puts in place 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). The powers of a Special Administrator include the right to seek a review by the DGWS of the Regulated Company's charges pursuant to an IDOK or a "**Shipwreck Clause**" (as defined below). To take effect, the Transfer Scheme must be approved by the Secretary of State or the DGWS. In addition, the Secretary of State and the DGWS 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 the Treasury the power: (i) to make appropriate grants or loans to achieve the purposes of the Special Administration Order or 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 or the discharge of any other financial obligations in connection with any borrowings of the Regulated Company subject to 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. All land disposals are reported to Ofwat in the annual return.

Protected Land comprises any land, or any interest or right in or over any land, which:

- was transferred to a water and sewerage 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 sewerage 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 sewerage undertaker.

Security

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, all licences (including the Licence) restrict a Regulated Company's ability to dispose of Protected Land (as explained in "*Protected Land*" above). Accordingly, a licence restricts a Regulated Company's ability to create a charge or mortgage

over Protected Land. In the case of SWS, the Issuer believes that the vast majority of SWS' assets by value is tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of SWS to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right under the WIA to block the appointment of a Special Administrator equivalent to the right which a holder of a floating charge over the whole or substantially the whole of the business of a company which is not a Regulated Company may have in certain circumstances to block the appointment of a conventional administrator.

In addition, provisions in a Regulated Company's licence require the Regulated Company at all times:

- 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 order could be achieved; and
- to act in the manner best calculated to ensure that it has adequate: (i) financial resources and facilities; and (ii) management resources, to enable it to carry out its regulated activities.

These provisions may further limit the ability of SWS to grant security over its assets and may limit in practice the ability to enforce such security.

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 the DGWS. If a petition for Special Administration has been presented leave of the Court is required before such security is enforceable or any administrative receiver can be appointed (or, if an administrative receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a Special Administration Order is in force with some modification (see ''*Special Administration Orders*'' above).

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

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

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, among other things, the Secretary of State, the DGWS and the creditors of the company. The creditors' approval to the Special Administrator's proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration for a non-Regulated Company under UK insolvency legislation); however, notwithstanding this, the interests of creditors and members in a Special Administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company's affairs, business and property are being or have been managed by the Special Administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the Special Administrator is/or would be so prejudicial. Any order made by the Court may include an order to require the Special Administrator to refrain from doing or continuing an act about which there has been a complaint.

Enforcement of Security over Shares in SWS

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in any group company, including those of a Regulated Company such as SWS, would not be subject to the restrictions described above in relation to the security over SWS' business and assets. Notwithstanding this, given the DGWS's general duties under the WIA to exercise and perform his powers and duties, among other things, 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 granted by SWSGH and/or SWSH or the security over, and subsequently any planned disposal of, the shares in SWS to a third party purchaser, would require consultation with the DGWS. In addition, depending on the circumstances, the merger control provisions referred to in "*Competition in the Water Industry - Merger Regime*" (below) could apply in respect of any such disposal.

Economic Regulation

Economic regulation of the water industry in England and Wales is based on a system of five-year price caps imposed on the amounts Regulated Companies can charge to their customers. This is intended to reward companies for efficiency and quality of service to customers. The system generally allows companies to retain for a period any savings attributable to efficiency, thus creating incentives to make such gains.

K price limitation formula

The main instrument of economic regulation is the framework of price limits set out in the conditions of the licences. These act to limit increases in a basket of standard charges made by Regulated Companies for water supply and sewerage services. The weighted average charges increase is limited to the sum of the percentage movement in the RPI plus K. K (a factor which can be a positive, negative or zero) is a number set by the DGWS for each Regulated Company individually and may be a different number in different years. Certain charges are not included in the price limitation formula but are determined on an individual basis.

Regulatory Capital Value

Under the methodology developed by Ofwat, the regulatory capital value of Regulated Companies is a critical parameter underlying price limits set at Periodic Reviews, being the value of the capital base of the relevant Regulated Company for the purposes of calculating the return on capital element of the determination of K. The value of the regulatory capital value to investors and lenders is protected against inflation by increasing the value each year by RPI.

In addition, Ofwat's projections of regulatory capital value take account of the assumed net capital expenditure in each year of a Periodic Review Period. For these purposes, Ofwat make an assumption regarding the relationship between movements in RPI and movements in the Construction Output Price Index. At the subsequent price review, Ofwat re-state the projections they had previously made by, amongst other things, substituting the actual movement in the Construction Output Price Index for that which had been previously assumed. References in this Offering Circular to 'out-turn prices' are to 1999 prices as adjusted by the Construction Output Price Index to date. See also Chapter 4, "*Description of the SWS Financing Group*" under "*Capital Investment Programme*".

Price Control

A small number of mainly large consumption non-domestic customers are charged in accordance either with individual "special" arrangements, or with standard charges which do not fall within the scope of the tariff basket. These include charges for bulk supplies and infrastructure charges 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.

Periodic reviews of K

K is reviewed every five years. Following the last Periodic Review, new price limits took effect from 1 April 2000 and are set for the five year period from 2000 to 2005. The DGWS will next reset price limits in 2004 and these will come into effect on 1 April 2005. The DGWS made a statement on 31 January 2001 in which he indicated his general approach to the carrying out of periodic reviews (see "*Ofwat Letter*" in Appendix A). Following the issue on 15 October 2002 of a consultation paper on the approach to the

2004 price review, Ofwat published their strategy paper ''Setting price limits for 2005-10: Framework and Approach'' on 27 March 2003. Although Ofwat propose to refine certain elements of the methodology, the paper confirms the general approach to the setting of price limits set out in the 31 January 2001 statement referred to above.

Interim Determinations of K

Condition B of a Regulated Company's licence provides for the DGWS to determine in certain circumstances whether, and if so how, K should be changed between periodic reviews. The procedure for an IDOK can be initiated either by the Regulated Company or by the DGWS. An application for an IDOK may be made in respect of a Notified Item (see below), a Relevant Change of Circumstance (see below), or a substantial adverse or favourable effect on the Appointed Business (see below).

A ''**Notified Item**'' is any item formally notified by the DGWS to the Regulated Company as not having been allowed for in full or in part in K at the last price determination. Notified Items put forward by the DGWS in the determination of price limits for the period 2000 to 2005 were: (i) the costs and revenues associated with any difference in the number of Meter Optants from that assumed by the DGWS; (ii) any net increase in bad debt and debt collection costs arising from the loss of the power to disconnect residential customers for non-payment from 1 April 2000; and (iii) any additional administrative costs arising out of statutory obligations to offer protection from high metered bills to vulnerable groups of customers.

''**Relevant Changes of Circumstance**'' are defined in the licences. Such changes include: (i) 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); (ii) any difference in value between actual or anticipated proceeds of disposals of land and those allowed for at the last Periodic Review or IDOK; and (iii) the amounts assumed in K for the necessary costs of securing or facilitating compliance with a legal requirement or achieving a service standard where the Regulated Company has failed to: (a) carry out the necessary works; (b) spend the amount which it was assumed would be spent; and (c) achieve the stated purpose.

Some Regulated Companies' licences contain a condition that allows changes in the construction output price index to qualify as a Relevant Change of Circumstance. Currently only four Regulated Companies, excluding SWS, have this provision. Ofwat have indicated in the ''Setting water and sewerage price limits for 2005-10: Framework and Approach'' paper that it plans to offer such a condition to all Regulated Companies.

An IDOK takes account of the costs, receipts and savings to be included in the computation of K which are reasonably attributable to the Notified Items or the Relevant Changes of Circumstance in question and are not recoverable by charges outside the K price limitation 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 determining K. These costs are then netted off against the receipts and savings to determine the Base Cash Flows for each year included in the timing.

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 SWS), 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 water and sewerage business. An adjustment to K (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 Base Cash Flows. The change is then made for the remainder of the period up to the start of the first charging year of the next five-year price control period. Condition B of each licence sets out in detail the step-by-step methodology which the DGWS is required to apply.

Substantial Adverse or Favourable Effects – Shipwreck Clause

SWS, similarly to certain other Regulated Companies, may, under specific conditions of the Licence (the ''**Shipwreck Clause**''), request price limits to be reset if the Appointed Business suffers a substantial adverse effect which could not have been avoided by prudent management action. The DGWS may, similarly, reset price limits if the Appointed Business enjoys a substantial favourable effect which is

fortuitous and not attributable to prudent management action. For the purpose of the Shipwreck Clause the materiality threshold is equal to at least 20 per cent. (as opposed to 10 per cent. for a determination made in respect of Notified Items and Relevant Changes of Circumstances) of the latest reported turnover attributable to the Regulated Company's water and sewerage business.

In ''Setting water and sewerage price limits for 2005-10: Framework and Approach'', Ofwat has indicated that it intends to modify the materiality calculation. Instead of calculating the Base Cash Flows consisting of operating expenditure and/or loss of revenue over 15 years, such items would be calculated over the period to the next Periodic Review and multiplied by two.

References to the Competition Commission

If the DGWS fails within specified periods to make a determination at a Periodic Review or in respect of an IDOK or if the Regulated Company disputes his determination, the Regulated Company may require the DGWS to refer the matter to the CC. The CC 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 the DGWS. The decisions of the CC are binding on the DGWS.

Drinking Water and Environmental Regulation

The water industry is subject to numerous regulatory requirements concerning the protection of the environment and human health and safety. Responsibility for regulation of drinking water quality and environmental standards lies with the DWI and the EA respectively.

The DWI is part of the DEFRA and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. It can take enforcement action in the event that a water undertaker is in contravention of regulatory requirements concerning the ''wholesomeness'' of water supplies. Court proceedings can be brought for the offence of supplying water ''unfit for human consumption'', for example if discoloured or foul tasting water is supplied to customers.

The EA is responsible in England and Wales for the control of water pollution and the maintenance and improvement of the quality of controlled waters, including the regulation of discharges to those waters. The principal UK environmental legislation relevant to Regulated Companies includes the Water Resources Act 1991 (the ''**WRA**''), the Environmental Protection Act 1990 (the ''**EPA**'') and the WIA. The Water Bill proposes amendments to both the WRA and the WIA (see ''*The Water Bill*'' below).

Under the WRA any discharge of trade or sewage effluent into controlled waters can only be carried out with a discharge consent from the EA or with some other lawful authority. The discharge consent system under the WRA is backed up by various criminal offences. It is a criminal offence to cause or knowingly permit polluting matter to enter controlled waters. The principal prosecuting body is the EA. Under the WRA, the EA is empowered to take remedial action to deal with actual or potential pollution of controlled waters and may recover the reasonable costs of such works from the person who caused or knowingly permitted the pollution (and can also require that person to take the remedial action itself).

Sewerage undertakers are responsible under the WIA for regulating discharges of industrial effluent into sewers. In addition, discharges from sewage treatment works must be licensed by the EA. Contamination of controlled waters by discharge of non-compliant effluent from a treatment works may expose the sewerage undertaker to liability, including fines and clean-up costs. The EA publicises breaches by Regulated Companies of their discharge consents and brings prosecutions where necessary.

Depending on developments in case law, sewerage undertakers may in future have to negotiate contracts with the owners of water courses in order to be able to discharge water into such water courses. The additional costs involved may be significant.

The EPA (supported by implementing regulations and statutory guidance), introduced a regime to deal with the remediation of contaminated land. Under the regime, the causer or knowing permitter of the pollution (or, if that person cannot be found, the owner or occupier of the land) can be required to clean up contamination if it is causing, or there is a significant possibility of it causing, significant harm to the environment or human health or if pollution of controlled waters is being caused. Civil liability may also arise (under such heads of claim as nuisance and negligence) where contamination migrates into the environment at third party land and/or impacts upon human health, flora and fauna.

Any expenditure incurred by a Regulated Company necessitated by legislation applying to it in its capacity as a water or sewerage operator, or by any change in consents as a result of any changes to

existing EU directives, or adoption of future EU directives, would be eligible for consideration for an IDOK, or to be taken into account at a periodic review.

Competition in the Water Industry

The Competition Act

The Competition Act 1998 (the "**Competition Act**") introduced two prohibitions concerning anti-competitive agreements and conduct and powers of investigation and enforcement.

The Chapter I prohibition prohibits agreements between undertakings which may affect trade within the United Kingdom and which have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom. The Chapter II prohibition prohibits the abuse of a dominant position which may affect trade within the United Kingdom.

The DGWS has concurrent powers with the Office of Fair Trading ("**OFT**") to apply and enforce the Competition Act to deal with anti-competitive agreements or abuses of dominance relating to the water and sewerage sector, including the power to enforce directions to bring an infringement to an end and to impose fines of up to 10 per cent. of turnover of the Regulated Company involved, for up to three years, for infringing the Competition Act. Also, any arrangement which infringes the Competition Act may be void and unenforceable and may give rise to claims for damages from third parties.

Merger Regime

The Secretary of State has a duty to refer to the CC mergers or proposed mergers between two or more Regulated Companies where the value of the gross assets of each of the Regulated Companies to be merged exceeds £30 million. In determining whether such a matter operates or may be expected to operate against the public interest, the CC must have regard to the desirability of giving effect to the principle that the DGWS's ability to make comparisons between different water companies should not be prejudiced. The CC then reports to the Secretary of State who takes the final decision. This regime will be amended by the Enterprise Act 2002 (the "**Enterprise Act**") once the Water Bill has clarified the scope of the regime. Broadly, the types of mergers caught in practice and the substantive test remain the same, although the Secretary of State is removed from the process so it is the CC which takes the final decision. That decision may be appealed to the Competition Appeal Tribunal by any person sufficiently affected by the decision.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company, general merger control rules apply. These may call for discussion with the OFT as well as Ofwat. The OFT (or the Secretary of State in some exceptional categories of case) has the power to investigate any merger within the jurisdiction of the UK merger regime and determine whether the transaction should be referred to the CC for further investigation to determine if the arrangement will or may be expected to substantially lessen competition in a market in the UK. The OFT will consult with Ofwat.

Depending on the size of the parties involved, mergers of two or more Regulated Companies and other mergers may require notification to the European Commission under the EU merger regime (although the CC may still investigate the effect on the comparator principle in relation to mergers of two or more Regulated Companies).

Market Investigation Regime

Where it appears to the DGWS or the OFT (or the Secretary of State (acting alone or jointly with other Ministers) in some exceptional categories of case) that any feature(s) of the market(s) for water/sewerage or related services prevents, restricts or distorts competition for the supply of water/sewerage or related services, he/it may refer the matter to the CC. These powers relate to both structural and behavioural features. The CC will investigate the matter and, if such feature(s) exist(s) which have such an adverse effect on competition, the CC must consider what, if any, action should be taken to remedy or prevent them and may, if it thinks fit, order remedial action. The remedy may be implemented either by the giving of appropriate undertakings or by an order from the CC. The Secretary of State may also call for the consideration of wider public interest issues in certain other exceptional cases and may remedy any adverse effects in the public interest.

The Water Bill

The Water Bill was introduced in the House of Lords on 19 February 2003 and published on the following day. It may be subject to amendments as it passes through Parliament. The following summarises its main features.

New Framework for Competition

To date, Regulated Companies have faced limited competition in the provision of water and sewerage services. This has primarily taken the form of:

- ''inset appointments'', which allow one Regulated Company to replace another as the statutory undertaker for a specified geographical area within the other Regulated Company's appointed area. ''Inset competition'' is available in respect of large users (customers using over 100 megalitres of water per annum in England, or 250 megalitres in Wales) or ''greenfield'' sites. As at 1 June 2003, Ofwat had made nine inset appointments;
- competition in the trade effluent market, from customers (or their agents) who self-treat, in full or in part, their wastewater discharges, in order to reduce the charges they pay to their Regulated Company; and
- self-supply of raw water, usually by large industrial or agricultural undertakings who are located close to a river or other water source.

The Water Bill proposes new arrangements for competition for water supply. The Government consulted on its proposals in July 2002 in the paper ''*Extending Opportunities for Competition in the Water Industry in England and Wales*''. Under the Water Bill, new licences will be granted to entrants who wish to:

- purchase ''wholesale'' water from Regulated Companies and sell it on to eligible customers; and
- input water in Regulated Companies' networks for supply to eligible customers, i.e. make use of common carriage services.

Only customers using in excess of a threshold of 50 megalitres of water per annum will be eligible to switch to the new licensed suppliers (''**Licensed Suppliers**''). The threshold may be altered by the Secretary of State by statutory instrument. Customers who use potable or non-potable water supplies above the threshold will be eligible to be supplied by Licensed Suppliers. SWS estimates that it has 57 of these customers, which together accounts for 4.6 per cent. of the water services turnover.

The Water Bill provides for new duties to be imposed on Regulated Companies to:

- provide a wholesale supply to Licensed Suppliers, subject to certain conditions; and
- allow Licensed Suppliers to input water into their networks, subject to certain conditions.

Where a Licensed Supplier disputes a Regulated Company's refusal to provide a wholesale supply or to allow water to be input into its network, it may refer the matter for determination to Ofwat.

The Water Bill also requires Regulated Companies to fix their charges for both of the above services to entrants in accordance with a specified pricing principle. Regulated Companies are to recover from Licensed Suppliers two elements of cost to the extent that they exceed any financial benefits which the Regulated Company receives as a result of the entrant supplying water to relevant customers:

- the direct costs incurred by the Regulated Company in providing the service, such as additional water quality monitoring equipment; and
- an ''appropriate amount'' of ''qualifying expenses'', including a reasonable return on that amount. ''**Qualifying expenses**'' are defined as all of the expenses which the Regulated Company incurs in connection with its statutory functions. ''**Appropriate amount**'' is defined as that portion that would ordinarily have been recovered from customers were they not supplied by Licensed Suppliers, and excludes any costs which are avoidable.

A range of supporting provisions cover issues such as: drinking water quality regulation of Licensed Suppliers; the process for granting licences; enforcement of the duties of Licensed Suppliers; special administration arrangements for Licensed Suppliers; changes to the way in which Regulated Companies' supply duties apply outside their appointed area; and the imposition of various duties on Licensed Suppliers in connection with matters such as water efficiency and water conservation.

There are no equivalent proposals to introduce competition for sewerage services.

Modifications to the General Duties of the Secretary of State and the DGWS

The Water Bill puts forward a number of amendments to the statutory duties of the Secretary of State and the DGWS referred to above (see ''*The DGWS and the Secretary of State*'').

It is proposed to add to the primary duties referred to above a duty to ''further the consumer objective''. This, in turn, is defined as the protection of the interests of consumers, wherever appropriate, by promoting effective competition. Particular regard is to be had to the interests of specific groups of customers, such as pensioners and those residing in rural areas.

In addition, the list of additional duties would be amended by the Water Bill, *inter alia*, to require the Secretary of State and the DGWS to exercise their powers to ''contribute to the achievement of sustainable development''.

A new provision would also allow for guidance to be issued by the Secretary of State to the DGWS on social and environmental matters. Once guidance had been issued in accordance with the prescribed process, the DGWS would be obliged to have regard to that guidance in carrying out his functions.

New Regulatory Arrangements

The Water Bill provides for a number of changes to existing regulatory arrangements:

- the DGWS would be replaced by the ''Water Services Regulation Authority'' (''**WSRA**''). The WSRA would consist of a chairman and at least two other members, to be appointed by the Secretary of State;
- the existing Customer Service Committees, which have been established under the WIA by the DGWS, would be abolished, and replaced by a new independent ''Consumer Council for Water'' (''**CCW**''), appointed by the Secretary of State. Regional committees of the CCW would be set up to cover one or more Regulated Companies. The CCW would have a range of functions and duties relating to the promotion of customers' interests. It would also have powers to obtain information from Regulated Companies;
- the DGWS and the Secretary of State would be given a new power to impose financial penalties on a Regulated Company for contraventions of its licence, statutory or other requirements including performance standards. A penalty must be reasonable in all the circumstances and be no more than 10 per cent. of a Regulated Company's turnover. It is also proposed that the WSRA and Secretary of State will have the power to make an enforcement order where a contravention is likely (whether or not one has previously occurred) as well as where one is occurring; and
- there would be a new obligation on Regulated Companies to disclose arrangements linking the remuneration of directors of the company to the achievement of performance standards.

Other Provisions

The Water Bill contains numerous additional provisions which will or may affect Regulated Companies. These include, but are not limited to, the following proposals:

- a number of reforms to the existing abstraction licensing regime (as provided for in the WRA) are proposed. All new abstraction licences would be time-limited. From 2012, the right to compensation for revocation of an abstraction licence which causes significant environmental damage will be removed. The EA would have a new power to propose that one Regulated Company seeks a bulk supply from another, and to take a failure to do so into account in making licensing decisions;
- Regulated Companies would be under a new duty to prepare drought plans, to agree them with the Secretary of State and to make them publicly available;
- Regulated Companies would also be under a new duty to agree water resource management plans with the Secretary of State and to make them publicly available; and
- Regulated Companies' licences would be amended so as to provide a new duty to further water conservation.

The Water Bill also sets out two special circumstances where the conditions of appointment may also be modified without the consent of the Regulated Company. It is proposed that:

- Ofwat will have the power to modify conditions of appointment to provide for the recovery of the expenses of the new CCW. Ofwat will be required to consult Regulated Companies before making such modifications, and can only exercise the power within two years of commencement. The exercise of the power is also subject to directions by the Secretary of State; and

- Ofwat will have the power to modify conditions of appointment to give effect to the new provisions for competition. Ofwat have to consult Regulated Companies and other persons who may be affected, and the exercise of their power is again subject to a two year time limit and any directions made by the Secretary of State.

CHAPTER 7

SUMMARY OF THE FINANCING AGREEMENTS

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the SWS 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 Obligors.

The Secured Creditors will include the Class A Debt Providers, the Class B Debt Providers and the Mezzanine Facility Providers. Any new Authorised Credit Provider (or in respect of Bondholders, the Bond Trustee) will be required to accede to the STID and the CTA as a Class A Debt Provider, a Class B Debt Provider or a Mezzanine Facility Provider.

Unsecured creditors 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 Financial Indebtedness will be restricted under the Common Terms Agreement.

The purpose of the Intercreditor Arrangements is to regulate, among other things: (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 "*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 claims among the SWS Financing Group (other than claims in respect of the Issuer/SWS Loan Agreements funded through the raising of Class A Debt, Class B Debt and Mezzanine Debt).

Undertakings of Secured Creditors

Pursuant to the terms of the STID, each Secured Creditor (other than the Security Trustee) will undertake that it will not, except as expressly contemplated in the CTA, unless the Majority Creditors or, where applicable, the Super Majority Creditors otherwise agree:

(a) permit or require any Obligor to discharge any of the Secured Liabilities owed to it, save to the extent permitted by the STID, including (i) the Payment Priorities and (ii) in the case of the Mezzanine Debt and prepayments of other Financial Indebtedness (other than out of the proceeds of Permitted Financial Indebtedness) the Restricted Payment Condition;

(b) 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 to the extent permitted by the CTA or the STID including pursuant to a Permitted Lease Termination or a Permitted Hedge Termination, pursuant to a provision for prepayment upon illegality or in the case of Mezzanine Debt and prepayments of other Financial Indebtedness (other than out of the proceeds of Permitted Financial Indebtedness), if the Restricted Payment Condition is satisfied;

(c) 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 Financial Guarantees or pursuant to the terms of the Finance Documents;

(d) take or receive from any of the Obligors by cash receipt, set-off, any right of combination of accounts or in any other manner whatsoever (other than set-off in relation to amounts in the Operating Accounts which are owed to the Account Bank or in relation to Standby Drawings owed to a Liquidity Facility Provider under a Liquidity Facility Agreement), the whole or any part of the Secured Liabilities owed to it, save to the extent permitted by the CTA or the STID; or

(e) except as described in "*Modifications, Consents and Waivers*" below, 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.

Undertakings of Obligors

Pursuant to the terms of the STID, each Obligor will undertake that it will not, unless the Majority Creditors or, where applicable, the Super-Majority Creditors otherwise agree:

(i) discharge any of the Secured Liabilities owed by it, save to the extent contemplated in paragraph (a) of ''*Undertakings of Secured Creditors*'' above;

(ii) pay, prepay, repay, redeem, purchase, early or voluntarily terminate or otherwise acquire any of the Secured Liabilities owed by it, save to the extent contemplated in paragraph (b) of ''*Undertakings of Secured Creditors*'' above;

(iii) 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 Financial Guarantees or pursuant to the terms of the Finance Documents;

(iv) (except as referred to in (d) of ''*Undertakings of Secured Creditors*'' above) discharge any of the Secured Liabilities by cash payment, set-off, any right of combination of accounts or in any other manner whatsoever, save to the extent permitted by the CTA or the STID;

(v) without the consent of the Security Trustee or, where applicable, each relevant Secured Creditor (as described in ''*Modifications, Consents and Waivers*'' below), 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; or

(vi) take or omit to take any action whereby any subordination contemplated by the STID may be impaired.

Ranking of Secured Liabilities

The underlying principle of the Intercreditor Arrangements is that at all times the Class A Debt will rank in point of payment prior to any payment in respect of the Class B Debt and the Mezzanine Debt, the Class B Debt will rank in point of payment prior to the Mezzanine Debt and the Senior Mezzanine Debt will rank in point of payment prior to the Junior Mezzanine Debt (including in each case both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security), see Chapter 5 ''*Investment Considerations*'' under ''*Subordination of the Class B Bonds*'' for further details. Prior to a Standstill Period payment dates for Class A Debt, Class B Debt and Mezzanine Debt may fall on different dates.

Modifications, Consents and Waivers

Subject to the Entrenched Rights and Reserved Matters (see ''*Entrenched Rights and Reserved Matters*'' below), 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 or, in certain cases, Super-Majority Creditors. Not all proposals which require the consent of the Majority Creditors or, as the case may be, Super-Majority Creditors will be sent to all Secured Creditors (or their Secured Creditor Representatives, as the case may be).

Subject to the Entrenched Rights and Reserved Matters (see ''*Entrenched Rights and Reserved Matters*'' below), the Security Trustee may make modifications to the Finance Documents without the consent of any other Secured Creditor if such modifications are to correct manifest errors or are of a formal, minor or technical nature.

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 prior to repayment in full of the Class A Debt, only the Qualifying Class A Debt Providers will be eligible to exercise the rights of the Majority Creditors and, where appropriate, Super-Majority Creditors. Decisions of the Majority Creditors and, where applicable, Super-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 ''*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**''):

(a) in respect of each Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt (if no FG Event of Default has occurred and is continuing in respect of the relevant Financial Guarantor), such Financial Guarantor;

(b) in respect of each Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Class A Wrapped Bonds or other Class A Wrapped Debt) and each Sub-Class of Class A Unwrapped Bonds, the Bond Trustee;

(c) in respect of the revolving credit facilities to be provided under the Initial Authorised Credit Facilities, the Initial Authorised Credit Facility Agent;

(d) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (c) above (excluding liabilities in respect of any Hedging Agreements or Liquidity Facilities) 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 STID or the relevant Accession Memorandum to the STID and the CTA 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 and no Emergency Instruction Notice has been served (see ''*Emergency Instruction Procedure*'' below), the Bond Trustee shall not be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class A DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors and, where appropriate, Super-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 or, as the case may be, Super-Majority Creditors of those Class A DIG Representatives which have actually voted by the specified date for voting, which date must be not less than ten 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 ''*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, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class A DIG Representatives in respect of more than 50 per cent. (or $66^{2}/_{3}$ per cent. for Super-Majority Creditor decisions) of the Qualifying Class A Debt have voted in favour of the relevant proposal.

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 and, where appropriate, Super-Majority Creditors. After repayment in full of the Class A Debt, decisions of such Majority Creditors or, as the case may be, Super-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 ''*Entrenched Rights and Reserved Matters*'' below.

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**''):

(a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the relevant Financial Guarantor), such Financial Guarantor;

(b) in respect of each Sub-Class 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 Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; and

(c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above (excluding liabilities in respect of any Currency Hedging Agreements in relation to Class B Debt) 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 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 no Emergency Instruction Notice has been served (see ''*Emergency Instruction Procedure*'' below) and is continuing, the Bond Trustee shall not be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds to consider any proposal to be voted on by the Class B DIG except where such proposal is the subject of an Entrenched Right or a Reserved Matter in respect of such Series, Class or Sub-Class.

Decisions of the Majority Creditors and, where appropriate, Super-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 or, as the case may be, Super-Majority Creditors of those Class B DIG Representatives which have actually voted by the specified date for voting, which date must be not less than ten 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 ''*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, Class or Sub-Class of Bondholders to seek directions) or, if earlier, as soon as Class B DIG Representatives in respect of more than 50 per cent. (or $66^{2}/_{3}$ per cent. for Super-Majority Creditor decisions) of the Qualifying Class B Debt have voted in favour of the relevant proposal.

Senior Mezzanine and Junior Mezzanine Debt Instructing Groups

Following repayment in full of the Class A Debt and the Class B Debt, the Senior Mezzanine Debt Providers will be eligible to exercise the rights of the Majority Creditors and, where appropriate, the Super-Majority Creditors. Following repayment in full of the Class A Debt, the Class B Debt and the Senior Mezzanine Debt, the Junior Mezzanine Debt Providers will be eligible to exercise the rights of the Majority Creditors and, where appropriate, Super-Majority Creditors.

Voting by the Bond Trustee as DIG Representative of the Bondholders

Where the Bond Trustee acts as the DIG Representative of some or all of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of those Wrapped Bonds) and/or the Unwrapped 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 aggregate Outstanding Principal Amount of some or all of such Sub-Classes of Bonds, but shall not, prior to a Default Situation, be entitled to convene a meeting of any Series, Class or Sub-Class of Bondholders to seek directions (except in respect of an Entrenched Right or Reserved Matter of such Series, Class or Sub-Class of Bondholders).

Additionally whilst a Default Situation is continuing, where the Bond Trustee acts as the DIG Representative in respect of Bonds, the Bond Trustee shall not be entitled to convene a meeting of the Bondholders to direct the Security Trustee in accordance with an extraordinary resolution of the relevant Sub-Class of Bonds after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID. See ''*Emergency Instruction Procedure*'' below.

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 $66^{2}/_{3}$ 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 the EIN Signatories' reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories would be materially prejudiced.

Hedge Counterparties

Each Hedge Counterparty will be a Secured Creditor party to the STID and the CTA and each Hedging Agreement to hedge the currency of any Class A Debt or to hedge interest rates will constitute Class A Debt or, if entered into to hedge the currency of any Class B Debt, Class B Debt.

The Hedge Counterparties will not form part of the Class A DIG or, in the case of any Currency Hedging Agreement in relation to Class B Debt, the Class B DIG. However, except in relation to certain amounts payable by the Issuer under any Currency Hedging Agreement in relation to Class B Debt, all fees, interest and principal payable by the Issuer to the Hedge Counterparties will rank in the Payment Priorities senior to or *pari passu* with interest or principal payments on the Class A Bonds. See "*Cash Management*" and "*Hedging Agreements*" below.

Liquidity Facility Providers

Each Liquidity Facility Provider will be a Secured Creditor party to the STID and the CTA and each Liquidity Facility Agreement will constitute Class A Debt.

The Liquidity Facility Providers will not form part of the Class A DIG. However, fees, interest and principal of the Liquidity Facility Providers will rank in the Payment Priorities senior to interest and principal payments on the Class A Bonds. See "*Cash Management*" and "*The Liquidity Facilities*" below.

Finance Lessors

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

Amounts due and payable under the Finance Leases are dealt with in "*Cash Management*" below.

Standstill

The STID will provide for an automatic standstill of the claims of the Secured Creditors against SWS and the Issuer (the "**Standstill**") immediately following notification to the Security Trustee of an Event of Default (other than an Event of Default under any Hedging Agreement with respect to a Hedge Counterparty under such Hedging Agreement) and for so long as any Class A Debt and/or Class B Debt is outstanding.

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against SWS 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 enable SWS to continue as a going concern and to allow time for the financial condition of SWS to be restored.

During the Standstill Period:

(a) 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 SWS;

(b) the Security granted by SWSGH and SWSH may be enforced at any time by the Security Trustee at the direction of the Majority Creditors except in the case of a Standstill Period which has commenced as a result of the occurrence of the Event of Default pursuant to a rating downgrade of the Bonds (no other Event of Default having occurred and being outstanding), in which case such Security may only be enforced at any time following the date which is three months from the date of commencement of the Standstill Period provided that such Event of Default is continuing at such time;

(c) save as provided in sub-paragraphs (a) and (b) above, no Enforcement Action may be taken by any Secured Creditor; and

(d) any monies received by SWS or the Issuer will be applied in accordance with the cash management provisions contained in the CTA (see "*Cash Management*" below) and in accordance with the Payments Priorities (see "*Cash Management — Debt Service Payment Account*" below).

Notwithstanding the Standstill, the Secured Creditors will be entitled to accelerate their claims to the extent required to apply proceeds of enforcement of the share pledges provided by SWSH and SWSGH under the Security Documents.

The period of the Standstill in respect of any Event of Default relating to SWS and/or the Issuer (the "**Standstill Period**") will be 18 months unless the Standstill Period is extended beyond 18 months (see "*Standstill Extension*" below) or any of the following occur prior to the expiry of the relevant Standstill Period:

(a) an order is made for the Special Administration of SWS or any steps are taken to commence insolvency proceedings against the Issuer or SWS other than proceedings that are commenced by the Security Trustee;

(b) (during the first 18 months of the Standstill Period) Class A DIG Representatives in respect of $66^{2}/_{3}$ 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 $66^{2}/_{3}$ 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 "*Standstill Extension*" below);

(c) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period; or

(d) the Security Trustee notifies SWS and each Secured Creditor (or its DIG Representative) that notice by any Secured Creditor of the occurrence of the relevant Event of Default has been revoked.

The occurrence of a Standstill will not of itself prevent the Issuer drawing under the Liquidity Facilities.

Upon termination of a Standstill Period (except by virtue of the matters referred to in (c) and (d) above), each Secured Creditor will be entitled to exercise all rights which may be available to it under any Finance Document to which it is a party (other than any Security Document) including directing the Security Trustee to take Enforcement Action.

Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

(a) 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;

(b) following the period referred to in sub-paragraph (a), for a further 60 days unless Class A DIG Representatives in respect of $33^{1}/_{3}$ 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

(c) following the period referred to in sub-paragraph (b), 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 (i) by an Extraordinary Resolution of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Class A Wrapped

Bonds) or Class A Unwrapped Bonds or (ii) in writing by Bondholders holding not less than 25% of the Outstanding Principal Amount of the relevant Sub-Class of Class A 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.

The period of Standstill in respect of any Event of Default other than an Event of Default relating to SWS and/or the Issuer will terminate upon the earlier of (a) the date of the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period and (b) the date on which the Security Trustee notifies SWS and each Secured Creditor (or its DIG Representative) that notice by any Served Creditor of the occurrence of the relevant Event of Default has been revoked.

Enforcement

Following an Event of Default and for so long as it is continuing, the Majority Creditors may direct the Security Trustee to enforce the Security created by SWSGH and SWSH; following the termination of a Standstill Period (except under (c) or (d) of "*Standstill*" above), the Majority Creditors may direct the Security Trustee to enforce the Security created by SWS and the Issuer.

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 (excluding monies credited to the Excluded Accounts) will be applied by the Security Trustee in accordance with the Payment Priorities (see "*Debt Service Payment Account*" below).

The holders of the SWS Preference Shares and the Mezzanine Facility Providers are subject to certain call option arrangements under which they will be required (subject to certain conditions) to sell their SWS Preference Shares (other than the Class A2 Preference Shares) or, as the case may be, their Mezzanine Debt in the event that the Security Trustee or any receiver appointed by it sells the ordinary shares in SWSH or SWS following the enforcement of the Security created by SWSGH or SWSH. In this event, the holders of the SWS Preference Shares will be required to sell their shares (other than the Class A2 Preference Shares) to the person that acquires the ordinary shares in SWSH or SWS on an enforcement of the Security created by SWSGH or SWSH (or to any nominee of such person) for a price to be determined in accordance with the SWS Preference Share Deed (see "*SWS Preference Shares*" below) and the Mezzanine Facility Providers will be required if any of their Mezzanine Debt remains outstanding following the application of the proceeds of such enforcement of Security pursuant to the Payment Priorities to sell their debt at its market value (likely to be a nominal amount). The rights of the holders of the Class A2 Preference Shares shall be deferred upon any sale of the other SWS Preference Shares pursuant to these call option arrangements.

Excluded Accounts

Although the Issuer will pursuant to the Security Agreement create first fixed charges over the Excluded Accounts in favour of the Security Trustee, the Security Documents will provide that on and following an Acceleration of Liabilities (other than a Permitted Lease Termination, Permitted Hedge Termination or Permitted Share Pledge Acceleration), all monies held in the Issuer's O&M Reserve Account and the Debt Service Reserve Account will be held by the Security Trustee on trust for the relevant Liquidity Facility Providers whose commitments have been drawn to fund the Issuer's O&M Reserve Account or, as the case may be, the Debt Service Reserve Account and in the proportions that their respective drawn amounts under the relevant O&M Reserve Facility Agreement or, as the case may be, DSR Liquidity Facility Agreement bear to the balance on the O&M Reserve Account or, as the case may be, the Debt Service Reserve Account.

Accession of Additional Secured Creditors

The STID requires that, to the extent that SWS 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) 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 action without the consent of the Majority Creditors or, where appropriate, the Super-Majority Creditors. Holders of SWS Preference Shares who, by virtue of the terms of the SWS Preference Shares, become holders of Subordinated Debt upon the conversion of the SWS Preference Shares into Subordinated Debt may elect to accede to (or cause its trustee to accede to) the terms of the STID and the CTA as a Secured Creditor for the reasons described immediately above.

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, where appropriate, the Super-Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

Super-Majority Creditor Decisions

Whilst most of the decisions relating to any waiver, consent or modification under or in respect of a Finance Document will require the approval of the Majority Creditors (subject always to the Entrenched Rights and Reserved Matters of Secured Creditors), the STID may provide that a limited number of decisions (relating to the ability of the Obligors to raise further Financial Indebtedness or create Security Interests) will require the approval of the Super-Majority Creditors.

Entrenched Rights and Reserved Matters

Modifications, consents and waivers will be agreed by the Security Trustee, in accordance with votes of the Majority Creditors or, where appropriate, Super-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 SWS (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 relevant ratings set out in definition of Rating Requirement (in relation to the Class A Bonds) and the ratings ascribed to the Class B Bonds at the time of their issue have been affirmed by all Rating Agencies then rating the Class A Bonds and/or the Class B Bonds as applicable.

Lists of Entrenched Rights and Reserved Matters are contained in ''*Entrenched Rights*'' and ''*Reserved Matters*'', below.

Entrenched Rights

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

The Entrenched Rights of the Class A Debt Providers will 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:

(a) 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 under or in connection with the STID or any other Finance Document;

(b) (i) 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 (ii) 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;

(c) would change or would relate to the Payment Priorities;

(d) 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;

(e) would change or would relate to (a) the definitions of ''Class A DIG'', ''Class A DIG Representatives'', ''DIG Proposal'', ''DIG Directions Request'', ''Majority Creditors'', ''Restricted Payment'', ''Restricted Payment Condition'', ''Qualifying Class A Debt'', ''Super-Majority

Creditors'' 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, Super-Majority Creditors or the Security Trustee or (c) the percentages of aggregate Outstanding Principal Amount of Qualifying Class A Debt required to terminate a Standstill;

(f) 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;

(g) 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;

(h) 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;

(i) 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);

(j) (subject to (k) below) would change any Event of Default or any Trigger Event relating to financial ratios or credit rating downgrade;

(k) would relate to the waiver of the non-payment Event of Default in respect of any Obligor or Events of Default or Trigger Events relating to non-payment, credit rating downgrade or financial ratios or the making of Restricted Payments (see ''*Common Terms Agreement*'' under ''*Trigger Events*'' and ''*Events of Default*'' below);

(l) 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, Taxes, 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); or

(m) 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.

The Entrenched Rights of the Class B Debt Providers will 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:

(a) 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 under or in connection with the STID or any other Finance Document;

(b) (i) 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 (ii) 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;

(c) would change or would relate to the Payment Priorities;

(d) 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;

(e) would change or would relate to (a) the definitions of ''Class B DIG'', ''Class B DIG Representatives'', ''DIG Proposal'', ''DIG Directions Request'', ''Majority Creditors'', ''Restricted Payment'', ''Restricted Payment Condition'', ''Super-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 aggregate Outstanding Principal Amount of Qualifying Class B Debt required to terminate a Standstill;

(f) 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;

(g) 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;

(h) 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;

(i) 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);

(j) (subject to (k) below) would change any Event of Default or any Trigger Event relating to financial ratios or credit rating downgrade;

(k) would relate to the waiver of the non-payment Event of Default in respect of any Obligor or Events of Default or Trigger Events relating to non-payment, credit rating downgrade or financial ratios or the making of Restricted Payments (see ''*Common Terms Agreement*'' under ''*Trigger Events*'' and ''*Events of Default*'' below);

(l) 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, Taxes, 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); or

(m) 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:

(a) any sale, transfer or other disposal (whether deemed or otherwise) of any of the Equipment;

(b) the affixing of any Equipment to any land or building to which SWS or the Issuer (as applicable) does not have an interest in such land for the purposes of the Capital Allowances Act 2001;

(c) the creation or subsistence of any encumbrance, lien, mortgage or other Security Interest over any Equipment;

(d) any of the covenants or representations and warranties set out in the Finance Documents which relate to the maintenance or condition of the Equipment;

(e) any provision(s) contained in the Finance Documents pertaining to any damage, destruction or total loss of any of the Equipment;

(f) any elections filed with the United Kingdom Inland Revenue by SWS 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;

(g) the provisions relating to the calculation of rental payments and/or sums due upon termination of the leasing of any Equipment; and

(h) any changes to the Entrenched Rights of the Finance Lessors set out in paragraph (a) to (g) above.

Entrenched Rights of the Mezzanine Facility Providers

The Mezzanine Facility Providers will enjoy some of the same Entrenched Rights as will apply to the Class B Debt Providers insofar as is necessary to protect the fundamental terms of their investment. In addition:

(a) for so long as no Default has occurred and is continuing, no modification can be made which would have the effect of changing or supplementing any of the provisions contained in Paragraph 37 (*Restricted Payments*) of Part 3 of Schedule 5 (*Covenants*) to the Common Terms Agreement; any of the Trigger Events contained in Part 1 of Schedule 6 (*Trigger Events*) to the Common Terms Agreement; any of the remedies to Trigger Events contained in Part 3 of Schedule 6 (*Trigger Events*) to the Common Terms Agreement; or any of the Events of Default set out in Schedule 7 (*Events of Default*) to the Common Terms Agreement, in each case where the effect of such change or supplement would or might reasonably be expected to be adverse to the interests of a Mezzanine Facility Provider; or

(b) unless and until (i) an Event of Default has occurred and is continuing or (ii) a Trigger Event has occurred and is continuing and a Remedial Plan has concluded that the failure to raise new Financial Indebtedness would or could reasonably be expected to lead to an Event of Default and provided that the Security Trustee has received an Entrenched Rights or Reserved Matters Notice from any Mezzanine Facility Provider (or its Secured Creditor Representative), no modification to, or consent or waiver under or in respect of, any term of the STID and/or any other Finance Document will be effective if the proposed modification, consent or waiver would permit the raising of new Financial Indebtedness by the SWS Financing Group to the extent that, as a result, the aggregate of the Senior Net Indebtedness and any other net indebtedness ranking in point of priority senior to the Senior Mezzanine Debt would exceed 90% of RCV,

unless the Security Trustee has received written consent to such modification, consent or waiver from at least $66^{2}/_{3}$ per cent. by value of Mezzanine Facility Providers of each of the Senior Mezzanine Facility and the Junior Mezzanine Facility (or from their Secured Creditor Representatives).

The Entrenched Rights of the Class A Debt Providers, the Class B Debt Providers, the Finance Lessors, the Senior Mezzanine Debt Providers and the Junior Mezzanine Debt Providers (where applicable) will be exercised through their Secured Creditor Representatives.

The Bond Trustee, the Security Trustee, the Hedge Counterparties and the Financial Guarantors will 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.

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 each Secured Creditor reserves to itself to decide are each and every right, power, authority and discretion of, or exercisable by, each such Secured Creditor at any time:

(a) 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 Authorised Credit Facility to which it is a party (as permitted under the CTA);

(b) to make determinations of and require the making of payments due and payable to it under the provisions of the Authorised Credit Facilities to which it is a party (as permitted under the CTA);

(c) to exercise the rights vested in it or permitted to be exercised by it under and pursuant to the CTA and the STID;

(d) to receive notices, certificates, communications or other documents or information under the Finance Documents or otherwise;

(e) to assign its rights or transfer any of its rights and obligations under any Authorised Credit Facility subject always to the requirement of the assignee or transferee to accede to the CTA and the STID as a Secured Creditor;

(f) 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;

(g) in the case of each Hedge Counterparty, to terminate the relevant Hedging Agreement provided such termination is a Permitted Hedge Termination; and

(h) 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 SWSGH and SWSH pursuant to the terms of the Security Documents.

The Bond Trustee, the Security Trustee, the Mezzanine Facility Lenders, the Hedge Counterparties and the Financial Guarantors each have certain additional Reserved Matters which each has reserved to itself to decide. For the Bond Trustee and each Financial Guarantor, these include rights vested in it pursuant to the terms of the Bond Trust Deed and the Financial Guarantee. 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 (xiv) to (xx) below, in relation to any Sub-Class of Class A Unwrapped Bonds or Class B Unwrapped Bonds and (where an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Sub-Class of Wrapped Bonds) any such Sub-Class of 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 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 Financial Guarantee;

(iii) to make any claim under, or enforce any provision of, any Financial Guarantee;

(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) under the Fourth Schedule (*Provisions for Meetings of Bondholders*) of the Bond Trust Deed;

(xiii) the right to appoint a co-trustee or to retire under, as the case may be, Clause 24 (*New Bond Trustee*) and Clause 25 (*Bond Trustee's Retirement and Removal*) of the Bond Trust Deed;

(xiv) the publication of an Interest Rate or Interest Amount, as the case may be, in accordance with Condition 6(h) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(xv) the determination of amounts in accordance with Condition 6(h) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(xvi) the selection of or made by an Indexation Adviser in accordance with Condition 7(a) (*Definitions*) and 7(c)(ii) (*Changes in Circumstances Affecting the Index – Delay in publication of the Index*);

(xvii) the consideration and approval in relation to a substitute index figure in accordance with Conditions 7(e)(i) to (iii) inclusive (*Cessation of or Fundamental Changes to the Index*);

(xviii) the variation, termination and appointment of Agents in accordance with Condition 9(e) (*Appointment of the Agents*); and

(xix) to consent to any proposed amendment to, as the case may be, the 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 (*Modification, Consent and Waiver*) of the Bond Trust Deed will be subject to the directions of the Majority Creditors).

Those Reserved Matters which each 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 Financial Guarantee (except if an FG Event of Default in respect of such Financial Guarantor is continuing) in relation to:

(a) the publication of an Interest Rate or Interest Amount in accordance with Condition 6(h) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(b) the determination of amounts in accordance with Condition 6(h) (*Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*);

(c) the selection of or made by an Indexation Adviser in accordance with Condition 7(a) (*Definitions*) and 7(c)(ii) (*Changes in Circumstances Affecting the Index – Delay in publication of the Index*);

(d) the consideration and approval in relation to a substitute index figure in accordance with Condition 7(e)(i) to (iii) inclusive (*Cessation of or Fundamental Changes to the Index*); and

(e) the variation, termination and appointment of Agents in accordance with Condition 9(e) (*Appointment of the Agents*).

Each Financial Guarantor of Wrapped Debt (other than Wrapped Bonds) will have similar matters reserved to it in respect of the determination of interest, interest amounts and repayment amounts, the selection of an indexation adviser, approval of substitute index figure, variation, termination and appointment of Agents under the Authorised Credit Facility under which such Wrapped Debt is incurred by SWS or the Issuer in addition to any amendment to Part C (Financial Guarantor Reserved Matters) of Schedule 3 to 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 in the STID, 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 (subject to the disclosure of information provisions of the CTA) 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 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;

(viii) 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

(ix) 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 8.2 (*Procedures for Modifications, Consents and Waivers*) of the STID.

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. The implementation of any such proposal is an Entrenched Right of the Bond Trustee and each Financial Guarantor.

Intercompany Loan Arrangements

Issuer/SWS Loan Agreements

All Financial Indebtedness raised by the Issuer from time to time (whether through the issue of Bonds or raising of debt under Authorised Credit Facilities) will be backed by an aggregate matching debt obligation owed by SWS to the Issuer under a loan agreement (each an "**Issuer/SWS Loan Agreement**").

In the case of the initial Issuer/SWS Loan Agreement to be entered into no later than the Initial Issue Date (the "**Initial Issuer/SWS Loan**"), the aggregate nominal amount of all Financial Indebtedness raised through the issue of Bonds and the raising of Mezzanine Debt or any other debt under other relevant Authorised Credit Facilities by the Issuer on the Initial Issue Date will be lent by the Issuer to SWS under the Initial Issuer/SWS Loan Agreement on the Initial Issue Date. Each advance under the Initial Issuer/SWS Loan Agreement will correspond to the principal amount of the relevant Sub-Class of Bonds issued on the Initial Issue Date, the principal amount of the Senior Mezzanine Debt and the Junior Mezzanine Debt or, as the case may be, other debt under relevant Authorised Credit Facilities raised by the Issuer on the Initial Issue Date.

The proceeds of all Financial Indebtedness raised by the Issuer through the further issue of Bonds or raising of debt under any Authorised Credit Facility (other than the DSR Liquidity Facilities) will be lent to SWS under further Issuer/SWS Loan Agreements in order that such Financial Indebtedness will be backed by a debt obligation owed to the Issuer under such Issuer/SWS Loan Agreement. Such debt will be subdivided into advances such that each advance corresponds to the principal amounts of the relevant Tranche, Sub-Class or Class of Bonds issued or the principal amount of debt raised under the relevant Authorised Credit Facility or Facilities by the Issuer.

All advances to be made by the Issuer under the Issuer/SWS Loan Agreements will be in Sterling and in amounts and at rates of interest set out in the relevant Pricing Supplement or Authorised Credit Facility or, if hedged in accordance with the Hedging Policy (see "*Hedging Agreements*" below), at the hedged rate plus, in each case, a small margin and will have interest payment dates on the same dates as the related Bonds or advance under the relevant Authorised Credit Facility. Interest on each advance made under an Issuer/SWS Loan Agreement will accrue from the date of such advance. In addition, each advance will be repayable on the same date as the related Bonds or advance under the relevant Authorised Credit Facility.

The obligations of SWS under each Issuer/SWS Loan Agreement will be secured pursuant to the Security Agreement, and such obligations will be guaranteed by SWSH and SWSGH in favour of the Security Trustee, who will hold the benefit of such security on trust for the Secured Creditors (including the Issuer) on the terms of the STID.

The Issuer's obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from SWS under each Issuer/SWS Loan Agreement.

SWS agrees to make payments free and clear of any withholding on account of tax unless it is required by law to do so – in such circumstances SWS will gross-up such payments.

In the Common Terms Agreement, SWS makes certain representations and warranties (as more fully set out under "*Common Terms Agreement – Representations*" below) to each Finance Party (which includes the Issuer as lender under an Authorised Credit Facility).

Each Issuer/SWS Loan Agreement will be governed by English law and subject to the exclusive jurisdiction of the English courts (except that the Issuer alone may commence proceedings in any other court with jurisdiction).

Fees Generally

The Issuer is responsible for paying the fees and expenses of the Bond Trustee, the Security Trustee, the Paying Agents, the Registrar, the Transfer Agents, the Agent Bank, the Issuer's legal advisers, accountants and auditors, certain fees due to MBIA in respect of the Financial Guarantee in relation to the Class A Wrapped Bonds issued on the Initial Issue Date and certain fees due to other Financial Guarantors of Wrapped Debt and to liquidity providers. On the Initial Issue Date, SWS will pay to the Issuer an amount equal to the upfront fees and expenses of the foregoing and certain other fees payable by the Issuer in connection with the establishment of the Programme.

In respect of the period after the Initial Issue Date, SWS will, by way of facility fees under the Issuer/SWS Loan Agreements, pay to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees and expenses.

Common Terms Agreement

General

Each of the Existing Hedge Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Liquidity Facility Providers, the Initial Authorised Credit Providers, each Obligor, the Mezzanine Facility Providers, the Bond Trustee, the Initial Financial Guarantor, the Principal Paying Agent, the Transfer Agent, the Registrar and others will, on or before the Initial Issue Date, enter into a common terms agreement (the "**Common Terms Agreement**" or "**CTA**"). The Common Terms Agreement will set out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which will apply to each Authorised Credit Facility (including for the avoidance of doubt the Issuer/SWS Loan Agreements, Hedging Agreements and any other document entered into in connection with an Authorised Credit Facility).

It will be 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 is in addition to those in the Common Terms Agreement and any other Common Agreement and any other exception expressly set out in the CTA will be unenforceable (save for limited exceptions which will, among other things, include covenants relating to indemnities, covenants to pay, covenants relating to remuneration, costs and expenses, representations and covenants in each Class or Sub-Class of Bonds and certain provisions under the Hedging Agreements and the Finance Leases). The Common Terms Agreement will further provide that no representation, covenant, Trigger Event or Event of Default will be breached or triggered as a result of the Permitted Post Closing Events (including, but not limited to, the payments of all amounts outstanding under the Bridge Facility Agreement, certain transaction fees not paid on the Initial Issue Date, SWS/SWSG Debt Service Distributions and any other payments as may be agreed by SWS and the Security Trustee in writing). The Common Terms Agreement will allow SWS (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 relevant ratings set out in the definition of Rating Requirement (in relation to the Class A Bonds) and the ratings ascribed to the Class B Bonds at the time of their issue have been affirmed by all Rating Agencies then rating the Class A Bonds and/or Class B Bonds as applicable.

The Common Terms Agreement will also set out the cash management arrangements to apply to the SWS Financing Group (see "*Cash Management*" below). It will be a requirement of the Common Terms Agreement that future providers of Authorised Credit Facilities must also accede to the Common Terms Agreement and the STID.

A summary of the representations, covenants, Trigger Events and Events of Default to be included in the Common Terms Agreement is set out below.

Representations

On the Initial Issue Date (and in respect of certain representations on each Issue Date and each date on which any Financial Guarantee or any other new Authorised Credit Facility is issued or entered into under the Programme, any new Material Agreement is entered into and only in relation to such Bonds, Financial Guarantee, Authorised Credit Facility or Material Agreement (as applicable), and on each Payment Date, each date of a request for a borrowing, the first date of each borrowing and each date for payment of a Restricted Payment), each Obligor will make a number of representations in respect of itself to each Finance Party. These representations will 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 (or, in the case of SWS, its material assets), its constitutional documents or any material applicable law (save in the case of SWS and the Instrument of Appointment to the extent such conflict has been waived by Ofwat to the reasonable satisfaction of the Security Trustee);

(iv) the preparation of its financial statements in accordance with Applicable Accounting Principles and that such financial statements give a true and fair view of its financial condition;

(v) no event having occurred or circumstance having arisen since the date of the last financial statements which has a Material Adverse Effect (except for any announcement of K from time to time);

(vi) except as disclosed in its financial statements, it not being subject to any contingent liabilities or commitments that would be reasonably likely to have a Material Adverse Effect;

(vii) the validity and admissibility in evidence of the Finance Documents in any proceedings in the jurisdiction of its incorporation;

(viii) 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 a Permitted Security Interest);

(ix) the conduct of its business not violating any judgment, law or regulation, which if enforced would have a Material Adverse Effect;

(x) no Default or Potential Trigger Event being outstanding or will result from entry into and performance under the Transaction Documents;

(xi) the obtaining by it prior to the Initial Issue Date of all consents and approvals necessary for the conduct of SWS' business and the transactions in the Finance Documents which if not obtained or complied with, or which if revoked or terminated, would either (i) have a Material Adverse Effect or (ii) not be in the normal course of business and Good Industry Practice generally;

(xii) 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;

(xiii) insurances required to be maintained under any Finance Document being in full force and effect where failure to maintain would be reasonably likely to have a Material Adverse Effect;

(xiv) there being no insolvency event in relation to it;

(xv) the ownership structure of the SWS Financing Group;

(xvi) the due payment of all its taxes (save to the extent any tax payment is being disputed in good faith) and the due filing in all material respects of any tax returns and there being no material claims being asserted against it with respect to taxes which are not being disputed in good faith);

(xvii) under the laws of its jurisdiction of incorporation and tax residence in force on the Initial Issue Date, it not (other than as disclosed) being required to make any deduction or withholding from

any payment of interest under the Finance Documents in circumstances where, under current United Kingdom law, no United Kingdom withholding tax would be imposed on the payment;

(xviii) the claims of Secured Creditors secured pursuant to a Security Agreement ranking prior to the claims of its other unsecured and unsubordinated creditors;

(xix) no Security Interest having been created, or allowed to exist, other than Permitted Security Interests and no indebtedness incurred other than Permitted Financial Indebtedness and Permitted Volume Trading Arrangements;

(xx) 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;

(xxi) no litigation or other proceedings current, or to its knowledge pending or threatened against it or its assets which, if adversely determined, are reasonably likely to have a Material Adverse Effect;

(xxii) limits on its powers not being exceeded as a result of the borrowing, leasing, granting of security or giving or guarantees contemplated by the Finance Documents;

(xxiii) compliance with environmental laws and having obtained all environmental permits necessary for conduct of its business and no environmental claim having been commenced;

(xxiv) no loans made by any Obligor being outstanding to other persons immediately following the issue of Bonds on the Initial Issue Date other than pursuant to Finance Documents, under any Permitted Volume Trading Arrangements and the SWS/SWSG Loan Agreement;

(xxv) no Treasury Transactions will be outstanding immediately following the issue of Bonds on the Initial Issue Date other than the Initial Hedging Agreements;

(xxvi) all arrangements or contracts with any person being on arm's length basis and, other than in respect of contracts entered into by SWS and under which payments to be made would fall within paragraph (a) of the exclusions in the definition of Distribution, 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 Associate, except: (1) contracts entered into by SWS and under which payments to be made would fall within paragraph (c) of the exclusion in the definition of Distribution; (2) as permitted under the Finance Documents; or (3) as a result of a Permitted Emergency Action; and

(xxvii) on the Initial Issue Date, no member of the SWS 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 Class A Debt, Class B Debt or Mezzanine Debt, the providers of which have executed the CTA and the STID, the SWS Preference Shares, the initial holders of which will have executed the SWS Preference Share Deed or Permitted Financial Indebtedness falling within the category listed in paragraphs (a), (b), (d) or (e) of the definition of Permitted Financial Indebtedness.

Additionally, SWS will (subject, in some cases, to agreed exceptions and qualifications as to materiality and reservations of law) make representations which will include:

(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 and projections 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 SWS and the accuracy of this Offering Circular.

The representation referred to in sub-paragraph (ii) will be made by SWS on the date of the Common Terms Agreement. The representation referred to in sub-paragraph (iv) will be made by SWS on the

date of the Common Terms Agreement, and, subject to minor amendments, on each date when any new Authorised Credit Facility is generally syndicated.

Additionally, each of SWSH, SWSGH and the Issuer will represent that its activities have been limited to the First Aqua Acquisition, the financing and refinancing thereof following the acquisition by SWI of the Issuer in May 2003 the holding of shares in its subsidiaries, implementing the Reorganisation Plan, the declaration and payments of dividends, and its entry into documents relating thereto and in contemplation of its entry into the Transaction Documents.

Covenants

The Common Terms Agreement will contain certain covenants from each of the Obligors. A summary of the covenants which will (amongst others) be 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 ''*Information – Covenants*'', ''*Covenants – General*'' and ''*Financial Covenants*''.

Information – Covenants

(i) So far as permitted by any applicable law or any binding confidentiality obligation, SWS will undertake to supply to the Security Trustee, each Rating Agency rating the Bonds at that time and, in certain cases, each Financial Guarantor 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 SWS 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 SWS 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 SWS;

  (e) copies of all certificates and responses provided by SWS or any member of the SWS 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 SWS or SWS' 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 materially adverse in relation to the creditworthiness of SWS or to SWS' ability to perform its duties under the Instrument of Appointment;

  (g) a semi-annual Investors Report; and

  (h) such material information about the business and financial condition of SWS 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).

(ii) SWS will further agree to provide information regarding certain changes of control of SWSGH to the Security Trustee, each Financial Guarantor, and the Rating Agencies as soon as it becomes aware of any such proposal and to use all reasonable endeavours to procure that the Security Trustee and each Financial Guarantor have been given a reasonable opportunity to express views on the identity and role of any such proposed new Controlling person under any such changes of control.

(iii) SWS will further agree to provide information in relation to any announcement of K which has or might reasonably have a Material Adverse Effect.

(iv) SWS will further agree 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, SWS must provide the required information as soon as reasonably practicable. This is subject to action SWS reasonably believes is consistent with prudent management as part of negotiations with the Director General.

(v) Additionally, each Obligor will undertake to supply to the Security Trustee within a certain timeframe:

(a) its audited financial statements and, in the case of SWS, its audited consolidated financial statements, for each of its financial years and, in the case of SWS, 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 (to the extent that such documents would be sent to its shareholders if such Obligor were a listed company) 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 SWS 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 SWS' annual charges scheme, a summary of SWS' strategic business plan at each Periodic Review, SWS' current Procurement Plan (if any), SWS' annual drinking water quality report, SWS' annual environmental report and SWS' annual conservation and access report);

(C) promptly upon coming aware of them, details concerning any Obligor placed on credit watch with negative implications;

(D) any event which could reasonably be expected to give rise to an insurance claim in excess of £4,000,000 (indexed);

(E) any Material Entity Event (see ''*Material Entity Events*'' below) and/or Emergency which would be reasonably likely to have a Material Adverse Effect;

(F) any non-compliance with any law or regulation which would be reasonably likely to have a Material Adverse Effect;

(G) 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).

(vi) Additionally, each of SWS and the Issuer will undertake, among other things:

(a) to supply a compliance certificate signed by two authorised signatories of the Issuer and two directors of SWS; such compliance certificate to be accompanied by a statement as to what the historical and foward-looking financial ratios which are required to be calculated under the Common Terms Agreement are and a copy of the computations made in respect of such historical and foward-looking financial ratios;

(b) to permit the Security Trustee to investigate the calculations contained in any compliance certificate and to call for other substantiating evidence if it certifies to SWS or the Issuer that it has reason to believe that the historical or forward-looking ratios (or confirmation of compliance with the financial ratios) as set out in the statement are incorrect or misleading or in the event that there is a deterioration in the historical 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 (a) certifying that no Default or Potential Trigger Event is outstanding of which it is aware, having made all reasonable enquiries, or if a Default or Potential Trigger Event is outstanding, specifying the Default or Potential Trigger Event and the steps (if any) taken or proposed to be taken to remedy such event.

(vii) 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.

Covenants – General

(i) Each Obligor will undertake, among other things:

(a) to do all such things as are necessary to maintain its corporate status where failure to do so 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 secured claims of Secured Creditors against it under the Finance Documents will rank (subject to certain reservations as to matters of law) prior to 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 and the Finance Documents and, in the case of SWS, the Instrument of Appointment, the WIA and Good Industry Practice (taking its Business as a whole);

(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 in accordance with Good Industry Practice;

(g) to ensure that, save as otherwise agreed by the Security Trustee and each Financial Guarantor and save for any Permitted Acquisitions or Permitted Disposals, the corporate ownership structure of the SWS Financing Group (other than the ownership or Control of SWSGH and the ownership of the SWS Preference Shares) 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; and (B) to take all actions as the Security Trustee may require, following the making of any acceleration, cancellation or demand under the Issuer/SWS Loan Agreements 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 acknowledgements 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 SWS, Permitted Volume Trading Arrangements;

(k) not to enter into any amalgamation, demerger, merger, consolidation or reconstruction other than as agreed by the Security Trustee and each Financial Guarantor (other than, in the case of SWS, a Permitted Disposal or Permitted Acquisition);

(l) not to acquire or invest, other than Permitted Acquisitions and Authorised Investments;

(m) not 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) any credit or indemnity provided under any Finance Document; (B) any loan made under the Issuer/SWS Loan Agreements; (C) any loan provided to SWS subordinated to the Authorised Credit Facilities on terms acceptable to the Security Trustee; (D) any guarantee in the Finance Documents; (E) the SWS/SWSG Loan; (F) single loans by SWS to employees of less than £250,000 (indexed) or loans by SWS to employees in aggregate less than £750,000 (indexed); (G) in the case of SWS, Permitted Volume Trading Arrangements; (H) any loan made as a Permitted Post Closing Event; (I) other loans by SWS in aggregate of less than £500,000 (indexed) not falling in (A) to (H) above; provided (other than in the case of (B) and except where a Default is continuing (F)) 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 without the prior written consent of the Security Trustee (provided that SWS may change its memorandum or articles of association or other constitutional documents without the Security Trustee's consent where such change is not in relation to the SWS Preference Shares and would not be reasonably likely to have a Material Adverse Effect or otherwise prejudice the Security Interests created pursuant to the Security Documents);

(o) not to enter into any Treasury Transaction other than Hedging Agreements;

(p) 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 or pursuant to the Finance Documents) relating to Tax;

(q) 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;

(r) (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;

(s) to maintain separate bank accounts;

(t) to pay all Taxes for which an Obligor is primarily liable 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;

(u) 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, nor create or enter into any restriction or prohibition on the creation or granting of, any Security Interest on any of its assets except as permitted by the Finance Documents, nor create or permit to exist any further Security Interest over all or any of its present and future revenues, equipment or assets as security for any Permitted Financial Indebtedness other than in favour of the Security Trustee to be held upon the terms of the STID;

(v) 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 any Associate other than (in the case of the Issuer or SWS) pursuant to a Finance Lease; or (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 respect of SWS only),

in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset nor (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 and exceeds an amount equal to 0.13% of RCV in aggregate at any time;

(w) not to dispose of all or any part of the Equipment or its undertaking, revenues, business or assets other than a Permitted Disposal or pursuant to the creation of a Permitted Security Interest;

(x) not to change its tax residence from the United Kingdom;

(y) 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) after the Initial Issue Date, issue any share capital to any person, other than where any such action or transaction; (i) is in respect of the SWS Preference Shares (subject, in certain circumstances, to the Restricted Payment Condition) (ii) is in furtherance of a Restricted Payment and the amount of the Restricted Payment is permitted to be paid pursuant to the Finance Documents; (iii) is expressly permitted under the Finance Documents or (iv) has received the prior written consent of the Security Trustee and each Financial Guarantor;

(z) other than as a result of Permitted Emergency Action (in which case SWS shall use reasonable endeavours to ensure that all contracts entered into will be on an arm's length basis, although SWS will not be required to obtain alternative competitive quotes) or in respect of contracts entered into by SWS under paragraph (c) of the definition of Distributions, 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; and

(aa) other than SWS except with the consent of the Security Trustee and each Financial Guarantor, no Obligor shall participate in a scheme in respect of retirement benefit arrangements with companies other than the other Obligors. SWS may participate in subject to paragraphs (iv) and (v) below, the Permitted Existing Pension Schemes.

(ii) Additionally, each of SWSH and SWSGH will undertake:

(a) not to: (aa) carry on or transact any business or other activity other than (A) ownership of the shares in members of the SWS Financing Group held by it on the Initial Issue Date; (B) the giving of guarantees in accordance with the Finance Documents; and (C) performance of obligations required under 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; (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; 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; and

(b) not to make any Restricted Payments otherwise than out of monies received by it, directly or indirectly, from SWS which have been properly paid by SWS as a Distribution or as set out under the Common Terms Agreement.

(iii) Save as disclosed in writing to the Security Trustee on the Initial Issue Date or as otherwise approved by the Security Trustee, SWS will further undertake to maintain on its board of directors at least 3 non-executive directors who are not employees or directors of any Associate (subject to temporary vacancies arising out of exceptional circumstances).

(iv) Additionally, SWS will undertake among other things:

(a) to ensure that the nature of its business is limited to the Business;

(b) to conduct its Appointed Business in the name of SWS only and to ensure that separation from the Group or Associate is maintained at all times by holding SWS 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 Appointed Business unless such suspension or abandonment is in accordance with its Instrument of Appointment;

(d) if it exceeds the Permitted Non-Appointed Business Limits, to dispose of or reduce all or part of its Permitted Non-Appointed Business within six months so that the Permitted Non-Appointed Business Limits are complied with on the next Calculation Date;

(e) to comply in all material respects with the Instrument of Appointment save to the extent Ofwat has waived or approved such non-compliance to the reasonable satisfaction of the Security Trustee;

(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;

(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 required under 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) other than in respect of contracts entered into by SWS and under which payments to be made would fall within paragraphs (a) or (c) of the exclusions in the definition of Distribution, to comply with the Outsourcing Policy, which shall become effective on and from the Initial Issue Date and apply to each Outsourcing Agreement and Capex Contract entered into by SWS (other than any Excluded Agreements) on and from the Initial Issue Date; (B) subject to (A), to procure that any Outsourcing Agreement or Capex Contract entered into on and from the Initial Issue Date complies with the Public Procurement Rules (if such Outsourcing Agreement or Capex Contract would be an agreement to which the Public Procurement Rules would apply) and the Outsourcing Policy; (C) where an Emergency is continuing, to use its best endeavours to rectify such Emergency as soon as is reasonably practicable (for the avoidance of doubt, any Permitted Emergency Action will not constitute a breach of the Outsourcing Policy); (D) each time an Excluded Agreement expires in accordance with its terms or is terminated early, any agreement entered into by SWS in place of such Excluded Agreement shall comply with the Outsourcing Policy (to the extent required by the terms of the Outsourcing Policy); (E) not to amend, modify or alter any material provision or agree to renew or extend (or agree to exercise any option to renew or extend) any Excluded Agreement without the consent of the Security Trustee and each Financial Guarantor; and (F) to at all times use Good Industry Practice in exercising its rights and performing its obligations under any Excluded 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 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, SWS must use its reasonable endeavours to ensure that subject to its obligations under the WIA: (A) a Transfer Scheme is agreed between SWS, 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 SWS 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) other than in respect of the SWS Preference Shares, 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 SWSH, the right (whether conditional or otherwise) to call for the issue or allotment of any share (or equivalent) loan note or loan capital of SWS (including an option or right of pre-emption or conversion);

(q) to make an SWS/SWSG Debt Service Distribution quarterly each year and then only provided that certain conditions are met, including each of the following:

(i) no Event of Default is subsisting or will result from the payment;

(ii) no event of default has occurred and is continuing under the SWS/SWSG Loan Agreement and SWSG is not in default of its obligations under the SW Tax Deed of Covenant;

(iii) all dividends declared by SWS, SWSH and SWSGH are validly declared;

(iv) all payments in respect of a Permitted Tax Loss Transaction comply fully with the SW Tax Deed of Covenant and the CTA; and

(v) such SWS/SWSG Debt Service Distribution is made against irrevocable payment instructions directing the Account Bank to remit the proceeds thereof on receipt by SWSG to the relevant account of SWS for same day value;

(r) to comply with the obligations to provide information under any Surveillance Letter or any Authorised Credit Facility;

(s) to apply to the Director General for an IDOK when permitted under the Instrument of Appointment (or use any other means available to apply for an IDOK), in all circumstances which are appropriate in accordance with Good Industry Practice provided that any such application is consistent with prudent management;

(t) 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 SWS 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;

(u) not to propose any resolution for, or agree to any material amendments to, variation, modification, waiver, suspension, revocation, termination of any Material Agreement save in accordance with the Outsourcing Policy without the prior written consent of the Security Trustee; and

(v) to (i) procure that the nature of the business of its Pension Companies is limited to the business and functions of a trustee of an occupational pension scheme (as defined in section 1 of the Pension Schemes Act 1993) in respect of SWS Pension Schemes only and (ii) procure that the Pension Companies do not incur any Financial Indebtedness or permit security to be taken over their assets or shares other than where such Security is taken in accordance with the Security Agreement.

(v) Additionally, SWS and the Issuer will undertake among other things:

(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) only to:

(A) pay Customer Rebates at a time when no Event of Default is subsisting;

(B) other than in the case of Permitted Post Closing Events, any SWS/SWSG Debt Service Distribution, any Subordinated Debt Replacement Event and any SWS

Preference Share Conversion Event, pay any Distribution or make any payment under the Subordinated Debt or SWS Preference Shares if:

(i) in the case of Distributions or dividends under the SWS Preference Shares the payment is made after a duly constituted board meeting has been held approving the declaration of such Distribution or dividend;

(ii) the amount of the Distribution, payment under the Subordinated Debt and/or payment under the SWS Preference Shares that may be paid is limited to an amount equal to the Proposed Payment Amount (as defined below);

(iii) on the date of such payment:

(a) no drawings are outstanding under the Liquidity Facilities, other than Standby Drawings; and

(b) save in the case of the first scheduled payment under the Subordinated Debt and the SWS Preference Shares, the Senior RAR, as certified by the Issuer and SWS in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to 0.850:1 for each Test Period (after deducting an amount equal to the aggregate of any proposed Customer Rebates, proposed Distribution, proposed payment on the Subordinated Debt and proposed payment on the SWS Preference Shares (the "**Proposed Payment Amount**") from available cash); and

(c) no Default subsists or might reasonably be expected to result from the payment and the Repeated Representations 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 as defined in Schedule 2 of the WIA or other satisfactory security has been established that will not be materially prejudicial to the interests of Class A Debt Providers or the Class B Debt Providers (as the case may be); and

(iv) in the case of a payment under the SWS Preference Shares or any Subordinated Debt into which the SWS Preference Shares have converted, at the time of such payment there is no amount which has fallen due under the Subordinated Debt which has not been paid or would, but for any deferral of unpaid amounts, have fallen due,

and SWS shall be treated as having made to each Secured Creditor in respect of Class A Debt and Class B Debt a representation on the date of any Restricted Payment that each of the conditions necessary to be satisfied in relation to such Restricted Payment has been satisfied.

In addition to the restrictions on payment of Restricted Payments described above, a Restricted Payment will not be permitted if certain changes of control of SWSGH result in a downgrade of the shadow rating of the Class A Wrapped Debt to or below BBB+ (S&P), Baa1 (Moody's) and BBB+ (Fitch) and such ratings have not been restored;

(c) 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;

(d) to ensure that there are installed and maintained accounting, management information, financial modelling and cost control systems which are of such a standard which 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;

(e) 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;

(f) to inform the Security Trustee of any change to the Auditors, as soon as reasonably practicable;

(g) 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;

(h) 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 SWS 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 SWS; and

(i) to ensure that after the Initial Issue Date, it will not enter into any Authorised Credit Facility (other than in respect of any Subordinated Debt) unless following such entry into of such Authorised Credit Facility: (a) its aggregate nominal outstanding Financial Indebtedness which has an expected maturity falling within any period of 24 consecutive months shall not exceed 20 per cent. of SWS. RCV for the time being, and (b) the aggregate nominal outstanding Financial Indebtedness which has an expected maturity falling within the period from one Periodic Review to the next Periodic Review shall not exceed 40 per cent. of SWS RCV for the time being (adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Period Review is greater than 5 years).

(vi) Additionally, the Issuer will undertake, among other things:

(a) not to (A) carry on any business other than the raising of funds to provide debt financing to SWS for the purposes of its Business in accordance with the Finance Documents or any Hedging Agreement 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 hedging arrangements contemplated in the Hedging Policy, in accordance with the terms of the Hedging Policy;

(c) prior to any refinancing of any Class B Debt with any Class A Debt, to obtain confirmation from all Rating Agencies then rating the Bonds that the Rating Requirement is met and will not cease to be met as a result of such refinancing;

(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 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 SWS 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, 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 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 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) or 8(b) (*Optional Redemption*), 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 841 of the Income and Corporation Taxes Act 1988); 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 SWS 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 amendments 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) any request for consent from the Security Trustee and each Financial Guarantor under any Finance Document (other than the STID) in relation to any matter or act which would be automatically treated as permitted by such Finance Document upon the giving of consent by the Security Trustee and each Financial Guarantor; (C) the Bonds of any Sub-Class being repaid in full; (D) the termination of the appointment of the Cash Manager; (E) the appointment of a replacement Bond Trustee or Security Trustee or the appointment of any new or replacement Agents; (F) any Default; (G) the taking of Enforcement Action; (H) the occurrence of any SWS Change of Control or certain changes of control of SWSGH; or (I) the acquisition of any Permitted Subsidiary pursuant to a Permitted Acquisition, in each case, promptly after the Issuer or SWS becoming aware of the same;

(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, if any Registered Bonds are outstanding, to procure that the Registrar maintains the Register and to 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 (unless the Bond Trustee otherwise agrees) to enter into a deed supplemental to the Bond Trust Deed, so that the relevant Condition shall make reference to that other or additional territory; and

(p) to notify the Bond Trustee of any amendment to the Dealership Agreement.

Financial Covenants

(i) SWS will undertake, among other things:

(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 copy of the computations made in respect of the calculation of such ratios:

(A) the Class A ICR for each Test Period;

(B) the Senior Adjusted ICR for each Test Period;

(C) the Class A Adjusted ICR for each Test Period;

(D) the Senior Average Adjusted ICR;

(E) the Class A Average Adjusted ICR;

(F) the Senior RAR as at such Calculation Date and, in the case of forward-looking ratios, the 31 March falling in each Test Period;

(G) the Class A RAR as at such Calculation Date and, in the case of forward-looking ratios, the 31 March falling in each Test Period; and

(H) the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the 12 month period ending on such Calculation Date,

and to calculate (x) the historical ratios using the audited financial statements (or unaudited financial statements if audited financial statements are not available on such date) delivered with such Compliance Certificate and (y) the forward-looking ratios using the SWS Business Financial Model which shall be prepared on a consistent basis and using assumptions from the most recently available relevant information and the most recently delivered financial statements; and

(b) at each Periodic Review and on making each IDOK application, to apply to the Director General for a price determination which in the reasonable opinion of the SWS 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 from at least two of the Rating Agencies.

(ii) The Issuer will further undertake to maintain:

(a) a DSR Liquidity Facility 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 Account) is 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 (after taking into account the impact on interest rates of such Class A Debt and Class B Debt of any Hedging Agreement then in place); and

(b) an O&M Reserve and/or O&M Reserve Facility available for drawing which together (including the value of any Authorised Investments funded from the balance on any 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 SWS Business Financial Model.

Trigger Events

The Common Terms Agreement will also set out certain Trigger Events. The specific Trigger Events and the consequences which flow from the occurrence of those events are set out 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 (each a "**Trigger Event Ratio Level**") as at the most recently occurring Calculation Date:

(a) the Senior RAR as at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in any Test Period is or is estimated to be more than 0.900:1;

(b) the Class A RAR as at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in any Test Period is or is estimated to be more than 0.750:1;

(c) the Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.10:1;

(d) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.30:1;

(e) the Senior Average Adjusted ICR is or is estimated to be less than 1.20:1; or

(f) the Class A Average Adjusted ICR is or is estimated to be less than 1.40:1.

(ii) Credit Rating Downgrade

(a) The long-term shadow credit rating of any Class A Wrapped Debt given by any two of the Rating Agencies falls to BBB (S&P), Baa2 (Moody's) or BBB (Fitch) or below;

(b) the long-term credit rating of any Class A Unwrapped Debt by any two of the Rating Agencies falls to BBB (S&P), Baa2 (Moody's) or BBB (Fitch) or below;

(c) the long-term shadow credit rating of the Class B Wrapped Debt by any two of the Rating Agencies falls below Investment Grade; or

(d) the long-term credit rating of the Class B Unwrapped Debt by any two of the Rating Agencies falls below Investment Grade.

Each credit rating referred to above is the "**Trigger Credit Rating**" for the relevant Class of Bonds.

(iii) Debt Service Payment Account Shortfall

The failure by SWS to pay the Monthly Payment Amount within five Business Days following the date on which such payment was scheduled to be made.

(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 IDOK and Out-turn Inflation, including variances in real construction prices from assumed construction prices, and deducting capital expenditure incurred or to be incurred in respect of items for which SWS is entitled to make an application for an IDOK) in respect of SWS by 10 per cent. or more.

(v) Liquidity for Capital Expenditure and Working Capital

If, as at any Calculation Date, the aggregate of (i) SWS' operating cash flows including monies standing to the credit of the Operating Accounts 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 is less than the aggregate of SWS' (a) forecast Capital Expenditure projected for the next 12 month period; (b) forecast working capital requirements projected for the next 12 month period; (c) the maximum total amount of interest in respect of Class A Debt and Class B Debt which is or is projected to fall due and payable during the next succeeding 12 month period and all amounts which are or are projected to fall due and payable during the next succeeding 12 month period in respect of Financial Indebtedness which falls within paragraph (e) of the definition of Permitted Financial Indebtedness; and (d) the amount the Issuer estimates, in its reasonable opinion, is equal to the net amount payable by the Issuer to a Hedge Counterparty following the exercise of an option to terminate a Treasury Transaction as permitted by the Hedging Policy.

(vi) Drawdown on DSR Liquidity Facilities and O&M Reserve Facility

If, at any time, the aggregate of all amounts available for drawing under the DSR Liquidity Facilities and all amounts standing to the credit of the Debt Service Reserve Account is less than the Required

Balance (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 DSR Liquidity Facility).

The Issuer draws down under an O&M Reserve Facility or either the Issuer or SWS withdraws funds from either O&M Reserve Account, in either case to pay SWS' operating or maintenance expenditure (excluding any drawing or repayment of any Standby Drawing in relation to the Issuer's O&M Reserve Facility).

(vii) Enforcement Order

An Enforcement Order (as defined under the WIA) is issued under Part II, Chapter 11 of the WIA against SWS 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 SWS 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 SWS.

(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 Material Entity Event occurs in relation to a Material Agreement or a Contractor and/or SWS under a Material Agreement and which continues unremedied for 60 days (other than (i) a Material Entity Event in relation to a Contractor's failure to pay (see paragraph (a) of "*Material Entity Events*") which continues unremedied for 45 days or (ii) a Material Entity Event in relation to a misrepresentation or breach of obligation which is capable of remedy (see paragraphs (b) and (c) of "*Material Entity Events*" below) which continues unremedied for 30 days) from the date from which SWS could be reasonably expected to become aware of such Material Entity Event unless the relevant Contractor has been replaced in accordance with the Outsourcing Policy or SWS has terminated the appointment of the relevant Contractor and assumed the obligations of the Contractor under the relevant Material Agreement.

(xii) Referral

A referral is made under sub-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 SWS 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 SWS.

(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) if such legislation could (if enacted) reasonably be expected to lead to a breach of the financial ratios referred to in "*Financial Ratios*" above or cause a material deviation as set out in "*Material Deviations in Projections*" above, in each case taking into account any actions available to SWS to mitigate the same.

(xv) Modification or Replacement of Instrument of Appointment

If 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, SWS 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-Appointed Business Limits are breached.

(xvii) Breach of Outsourcing Policy

SWS fails duly to perform or comply with its material 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 SWS becoming aware of such breach.

(xviii) Adverse Final Determination of K

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect.

(xix) Shareholder Tax Deed of Covenant

A TDC Breach arises under the Shareholder Tax Deed of Covenant solely as a result of the acquisition by a person of control of SWSGH by virtue of acquiring a beneficial interest in any shares in RBSG.

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 "*Trigger Events Remedies*" below) or otherwise remedied to the satisfaction of the Security Trustee, the following consequences ("**Trigger Event Consequences**") will apply:

(i) No Restricted Payments

No Obligor may make Restricted Payments and, in respect of Customer Rebates, if these have not yet been implemented, SWS must stop their implementation and must not declare any Customer Rebates.

(ii) Further Information and Remedial Plan

(a) SWS must provide such information as to the relevant Trigger Event (including its causes and effects) as may be requested by the Security Trustee.

(b) SWS must discuss with the Security Trustee its plans for appropriate remedial action and the timetable for implementation of such action. SWS 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 Remedial Plan must then be implemented by SWS.

(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 SWS 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 Plan 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 SWS may agree in a Remedial Plan, the Security Trustee will be entitled to procure the appointment of further non-executive directors to the board of SWS (in addition to those already on the board of SWS) in such numbers as would allow it, following such appointments, to have appointed a maximum of 20% of the board by number.

(vi) Payments under Outsourcing Agreements and Capex Contracts with Associates

All payments made by SWS under Outsourcing Agreements and/or Capex Contracts with Associates (excluding, for the avoidance of doubt, contracts which fall within paragraphs (a) and (c) of the definition of Distribution) which do not comply with the Outsourcing Policy in all material respects, shall be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which SWS became aware of such non-compliance.

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 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.

Trigger Event Remedies

At any time when the Issuer or SWS (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 SWS (as the case may be) to certify that the Issuer or SWS (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 shall constitute remedies to the Trigger Events (each, a "**Trigger Event Remedy**"):

(i) Financial Ratios

The breach of a Trigger Event Ratio Level shall be remedied if such ratio or ratios come within the relevant level or levels specified below in relation to the most recently occurring Calculation Date:

(a) the Senior RAR as at such Calculation Date and, in the case of any forward-looking ratios, as at the 31 March falling in each Test Period relating to such Calculation Date is or is estimated to be less than 0.900:1;

(b) the Class A RAR as at such Calculation Date and, in the case of any forward-looking ratios, as at the 31 March falling in each Test Period relating to such Calculation Date is or is estimated to be less than 0.750:1;

(c) the Senior Adjusted ICR for each Test Period relating to such Calculation Date is or is estimated to be greater than 1.10:1;

(d) the Class A Adjusted ICR for each Test Period relating to such Calculation Date is or is estimated to be greater than 1.30:1;

(e) the Senior Average Adjusted ICR is or is estimated to be greater than 1.20:1; or

(f) the Class A Average Adjusted ICR is or is estimated to be greater than 1.40:1.

(ii) Credit Rating Downgrade

The occurrence of a Trigger Event in relation to a credit rating downgrade (see paragraph (ii) of "*Trigger Events*") 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.

(iii) Debt Service Required Payment Shortfall

The occurrence of a Trigger Event in relation to the non-payment of the Monthly Payment Amount into the Debt Service Payment Account (see paragraph (iii) of "*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 in relation to material deviations in projections (see paragraph (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. of the figure assumed by the Director General in the last Periodic Review (adjusted to take account of any subsequent IDOK and Out-turn Inflation) or, if a

different figure is subsequently agreed by Ofwat and SWS, the deviations are less than 10 per cent. of the subsequently agreed figure, as the case may be.

(v) Liquidity for Capital Expenditure and Working Capital

The occurrence of a Trigger Event in relation to liquidity for capital expenditure and working capital (see paragraph (v) of ''*Trigger Events*'' above) will be remedied if on any subsequent date the amounts referred to in sub-paragraphs (i) to (iii) of that paragraph are in aggregate equal to or greater than the aggregate of the amounts referred to in sub-paragraphs (a) to (c) of that paragraph.

(vi) Drawdown on DSR Liquidity Facilities and O&M Reserve Facility

(a) The occurrence of a Trigger Event in relation to drawdowns under the DSR Liquidity Facility (see paragraph (vi) of ''*Trigger Events*'' above) will be remedied if the amount available for drawing under the DSR Liquidity Facilities when aggregated with all amounts standing to the credit of the Debt Service Reserve Account is restored to at least the Required Balance.

(b) The occurrence of a Trigger Event in relation to a drawing under the O&M Reserve Liquidity Facility (see paragraph (vi) of ''*Trigger Events*'' above) will be remedied if the amount available for drawing under the O&M Reserve Facility, when aggregated with the O&M Reserve, is at least equal to the O&M Reserve Required Amount.

(vii) Enforcement Order

The occurrence of a Trigger Event in relation to an Enforcement Order (as set out in paragraph (vii) of ''*Trigger Events*'' above) will be remedied if SWS 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 in relation to circumstances leading to a Special Administration Order (as set out in paragraph (viii) of ''*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 SWS.

(ix) Termination of Instrument of Appointment

The occurrence of a Trigger Event in relation to termination of the Instrument of Appointment (as set out in paragraph (ix) of ''*Trigger Events*'' above) will be remedied by agreement by SWS to the extent that a Transfer Scheme reasonably satisfactory to the Security Trustee is implemented prior to the termination of the Instrument of Appointment.

(x) Event of Default

The occurrence of a Trigger Event in relation to an Event of Default (as set out in paragraph (x) of ''*Trigger Events*'' above) will be remedied if the Event of Default is waived or revoked in accordance with the STID or is remedied to the reasonable satisfaction of the Security Trustee.

(xi) Material Entity Event

The occurrence of a Material Entity Event in relation to a Material Entity Event (as set out in paragraph (xi) of ''*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 if SWS has terminated the appointment of the relevant Contractor and assumed the obligations of that Contractor as prescribed under the relevant Material Agreement; 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 in relation to a referral under the Instrument of Appointment (as set out in paragraph (xii) of ''*Trigger Events*'' above) will be remedied if:

(a) in the absence of any determination or forecast of the determination of the Director General the financial ratios set out above come within the relevant level or levels specified in paragraph (i) of "*Trigger Event Remedies*" in relation to the most recently occurring Calculation Date; or

(b) the Director General has made a determination that restores the financial ratios specified in paragraph (i) of "*Trigger Events*" above to at least the Trigger Event Ratio Levels.

(xiii) Audit Qualification

The occurrence of a Trigger Event in relation to an audit qualification (as set out in paragraph (xiii) 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 SWS produces a further set of audited Statutory Accounts which are not qualified.

(xiv) Adverse Governmental Legislation

The occurrence of the Trigger Event in relation to adverse Governmental legislation (as set out in paragraph (xiv) of "*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 is reasonably likely not to cause a breach of the financial ratios set out in paragraph (i) of "*Trigger Events*" above or such financial ratios are otherwise reinstated to the Trigger Event Ratio Levels 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 "*Trigger Events*" above is allowable under adjustments to the RCV and, when taking such adjustment into account, such financial ratios would meet the Trigger Event Ratio Levels.

(xv) Modification or Replacement of Instrument of Appointment

The occurrence of a Trigger Event in relation to the modification or replacement of the Instrument of Appointment (as set out in paragraph (xv) of "*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 SWS will or do contain equivalent terms which permit SWS to carry on its water and sewerage business substantially as carried on as of the Initial Issue Date taking into account any changes in the regulatory environment since the Initial Issue 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 "*Trigger Events*" above.

(xvi) Conduct of Business

Within six months of the date of the occurrence of the Trigger Event in relation to the conduct of business (as set out in paragraph (xvi) of "*Trigger Events*" above), SWS disposes of all or part of the Permitted Non-Appointed Business so that the Permitted Non-Appointed Business Limits will be complied with during the current Test Period excluding (for the purpose of calculating such ratio) the aggregate Non-Appointed Expenses of the former Permitted Non-Appointed Business which has been disposed of by SWS during such Test Period.

(xvii) Breach of Outsourcing Policy

The occurrence of the Trigger Event in relation to a breach of the Outsourcing Policy (as set out in paragraph (xvii) of "*Trigger Events*" above) will be remedied and the Trigger Event Consequence set out in paragraph (vi) of "*Trigger Event Consequences*" above will be disapplied if SWS takes such action as is necessary so that it is in compliance with the Outsourcing Policy.

(xviii) Adverse Final Determination of K

The occurrence of the Trigger Event in relation to an adverse final determination of K (as set out in paragraph (xviii) of "*Trigger Events*" above) will be remedied if the financial ratios set out above come within the relevant level or levels specified in paragraph (i) of "*Trigger Event Remedies*" in relation to the most recently occurring Calculation Date.

(xix) Shareholder Tax Deed of Covenant

The occurrence of a Trigger Event in relation to the Shareholder Tax Deed of Covenant as set out in paragraph (xix) under "*Trigger Events*" above will be remedied if either:

(a) the circumstances which gave rise to the TDC Breach referred to in that paragraph cease to exist; or

(b) the Security Trustee confirms pursuant to the Shareholder Tax Deed of Covenant that the TDC Breach which caused the Trigger Event is no longer occurring.

In respect of any of the Trigger Event Remedies 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.

Events of Default

The Common Terms Agreement will contain a number of events of default (the "**Events of Default**") which will be Events of Default under each Finance Document (other than, in the respect of the Hedge Counterparties, the Hedging Agreements). Subject, in some cases, to agreed exceptions, materiality qualifications, reservations of law and grace periods, Events of Default will include:

(a) non-payment of amounts payable under the Finance Documents within 3 Business Days of the due date;

(b) non-compliance with certain other obligations under the Finance Documents (other than the Tax Deeds of Covenant) or the occurrence of a TDC Breach which is continuing;

(c) material misrepresentation;

(d) 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;

(e) an Insolvency Event or Insolvency Proceedings occur(s) in relation to the Obligors other than SWS or, in relation to SWS, an insolvency event or insolvency proceedings as set out further in the CTA occur(s) in relation to SWS;

(f) SWS transferring the Instrument of Appointment without the Security Trustee's consent or SWS 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;

(g) 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 Initial Issue Date;

(h) insufficient liquidity (from operating cash flows, the Authorised Credit Facilities and the Capex Reserve Account) to meet SWS' forecast Capital Maintenance Expenditure and working capital requirements projected for the next six month period;

(i) attachment, sequestration, distress or execution involving sums in excess of £500,000 (indexed) and if not discharged within 30 days;

(j) any Obligor repudiating a Finance Document or it becoming unlawful or ineffective for any Obligor to perform its material obligations under any Finance Document;

(k) an SWS Change of Control occurs;

(l) any of the Security ceasing to be in full force and effect;

(m) certain governmental action (including nationalisation) which would be reasonably likely to have a Material Adverse Effect;

(n) a member of the SWS Financing Group failing to comply with a judgment involving sums in excess of £500,000 (indexed) in aggregate at any time except where such judgement is being appealed in good faith to a higher court;

(o) 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;

(p) SWS failing to comply with its obligations under the Outsourcing Policy (and such failure has a Material Adverse Effect);

(q) an Obligor other than SWS ceasing or threatening to cease to carry on its business (or any substantial part of its business) it carries on as at the date of the CTA or as contemplated by the Finance Documents or SWS ceasing or threatening to cease to carry on the Appointed Business (or any substantial part of the Appointed Business) it carries on at the date of the CTA or which is contemplated by the Finance Documents other than as permitted by the Finance Documents;

(r) 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;

(s) 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;

(t) the Class A ICR being less than 1.60:1, the Senior RAR being more than 0.950:1 and/or the ratio of Net Cash Flow minus Capital Maintenance Expenditure to Class A Debt Interest for the immediately preceding 12 month period is less than 1.00:1;

(u) an Obligor (other than SWS) amending its memorandum or articles of association or SWS amending its memorandum or articles, if such amendment relates to the terms of the SWS Preference Shares or is in a manner which is reasonably likely to have a Material Adverse Effect or diminish the value of any Security Interest granted in favour of the Security Trustee, unless the Security Trustee has previously given its prior written consent to such amendment;

(v) a Material Entity Event (as described in "*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 "*Entrenched Rights and Reserved Matters*" above)) act in accordance with the instructions of the Majority Creditors in accordance with the STID (see "*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 "*Security Trust and Intercreditor Deed – Standstill*" above).

Material Entity Events

The Common Terms Agreement will (subject, in some cases to certain exceptions, reservations of law and grace periods) provide 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, SWS, to the extent that such event would be reasonably likely to have a Material Adverse Effect:

(a) any amount due from the Contractor or SWS is not paid 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;

(b) any representation or statement made or deemed to be made by a Contractor or SWS in any Material Agreement is or proves to have been incorrect or misleading in any respect when made or deemed to be made and such failure, if capable of remedy, is not remedied by the Contractor or SWS within 30 days of it becoming aware that such representation was incorrect or misleading in any respect;

(c) the Contractor or SWS 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 SWS, as the case may be, within 30 days of becoming aware of such breach;

(d) 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;

(e) an Insolvency Event or equivalent event occurs in relation to a Contractor to a Material Agreement;

(f) 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 at any time except where such judgment is being appealed in good faith to a higher court;

(g) any Material Agreement to which the Contractor and SWS is a party or any obligation purported to be contained therein or the security or credit enhancement intended to be effected in relation to such Material Agreement is repudiated by the Contractor or SWS 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 SWS or the Contractor is a party or the security or credit enhancement related thereto or any such 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 the Contractor or SWS or on behalf of the Contractor or SWS; and

(h) the Contractor, SWS or any provider of security or credit enhancement therefor does not have the legal power to perform any of its obligations under the Material Agreements or, as the case may be, such security or credit enhancement or to own any assets or to carry on any part of its business or at any time it is or becomes unlawful for the Contractor, SWS or any provider of security or credit enhancement therefor to perform or comply with any of its obligations under any Material Agreement or any of the obligations of the Contractor or any provider of security or credit enhancement thereunder are not or cease to be legal, valid, binding and enforceable.

Conditions Precedent

The conditions precedent to among other things the signing of the Common Terms Agreement, the Initial Issue Date, the release of the Initial Financial Guarantees and to the issue of Bonds after the Initial Issue Date will all be set out in a conditions precedent agreement (the "**CP Agreement**") as agreed between, among others, the Bond Trustee, the Security Trustee and the Obligors.

Cash Management

Accounts

The Common Terms Agreement will require SWS to open and maintain the following Accounts with the Account Bank:

(a) each Operating Account;

(b) an O&M Reserve Account; and

(c) the Capex Reserve Account.

The Issuer shall open and maintain the following Accounts with the Account Bank:

(a) the Debt Service Payment Account;

(b) the Debt Service Reserve Account; and

(c) in the event the Issuer becomes a borrower under an O&M Reserve Facility, an O&M Reserve Account.

SWSGH and SWSH shall each open and maintain one chequing account only with the Account Bank.

Each of the above accounts together with any other bank account of any Obligor are collectively referred to as the "**Accounts**". Each of the Accounts will be held with the Account Bank pursuant to the Account Bank Agreement. Each Obligor will agree in the Common Terms Agreement to comply with the Account Bank Agreement and the provisions of the Common Terms Agreement applying to its Accounts.

Operating Accounts

Under the Common Terms Agreement, SWS will ensure that all of its revenues (other than any interest or Income which shall be credited to the Account from which the Authorised Investment was made) and on the Initial Issue Date the proceeds of issue of the SWS Preference Shares will be paid into an Operating Account except not less than £100 million which will be paid into the Capex Reserve Account and £35 million which will be paid into SWS' O&M Reserve Account on the Initial Issue Date.

For those revenues of SWS which are received into existing collection accounts of SWS with a bank other than the Account Bank, SWS will ensure the balance on such collection accounts are transferred

into an Operating Account at least once a week and, following a downgrade of the short term unsecured unsubordinated debt rating of such bank (excluding for this purpose Alliance & Leicester Commercial Bank plc (formerly Girobank) below the Minimum Short-term Rating, on close of business of each Business Day.

The Operating Accounts shall be the principal current accounts of SWS through which all operating and Capital Expenditure or any Taxes incurred by SWS and (subject to the terms of the Finance Documents) payments in respect of the Financial Indebtedness of the SWS Financing Group which are not permitted to be satisfied out of monies credited to the Debt Service Payment Account shall be cleared. SWS may make transfers at any time from one Operating Account to another, in its sole discretion.

All operating expenditure of SWS will be funded (a) through payments made directly into the Operating Accounts and (b) through drawings made by the Issuer or SWS under any Authorised Credit Facility or other Permitted Financial Indebtedness and, in the case of drawings made by the Issuer (except under any DSR Liquidity Facility), on lent to SWS under an Issuer/SWS Loan Agreement, as and when required and permitted by the Finance Documents. Capital Expenditure will be funded out of monies standing to the credit of the Operating Accounts, out of cash transfers made from the Capex Reserve Account to the Operating Accounts and/or (in relation to Capital Maintenance Expenditure) to the extent that the sums standing to the credit of the Operating Accounts and the Capex Reserve Account are insufficient, SWS. O&M Reserve Account.

All Distributions, payments under the SWS Preference Shares (or, following an SWS Preference Share Conversion Event, the relevant Subordinated Debt into which the SWS Preference Shares are converted) and Permitted Post-Closing Events will be funded (directly or indirectly) out of monies standing to the credit of the Operating Accounts subject always to the satisfaction of all of the conditions set out in the Common Terms Agreement for the making of such payments.

On the Initial Issue Date and annually thereafter on 31 March of each year (or, if such day is not a Business Day, the immediately preceding Business Day) SWS will calculate the Annual Finance Charge for the Pre-Test Period and for the period of 12 months commencing on the immediately following 1 April respectively, and details of such calculation will be included in the next following Investors Report.

Under the Common Terms Agreement, SWS will on the opening of business on the first Business Day of each month until the Discharge Date transfer to the Issuer from the Operating Accounts an amount (the "**Monthly Payment Amount**") equal to 1/12th of SWS' Annual Finance Charge for the relevant twelve month period (or, in the case of the Pre-Test Period, £10,000,000 (the "**PTP Amount**")) to the Debt Service Payment Account provided that the aggregate of any interest accruing on and credited to the Debt Service Payment Account will be treated as a prepayment of future Monthly Payment Amounts payable during the relevant twelve month period or future PTP Amounts during the Pre-Test Period, as applicable. Accordingly, the Monthly Payment Amounts due for the remaining months of such twelve month period or the PTP Amounts due for the remaining months of the Pre-Test Period, as applicable shall be reduced *pro rata* to reflect such prepayment.

SWS will recalculate the Annual Finance Charge and the Monthly Payment Amount or PTP Amount, as applicable if, during the course of any relevant twelve month period or the Pre-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 reduction in the rate of applicable interest, 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) in the Annual Finance Charge and shall adjust the Monthly Payment Amount or, as the case may be, the revised PTP Amount for the remaining months in the relevant twelve month period or the Pre-Test Period, and details will be included in the next following Investors Report.

Capex Reserve Account

SWS shall on the Initial Issue Date direct that an amount equal to not less than £100,000,000 will be paid into the Capex Reserve Account.

SWS may not withdraw any monies from the Capex Reserve Account unless such withdrawal is for the purpose of funding a transfer to the Operating Account on account of SWS' capital expenditure requirements or as contemplated below in relation to the application of insurance proceeds.

SWS will ensure that the proceeds of any advance to it under any Authorised Credit Facility for the purpose of funding its capital expenditure is paid directly into the Capex Reserve Account or an Operating Account.

SWS will also ensure that all proceeds of any property damage insurance claim (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 Capex Reserve Account.

SWS may withdraw the proceeds of property damage insurance claims from the Capex Reserve Account 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, where any Permitted Lease Termination has arisen as a consequence of the loss of such asset, in payment of any Class A Debt falling due on the date of that Permitted Lease Termination arising as a consequence of the loss of such asset.

If SWS has paid sums to reinstate, restore or replace assets or effects lost or damaged or to meet claims by third parties out of moneys withdrawn from the Operating Accounts, then SWS may pay the relevant insurance amounts received directly into an Operating Account. If the reinstatement, restoration or replacement cost of any damaged property is less than the property damage insurance proceeds received by it in relation to such property, SWS may pay the difference into an Operating Account.

SWS' O&M Reserve Account

SWS shall on the Initial Issue Date direct that £35,000,000 of the proceeds of issue of the SWS Preference Shares will be paid into the O&M Reserve Account held by SWS.

SWS may not withdraw any monies from its O&M Reserve Account unless (i) such withdrawal is for the purpose of funding a transfer to an Operating Account on account of operating and capital expenditure requirements that cannot be met from existing balances in the Operating Accounts and additionally, in the case of any capital expenditure requirement, the Capex Reserve Account (ii) such withdrawal is for the purpose of transferring into an Operating Account any interest income earned from time to time on the O&M Reserve (including Income from any related Authorised Investments) or (iii) prior to making a withdrawal, SWS delivers a certificate to the Security Trustee and the Account Bank certifying that, following such proposed withdrawal, the aggregate of the O&M Reserve and all amounts then available for drawing under any O&M Reserve Facility are at least equal to the O&M Reserve Required Amount on the date of such withdrawal.

SWS will ensure that the proceeds of any drawing by the Issuer under any O&M Reserve Facility Agreement (other than a Standby Drawing) are lent by the Issuer to SWS under an Issuer/SWS Loan Agreement and are paid directly into SWS' O&M Reserve Account or an Operating Account.

Debt Service Payment Account

SWS shall, on the Initial Issue Date, direct that the PTP Amount will be paid into the Debt Service Payment Account. SWS shall ensure that each transfer of or in respect of the Monthly Payment Amount from the Operating Account, is made to the Issuer directly into the Debt Service Payment Account.

The Common Terms Agreement will provide that, on each Payment Date, monies credited to the Debt Service Payment Account shall be applied by the Issuer in the following order for the purpose of enabling the following payments ("**Permitted Payments**") to be made in the following order of priority (the "**Payment Priorities**") without double counting:

(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 of the SWS Financing Group's operating costs (except to the extent falling due under the Finance Documents) and maintenance costs;

(ii) second, *pro rata*, according to the respective amounts thereof in or towards satisfaction of the remuneration, costs and expenses of the Security Trustee and the Bond Trustee;

(iii) third, *pro rata*, according to the respective amounts thereof in or towards satisfaction of, on a *pro rata* basis: (a) the remuneration, costs and expenses of each Agent, the Account Bank under the Account Bank Agreement, each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement, each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement, each facility agent under the relevant Authorised Credit Facility and the Standstill Cash Manager; and (b) the remuneration, costs and expenses of and fees of each Financial Guarantor pursuant to the relevant G&R Deed;

(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 DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (b) all amounts of fees, interest and principal (other than Subordinated Liquidity Facility Amounts) due or overdue to each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; 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;

(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), recurring fees and commitment commissions due or overdue in respect of the Class A Debt (other than any Subordinated Coupon Amounts and Subordinated Authorised Loan Amounts); (b) any unscheduled amounts (including termination amounts) due and payable to each Hedge Counterparty under any Interest Rate Hedging Agreement (except to the extent required to be paid at paragraph (xvi) below); (c) all scheduled amounts (other than principal exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt and (subject to paragraph (xvi) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (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 G&R Deed in respect of payments of interest on any Class A Wrapped Debt 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 in respect of Class A Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt (except to the extent required to be paid at paragraph (xvi) below); and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class A Wrapped Debt guaranteed by such Financial Guarantor;

(viii) eighth, in or towards satisfaction of any Make-Whole Amount due and payable on the Class A Debt;

(ix) ninth, *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;

(x) tenth, in payment to the Debt Service Reserve Account until the sum of the balance thereon and the aggregate available commitments under the DSR Liquidity Facility Agreements is equal to the Class A Required Balance;

(xi) eleventh, in payment to the Issuer's O&M Reserve Account until the sum of the O&M Reserve and the aggregate of amounts available to be drawn under O&M Reserve Facilities is equal to the O&M Reserve Required Amount;

(xii) twelfth, *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 due or overdue in respect of any Class B Bonds and Subordinated Authorised Loan Amounts); (b) all amounts of underwriting commissions due or overdue in respect of the Class B Debt; (c) except to the extent required to be paid at paragraph (xvi) below, all scheduled amounts (other than principal exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt and

(following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class B Wrapped Debt guaranteed by such Financial Guarantor;

(xiii) thirteenth, *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; (b) all principal exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) except to the extent required to be paid at paragraph (xv) below, any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class B Wrapped Debt guaranteed by such Financial Guarantor;

(xiv) fourteenth, *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;

(xv) fifteenth, in payment to the Debt Service Reserve Account until the sum of the balance thereon and the aggregate available commitments under the DSR Liquidity Facilities is equal to the sum of the Class A Required Balance and the Class B Required Balance;

(xvi) sixteenth, *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 (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Issuer to enter into a transaction to replace a Hedging Agreement (in whole or in part)) shall be applied first in payment of amounts due to the Hedge Counterparty in respect of that Hedging Agreement;

(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 Liquidity Facility Agreements; (b) 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; (c) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class A Wrapped Debt guaranteed by such Financial Guarantor; and (d) any amounts payable in respect of Class A Debt not referred to in other sub-paragraphs of the Payment Priorities;

(xviii) eighteenth, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) 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; (b) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class B Wrapped Debt guaranteed by such Financial Guarantor; and (c) any amounts payable in respect of Class B Debt not referred to in any other sub-paragraphs of the Payment Priorities;

(xix) nineteenth, *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 B Bonds;

(xx) twentieth, subject always to the satisfaction of the Restricted Payment Condition, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts of interest due or overdue in respect of the Senior Mezzanine Debt;

(xxi) twenty-first, subject always to the satisfaction of the Restricted Payment Condition, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts of principal due or overdue in respect of the Senior Mezzanine Debt;

(xxii) twenty-second, subject always to the satisfaction of the Restricted Payment Condition, *pro rata* according to the respective amounts thereof, in or towards satisfaction of any other sums due or overdue in respect of the Senior Mezzanine Debt;

(xxiii) twenty-third, subject always to the satisfaction of the Restricted Payment Condition, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts of interest due or overdue in respect of the Junior Mezzanine Debt;

(xxiv) twenty-fourth, subject always to the satisfaction of the Restricted Payment Condition, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts of principal due or overdue in respect of the Junior Mezzanine Debt;

(xxv) twenty-fifth, subject always to the satisfaction of the Restricted Payment Condition, *pro rata* according to the respective amounts thereof, in or towards satisfaction of any other sums due or overdue in respect of the Junior Mezzanine Debt;

(xxvi) twenty-sixth, subject always to the satisfaction of the Restricted Payment Condition, in or towards satisfaction of all sums due or overdue in respect of any Subordinated Debt into which the SWS Preference Shares have converted upon an SWS Preference Share Conversion Event where the holder of such Subordinated Debt has acceded to the STID as a Secured Creditor; and

(xxvii) twenty-seventh, (to the extent required in the Common Terms Agreement) the balance shall remain in the Debt Service Payment Account.

Any payment made by the Issuer to a Secured Creditor pursuant to the Payment Priorities on account of a liability in respect of which SWS is the principal debtor shall be treated as having discharged SWS' obligation to make such payment to that Secured Creditor. SWS will also be treated as having discharged its related payment obligation to the Issuer under the relevant Issuer/SWS Loan Agreement upon (and to the extent of) the Issuer making a payment pursuant to the Payment Priorities to a Secured Creditor in respect of which the Issuer is the principal debtor.

The Payment Priorities set out in paragraphs (i) to (xix) inclusive will not apply to (a) the proceeds of any further borrowing of Permitted Financial Indebtedness which are required by the terms of such borrowing to be applied (i) in repayment or prepayment of any existing Financial Indebtedness of the SWS Financing Group (including Subordinated Debt) or (ii) in redeeming the SWS Preference Shares, in each case, to the extent permitted by the CTA or (b) any return of collateral or premium or up front payment in relation to a Hedging Agreement contemplated in paragraph (xvi) above which will be paid to the relevant Hedge Counterparty directly. In no circumstance shall the Issuer be entitled to apply monies represented by the Monthly Payment Amount in or towards making a Restricted Payment.

For so long as no Standstill Event is continuing, SWS 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 of all amounts (other than principal repayments on the Class A Debt and Class B Debt) which fall due and payable on such Payment Date (such aggregate amount, "**Scheduled Debt Service**"). If the balance on the Debt Service Payment Account on a Determination Date is less than the amount of Scheduled Debt Service falling due on the following Payment Date, then SWS will promptly transfer to the Debt Service Payment Account an amount equal to the shortfall from sums standing to the credit of the Operating Accounts. No amounts may be so transferred to the extent that to do so would cause the aggregate net balance of the Operating Accounts to fall below the then current aggregate net overdraft limit on the Operating Accounts or cause the balance on any Operating Account to fall below the then current gross overdraft limit in respect of such Operating Account. If after making any required transfers from the Operating Accounts the balance on the Debt Service Payment Account would be insufficient to pay any Scheduled Debt Service falling due for payment at items (i)-(vi), (ix) or (xii) of the Payment Priorities (excluding any termination payments under any Hedging Agreements), the Issuer shall promptly request a drawing under the DSR Liquidity Facility for payment on the following Payment Date in an amount equal to the shortfall (subject to any limitations in the DSR Liquidity Facility Agreements on drawings applicable to shortfalls relating to Class B Debt).

Until such time as a Standstill commences and is continuing, 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.

Debt Service Reserve Account and Issuer's O&M Reserve Account

The Issuer will be required to drawdown the whole of a Liquidity Facility Provider's commitment if that Liquidity Facility Provider (i) ceases to have the Liquidity Facility Requisite Rating or (ii) fails to renew its commitment at the end of the term of the relevant Liquidity Facility and whose commitment is not

replaced by another Liquidity Facility Provider. The Issuer must deposit the proceeds of each such drawdown into the Debt Service Reserve Account (in the case of a drawdown under a DSR Liquidity Facility Agreement) or the Issuer's O&M Reserve Account (in the case of a drawdown under any O&M Reserve Facility). No monies may be withdrawn from the Debt Service Reserve Account or the O&M Reserve Account except as permitted by the relevant Liquidity Facility Agreement (see the ''*Liquidity Facilities*'' below) or the Issuer delivers, prior to any withdrawal, a certificate to the Security Trustee and the Account Bank that following the making of such withdrawal (a) in the case of the Debt Service Reserve Account, the aggregate of the amounts standing to the credit of the Debt Service Reserve Account and available for drawing under the DSR Liquidity Facilities is at least equal to the Required Balance and (b) in the case of the Issuer's O&M Reserve Account, the aggregate of the O&M Reserve and amounts available for drawing under the O&M Facilities is at least equal to the O&M Required Amount.

SWS will agree to procure that on any Payment Date (save for any date upon which a drawing is to be made under a DSR Liquidity Facility or out of the Debt Service Reserve Account to make a payment into the Debt Service Payment Account):

(a) the aggregate of (i) all amounts available for drawing under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Debt Service Reserve Account (including the value of any Authorised Investments) are equal to the next 12 months' interest forecast to be due on the Class A Debt of the SWS Financing Group (the ''**Class A Required Balance**''); and

(b) the aggregate of (i) all amounts available for drawing in respect of Class B Debt under the DSR Liquidity Facilities; and (ii) all amounts standing to the credit of the Debt Service Reserve Account (including the value of any Authorised Investments) (after deducting all amounts required in order to satisfy the Class A Required Balance) are equal to the next 12 months' interest forecast to be due on the Class B Debt (other than in respect of any Subordinated Coupon Amounts) of the SWS Financing Group (the ''**Class B Required Balance**'' and, together with the Class A Required Balance, the ''**Required Balance**'').

Authorised Investments

The Common Terms Agreement will allow SWS 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 to be set out in the Common Terms Agreement.

Cash Management during a Standstill Period

The arrangements described in ''*Debt Service Payment Account*'' above shall continue to apply until the commencement of a Standstill Period. The Common Terms Agreement will provide that, so long as a Standstill Period continues unremedied, and provided no Enforcement Action (other than a Permitted Share Pledge Acceleration) has occurred, SWS shall cease to be the Cash Manager and will be replaced by the Standstill Cash Manager, who 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 the forecast revenues are insufficient (after paying all relevant operating expenditure) to pay the aggregate of all payments falling to be made during the next 12 months, the Standstill Cash Manager shall notionally apply those forecast revenues to each category in accordance with the Payment Priorities until the revenue that is forecast to be available is insufficient to meet all of the payments falling to be made within such 12 month period in any sub-paragraph of the Payment Priorities (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 Payment Priorities) 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 Payment Priorities. In circumstances where such enforcement occurs during a Standstill Period or following termination of a Standstill the proceeds of enforcement will be applied in accordance with the above Payment Priorities but excluding in these circumstances payments under sub-paragraphs (i), (x), (xi) and (xv) thereof.

Security Agreement

Security

Each Obligor will, on or before the Initial Issue Date, enter into the security agreement (the "**Security Agreement**") with the Security Trustee pursuant to which SWSH and SWSGH will guarantee the obligations of each other Obligor under the Finance Documents and SWS and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee as security trustee for the Secured Creditors. Each Obligor will secure its property, assets and undertakings to the Security Trustee as trustee for the Secured Creditors. However, in respect of SWS, the creation, perfection and enforcement of such security will be subject to the WIA, the Instrument of Appointment and requirements thereunder. As a result of the restrictions placed upon SWS 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 SWS is severely limited (see Chapter 5 "*Investment Considerations*" and Chapter 6 "*Water Regulation*" of this Offering Circular for a more detailed discussion of these issues).

The Security Agreement will, to the extent applicable, incorporate the provisions of the Common Terms Agreement and be subject to the STID.

The security constituted by the Security Agreement will be expressed to include:

(i) first fixed charges over:

  (a) the ordinary shares in SWS, SWSH, the Pension Companies 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 (including Protected Land);

  (c) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;

  (d) all moneys standing to the credit of each Obligor's accounts and the debts represented thereby;

  (e) any intellectual property rights owned by each Obligor (excluding information technology licence agreements);

  (f) any present and future goodwill and any present and future uncalled capital and rights in relation to such uncalled capital;

  (g) each Authorised 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;

  (i) all present and future book and other debts;

  (j) all benefit in respect of Insurances taken out by any Obligor and all claims and returns of premiums in respect thereof; and

(ii) an assignment of each Obligor's right in respect of Insurances taken out by any Obligor and in respect of its 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, directors and officers liability insurance, pension fund trustee liability insurance and any other third party liability insurance) and all rights related thereto; all Transaction Documents and any other document or agreement to which an Obligor is a party, all damages, competition, remuneration, profit, rent or income derived from information technology licence agreements; and

  (b) 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 will not include any security over Protected Land (see Chapter 6, "*Water Regulation*" under "*Protected Land*") or any of SWS' 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 will be 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.

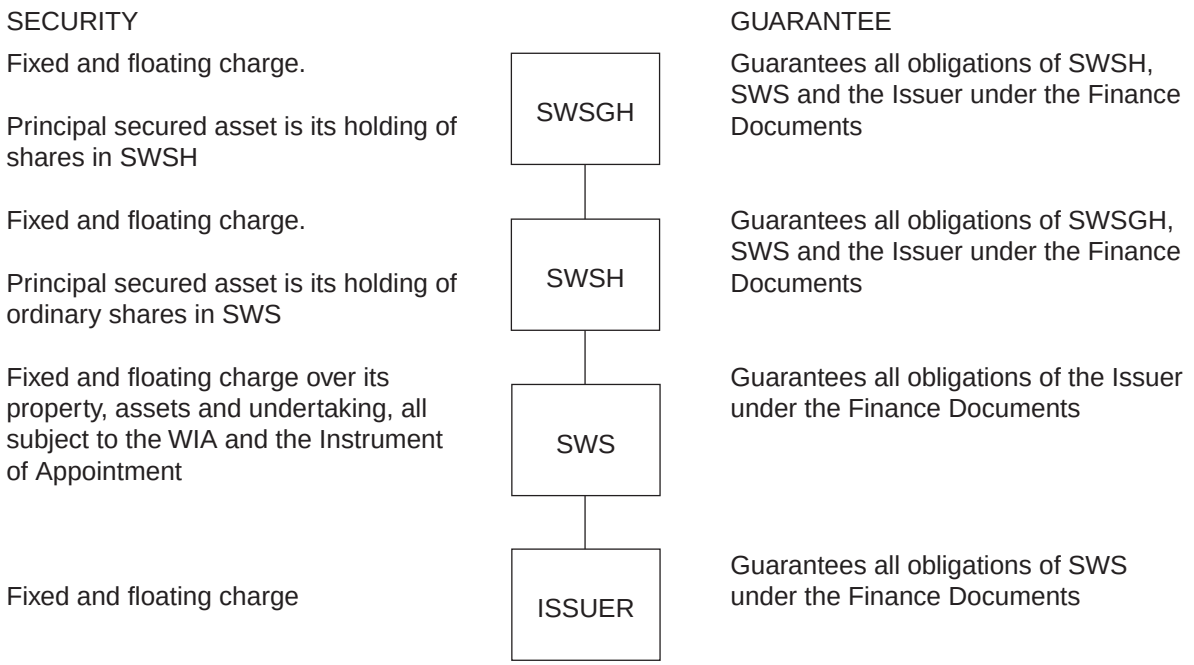
For a description of certain limitations on the ability of SWS to grant security and certain limitations and restrictions on the security purported to be granted, see Chapter 5 "*Investment Considerations – Certain Legal Considerations – Security*" and Chapter 6 "*Water Regulation – Restrictions on the granting of security*".

Notice of the creation of the security will not be 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.

Neither SWSGH nor SWSH is expected to have any significant assets other than the shares in its respective subsidiary.

Security Structure

The following shows the security provided by the SWS Financing Group in favour of the Security Trustee on behalf of the Secured Creditors:



Financial Guarantor Documents

The Financial Guarantees of Wrapped Bonds

The form of Financial Guarantee to be issued by MBIA (upon fulfilment or waiver by MBIA of certain conditions precedent to be contained in the CP Agreement) in respect of the issue of Class A Wrapped Bonds to be issued under the Programme is set out in full in Chapter 10, "*MBIA and its Financial Guarantees*" under "*MBIA's Financial Guarantee*". To the extent that MBIA or any other Financial Guarantors issue Financial Guarantees in respect of any further Sub-Classes of Class A Wrapped Bonds and/or Class B Wrapped Bonds, such Financial Guarantees are expected to be issued by such Financial Guarantor(s) on terms substantially similar thereto.

Upon an early redemption of the relevant Class A Wrapped Bonds or an acceleration of the relevant Class A Wrapped Bonds, MBIA's obligations will continue to be to pay the Guaranteed Amounts as they fall Due for Payment (as defined in MBIA's Financial Guarantee) on each Payment Date. MBIA will not

be obliged under any circumstances to accelerate payment under its Financial Guarantees. 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 Class A 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 Financial Guarantees.

The Bond Trustee as party to the Financial Guarantees to be issued by MBIA will have the right to enforce the terms of such Financial Guarantees, and any right of any other person to do so is expressly excluded.

Guarantee and Reimbursement Deeds

On each relevant Issue Date, the Issuer and SWS will enter into a guarantee and reimbursement deed (each a "**G&R Deed**") with the relevant Financial Guarantor, pursuant to which the Issuer will be obliged, among other things, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any financial guarantee fee and fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders or relevant holders of other Wrapped Debt against the Issuer in respect of any payments made.

Additional Resources Available

Initial Authorised Credit Facilities

SWS will enter into a facility agreement with an aggregate facility amount of £150,000,000 with the Initial Authorised Credit Provider on or about the Initial Issue Date. Under this facility agreement a £35,000,000 revolving credit facility will be available to SWS for working capital requirements and a £115,000,000 revolving credit facility will be available to SWS for capital expenditure requirements (in respect of capital expenditure which will qualify for an addition to RCV) from the Initial Issue Date until the final maturity date, being the business day before the fifth anniversary of the Initial Issue Date.

Drawings under the revolving credit facilities will be subject to various conditions precedent as set out in the related facility agreement, including that no Event of Default or Potential Event of Default is subsisting and in the case of a roll-over advance no Event of Default is subsisting and each repeating representation is correct at the time of requesting and making the drawing. In the event of a standstill, any outstanding Advances under the revolving credit facilities shall convert into a term loan repayable on the earliest of (i) the termination of the Standstill; (ii) the final Maturity Date and (iii) the date of any acceleration under, and as permitted by, the STID.

Interest will accrue on any drawing under the revolving credit facilities calculated at a daily rate by reference to applicable sterling LIBOR plus a margin and mandatory costs. SWS will pay certain agency, arrangement and underwriting fees and a commitment fee which will accrue on any undrawn portion of the commitment under the revolving credit facilities.

The Issuer will also enter into a separate facility agreement with the Initial Authorised Credit Provider on or following the Initial Issue Date under which the Initial Authorised Credit Provider will make available to the Issuer index-linked term facilities. Drawings under the index-linked term facilities will have similar terms to Indexed Bonds in terms of interest accrual and payment and the Issuer will apply the proceeds of any drawing thereunder in making index-linked advances to SWS under an Issuer/SWS Loan Agreement. Drawings under the index-linked facilities will be subject to various conditions precedent including the issue of a Financial Guarantee in respect of the Issuer's payment obligations in respect of drawings under the index-linked facilities. The Initial Authorised Credit Provider intends to novate its rights and obligations under its index-linked facility agreement to Artesian Finance II plc. The Issuer will give certain indemnities to Artesian Finance II plc in connection with its funding of that index-linked facility.

The revolving credit facilities and index-linked facilities are referred to in this Offering Circular as the "**Initial Authorised Credit Facilities**".

SWS and the Issuer will make representations and warranties, covenants and undertakings to the Initial Authorised Credit Provider on the terms set out in the Common Terms Agreement.

The Events of Default under the Common Terms Agreement will apply under the Initial Authorised Credit Facilities (see "*Common Terms Agreement*" above).

The ability of the Initial Authorised Credit Provider to accelerate any sums owing to them under the Initial Authorised Credit Facilities upon or following the occurrence of an Event of Default thereunder is subject to the STID.

SWS and/or the Issuer may enter into further Authorised Credit Facilities on terms similar to those in the Initial Authorised Credit 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.

The Liquidity Facilities

The DSR Liquidity Facility provided by the Initial DSR Liquidity Facility Provider will be the only Liquidity Facility in place on the Initial Issue Date. The Issuer may establish further DSR Liquidity Facilities in connection with further Bonds and other Class A Debt and Class B Debt issued or incurred.

Under the terms of the DSR Liquidity Facility Agreement to be entered into on the Initial Issue Date, The Royal Bank of Scotland plc, as the Initial DSR Liquidity Facility Provider will provide a 364 day commitment in an aggregate amount specified in the DSR Liquidity Facility Agreement to permit drawings to be made by the Issuer, in circumstances where there will be insufficient funds in the Debt Service Payment Account available on a Payment Date to pay amounts (other than principal amounts to be repaid in respect of Class A Debt and principal amounts to be repaid and any Subordinated Coupon Amounts to be paid in respect of Class B Debt or any termination payments under any Hedging Agreements) scheduled to be paid in respect of items (i) to (vi) inclusive and (ix) and, after deducting any prior ranking payments, (xii) of the Payment Priorities (a "**Liquidity Shortfall**").

The Issuer will not be able to make a drawing in respect of a Liquidity Shortfall relating (in whole or in part) to Class B Debt unless the sum of the amount available under the DSR Liquidity Facilities and the amount standing to the credit of the Debt Service Reserve Account (immediately after such drawing) is not less than the next 12 months interest forecast on Class A Debt.

The Issuer may also enter into an O&M Reserve Facility Agreement with one or more Liquidity Facility Providers, drawings under which will be on-lent by the Issuer to SWS to meet SWS' operating and capital maintenance expenditure requirements to the extent that SWS has insufficient funds available to it to meet these requirements. No O&M Reserve Facility Agreement will be entered into on the Initial Issue Date.

Each Liquidity Facility Provider must be a bank which as at the relevant Issue Date has the Minimum Short-Term Rating (the "**Liquidity Facility Requisite Rating**").

Each 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 Rating and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Liquidity Facility Agreement will provide that amounts repaid by the Issuer may be redrawn.

Each Liquidity Facility Agreement will provide that if (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Liquidity Facility Requisite Rating or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under such Liquidity Facility prior to the expiry of the relevant availability period, the Issuer will:

(a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Liquidity Facility Requisite Rating; 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 Debt Service Reserve Account (in the case of a DSR Liquidity Facility) or the Issuer's O&M Reserve Account (in the case of an O&M Reserve Facility) the full amount of the relevant Liquidity Facility Provider's undrawn commitment (a "**Standby Drawing**").

A Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is re-rated with the Liquidity Facility Requisite Rating 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.

Interest will accrue on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by a Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Issuer will also, in certain circumstances, be 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. The Issuer will pay certain agency, arrangement and renewal fees as well as a commitment fee which will accrue on any undrawn portion of the commitments under the Liquidity Facilities.

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.

Mezzanine Facility Agreements

The Issuer will enter into on or before the Initial Issue Date (i) a senior mezzanine facility agreement with, amongst others, The Royal Bank of Scotland plc (as agent), RBEF Limited (as arranger), Royal Bank Investments Limited as the original Senior Mezzanine Facility Provider and the Security Trustee in an aggregate amount of £127,200,000 (the "**Senior Mezzanine Facility Agreement**") and (ii) a junior mezzanine facility agreement with, amongst others, The Royal Bank of Scotland plc (as agent), RBEF Limited (as arranger), Royal Bank Investments Limited as original Junior Mezzanine Facility Provider and the Security Trustee, in an aggregate amount of £106,000,000 (the "**Junior Mezzanine Facility Agreement**" and, together with the Senior Mezzanine Facility Agreement, the "**Mezzanine Facility Agreements**"). The Issuer will borrow the full amount available under the Mezzanine Facility Agreements on the Initial Issue Date and will lend the proceeds thereof together with the nominal principal amount of the Bonds issued and borrowings under other Authorised Credit Facilities raised on the Initial Issue Date to SWS under the Initial Issuer/SWS Loan Agreement. SWS will use such loan proceeds, amongst other things, to repay its existing indebtedness to the Issuer and the Issuer will use such repayment proceeds to repay all of its indebtedness under the Bridge Facility Agreement and all of its indebtedness to SWI.

Interest will accrue on any drawing under each Mezzanine Facility Agreement, in the case of the Senior Mezzanine Facility, at a floating rate of interest and, in the case of the Junior Mezzanine Facility, at a fixed rate. The Issuer's obligations to pay floating rate interest are hedged in accordance with the Hedging Agreements entered into on the Initial Issue Date (see "*Hedging Agreements*" below). The Issuer will pay certain agency and arrangement fees under each Mezzanine Facility Agreement.

The Issuer makes representations and warranties, covenants and undertakings to the Mezzanine Facility Providers on the terms set out in the Common Terms Agreement. The Events of Default under the Common Terms Agreement will apply under the Mezzanine Facility Agreements (see "*Common Terms Agreement*" above).

The Issuer's payment obligations are backed by advances owing to the Issuer pursuant to the Initial Issuer/SWS Loan Agreement and the terms of those advances in terms of amounts, interest rates, tenor and payment dates correspond with the relevant advances under the Mezzanine Facility Agreements (or in the case of the Senior Mezzanine Facility, the related Interest Rate Hedging Agreement).

Under the terms of the CTA, neither SWS nor the Issuer is allowed to make any payments of interest, principal or any other amounts under the Mezzanine Facility Agreements or the corresponding advances under the Initial Issuer/SWS Loan Agreement (save for mandatory prepayments in the event of, amongst other things, illegality) unless the Restricted Payment Condition is satisfied or pursuant to a Subordinated Debt Replacement Event.

The claims of the Mezzanine Facility Providers are secured under the terms of the Security Documents but are subordinated to the Class A Debt and the Class B Debt in accordance with the Payment Priorities. In the event of any failure to meet the Restricted Payment Condition on any payment date or if, following satisfaction of the Restricted Payment Condition, there is a shortfall in cash available to pay amounts due and payable under the Mezzanine Facility Agreements, the amount of the shortfall will not be treated as due and instead shall be deferred until the payment date on which the Issuer has sufficient funds to meet such payment or the final maturity date of any outstanding senior debt. The ability of the Mezzanine Facility Providers to accelerate any sums owing to them under the Mezzanine Facility Agreements upon or following the occurrence of an Event of Default is postponed to the rights of the holders of Class A Debt and the Class B Debt pursuant to the STID.

The Mezzanine Facility Providers are subject to certain call option arrangements in relation to their Mezzanine Debt which may be exercised against them following enforcement of any of the security granted by SWSGH and/or SWSH (see "*Security Trust and Intercreditor Deed – Enforcement*" above).

SWS Preference Shares

SWS will, on or before the Initial Issue Date, issue (i) fixed dividend (£40 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS (the "**Class A1 Preference Shares**") to VWIL (or syndicatees nominated by VWIL), (ii) non-voting participating cumulative redeemable preference shares 2038 of 1p each in the capital of SWS to SWI (the "**Class A2 Preference Shares**") and (iii) fixed dividend (£70 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS to VWIL (or syndicatees nominated by VWIL) (the "**Class B Preference Shares**" and together with the Class A1 Preference Shares and Class A2 Preference Shares the "**SWS Preference Shares**"). The SWS Preference Shares are non-voting save in respect of certain limited matters which are specific to the rights and value of the SWS Preference Shares.

The subscription proceeds of the SWS Preference Shares will be used by SWS, among other things, (i) to pay all amounts payable by SWS under the Bridge Facility Agreement, (ii) to fund the Capex Reserve Account and the O&M Reserve, (iii) to make an initial payment of the PTP Amount to the Debt Service Payment Account, (iv) to pay certain transaction fees and expenses (including the payment of the Financial Guarantee fee) and (v) for general corporate purposes.

Under the terms of the CTA, SWS is not allowed to make any payments on or under the SWS Preference Shares unless the Restricted Payment Condition is satisfied (see "*Common Terms Agreement*" above).

The holders of the SWS Preference Shares will enjoy certain specific and protective entrenched rights. These can be waived in accordance with the terms and conditions of the SWS Preference Shares and in addition, and amongst other things, will have no effect, and will not require SWS to obtain any consent or sanction of the SWS Preference Shareholders unless the proposed event or action would or could reasonably be expected to have a material adverse effect on the fundamental terms or value of their investment. For example, for so long as no Event of Default is continuing or, if a Trigger Event has occurred and is continuing, a Remedial Plan has concluded that the failure to raise new Financial Indebtedness in the circumstances described below would lead to an Event of Default, in the circumstance where the Mezzanine Facility Providers would have an equivalent Entrenched Right (as described earlier in "*Security Trust and Intercreditor Deed – Entrenched Rights of the Mezzanine Facility Providers*"), the articles of association of SWS will provide that SWS may not agree any modification to, or consent or waiver under or in respect of, any term of any Finance Document if the proposed modification, consent or waiver would permit the raising of new Financial Indebtedness by the SWS Financing Group to the extent that, as a result, the aggregate of the Senior Net Indebtedness and any other net indebtedness ranking in point of priority senior to the Senior Mezzanine Debt would exceed 90% of RCV, unless the Security Trustee has received consent from the holders of more than 50 per cent. of the aggregate nominal value of all classes of SWS Preference Shareholders or the sanction of an ordinary resolution passed at a separate general meeting of the holders of all classes of the SWS Preference Shares. Certain of these other key rights are also disapplied following an Event of Default.

The SWS Preference Shares may in certain circumstances be converted into Subordinated Debt of SWS, whereupon the holders of such Subordinated Debt will be required either to accede to the STID and the CTA for the purposes of, *inter alia*, taking the benefit of the Security and subordinating their secured claims to those of the holders of Class A Debt, the Class B Debt and the Mezzanine Debt or to accede to the SWS Preference Share Deed (as defined below) for the purpose of, *inter alia*, restricting their right to accelerate their unsecured claims during a Standstill Period.

The initial holders of the SWS Preference Shares will enter into a deed on the Initial Issue Date with the Security Trustee and the Obligors (the "**SWS Preference Share Deed**") pursuant to which SWS will agree not to, and such holders of the SWS Preference Shares will agree not to permit or require SWS to make any Distribution in respect of the SWS Preference Shares unless the Restricted Payment Condition is satisfied at such time and payments made in breach of the Restricted Payment Condition shall be immediately repaid to the Security Trustee and pending such repayment shall be held on trust for the Security Trustee. Under call option arrangements contained in the SWS Preference Share Deed, each holder of the SWS Preference Shares (other than the Class A2 Preference Shares) will be required to sell its SWS Preference Shares to any person who acquires the ordinary shares in SWSH or SWS following an enforcement of the Security granted by SWSGH or SWSH (or to any nominee of such

person) for a consideration calculated to ensure that the price that such holder of the SWS Preference Shares receives will not be less than the price it would have received for its holding had its SWS Preference Shares been charged in favour of the Security Trustee as security for Secured Liabilities and sold as part of any disposal of the Security Assets on an enforcement of the Security granted by SWSGH and/or SWSH. In this event, the rights of the holders of the Class A2 Preference Shares will be deferred.

Hedging Agreements

Hedging Policy

The Hedging Policy provides that the SWS Financing Group must enter into Hedging Agreements in accordance with the Hedging Policy and that the only member of the SWS Financing Group that may enter into Hedging Agreements is the Issuer, provided that the Issuer may enter into back-to-back swap arrangements with SWS in respect of Hedging Agreements entered into by the Issuer to hedge the obligations of SWS under Finance Leases or any other Authorised Credit Facility raised by SWS or which are otherwise not directly linked to the raising of new debt under an Authorised Credit Facility.

The Hedging Policy provides, *inter alia*, that:

1. The SWS Financing Group will not enter into Treasury Transactions for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis.
2. Any change to the Hedging Policy will be subject to SWS board approval and may only be made with the approval of the Security Trustee (such approval not to be unreasonably withheld).
3. Subject to such approvals, the Hedging Policy will be reviewed from time to time by the SWS Financing Group and amended (subject to Entrenched Rights and Reserved Matters and in accordance with the provisions of the STID) as appropriate in line with market developments, regulatory developments, and Good Industry Practice.
4. The SWS Financing Group must not bear currency risk in respect of any foreign currency denominated debt instruments, or in respect of any significant foreign currency purchases.
5. The SWS Financing Group will hedge its exposure to interest rate risk on at least 85 per cent. of its total outstanding debt liabilities for the current period to the next Periodic Review and at least 70% in the next period to the subsequent Periodic Review (each to be adjusted to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years) (on a rolling basis). This figure will be kept under review with respect to market conditions and developments in regulatory methodology and practice.
6. Interest rate risk on floating rate liabilities will be hedged through a combination of cash balances, Authorised Investments and instruments such as interest rate swaps entered into by the Issuer.
7. The SWS Financing Group will manage its exposure to inflation risk through the use of index-linked instruments where it is cost effective.
8. The Issuer may only enter into Treasury Transactions with counterparties whose short-term, unsecured and unsubordinated debt obligations are assigned a rating by the Rating Agencies which is no less than the Minimum Short-term Rating and whose long-term, unsecured and unsubordinated debt obligations are assigned a rating by Moody's of at least A2 (the "**Moody's Minimum Long-term Rating**"), or where a parent guarantee is provided by an institution which meets the same criteria. The Hedging Agreement is to include a provision entitling the Issuer to terminate if there is a Hedge Counterparty Downgrade as described below.
9. Hedging Agreements must be entered into in the form, as amended by the parties thereto, of the 1992 ISDA Master Agreement (Multicurrency – Cross Border), the 2002 Master Agreement published by ISDA or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

Hedging Agreements

The Existing Hedging Agreements

Prior to the Initial Issue Date, the Issuer entered into various interest rate swap transactions to hedge its floating rate interest obligations under the Bridge Facility Agreement and various gilt lock and spread lock transactions to pre hedge the refinancing of the Bridge Facility Agreement. The gilt lock and spread lock transactions and certain of the interest rate swap transactions comprised in such agreements will be

terminated prior to the Initial Issue Date resulting in termination payments due to the counterparties based on interest rates on or about the date of this Offering Circular. The remaining interest rate swap transactions will be amended and may be novated on the Initial Issue Date in conformity with the Hedging Policy on the terms described below to create the "**Existing Hedging Agreements**".

Tax

Each Hedge Counterparty will be 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, a Hedge Counterparty will be required to pay any such additional amount as is necessary to ensure that the net amount received by the Issuer will equal the full amount the Issuer would have received had no such deduction or withholding been required. The Issuer will make payments under the Hedging Agreements subject to any withholding or deduction of taxes required by law, but will not be 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 in accordance with the relevant Hedging Agreement, the Hedge Counterparty may terminate the relevant Hedging Agreement.

Termination

The Issuer will be entitled to terminate a Hedging Agreement in certain circumstances (including a failure to pay by the Hedge Counterparty, certain insolvency events affecting the Hedge Counterparty, certain rating downgrade events affecting the Hedge Counterparty).

The Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

- a failure by the Issuer to make payment when due
- certain insolvency events affecting the Issuer
- illegality affecting the Hedging Agreement
- certain tax events (including as described above)
- redemption in whole or in part of any Sub-Class of the Bonds hedged by such Treasury Transaction
- termination of a Standstill Period (except by virtue of remedy, revocation or waiver of the relevant Event of Default giving rise to the Standstill Period) or, if earlier, an Acceleration of any Sub-Class of the Bonds hedged by such Treasury Transaction pursuant to Condition 11 of the Bonds
- (subject to the provisions described below) upon the exercise of an option to terminate a Hedging Agreement on the tenth anniversary of the effective date of the relevant Hedging Transaction or at five yearly intervals thereafter.

The Issuer may enter into Treasury Transactions with Hedge Counterparties pursuant to which 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 (a) the relevant Hedge Counterparty gives the Issuer at least one year's prior notice in writing of its intention to exercise such right of termination; and (b) the aggregate notional amount and/or sterling currency amounts (as applicable) of Treasury Transactions pursuant to which Hedge Counterparties have such right of termination does not exceed 10 per cent. of RCV.

Within three months of the receipt of a notice of termination from the relevant Hedge Counterparty, the Issuer shall use all reasonable endeavours to enter into new Treasury Transaction(s) in order to replace the Treasury Transaction which is the subject of such notice of termination.

In the event that a Hedging Agreement or a Treasury Transaction is terminated, a termination payment may be due from the Issuer.

Hedge Counterparty Rating Downgrade

If a Hedge Counterparty falls below the Minimum Short-term Rating (a "**Hedge Counterparty Downgrade**") or the Moody's Minimum Long-term Rating and as a result of such Hedge Counterparty 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 Bonds outstanding, the then current rating of the Class B Unwrapped Bonds, or if there are no Class A Bonds or Class B Unwrapped Bonds outstanding, the then current shadow rating of the Class B

Wrapped Bonds) would be downgraded or placed under review for possible downgrade by any of the Rating Agencies (a "**Bond Downgrade**") and the Hedge Counterparty has not, within 30 days of being notified of such Bond Downgrade, at its own cost either:

(a) procured that its obligations with respect to the relevant Hedging Agreement are guaranteed by a third party which has a rating of no less than the relevant Minimum Short-term Rating and the Moody's Minimum Long-term Rating; or

(b) put in place an appropriate mark-to-market collateral agreement in accordance with the requirements specified in the relevant Hedging Agreement in support of its obligations under the relevant Hedging Agreement; or

(c) transferred all of its rights and obligations under the Hedging Agreement to a replacement third party which is rated no less than the Minimum Short-term Rating and the Moody's Minimum Long-term Rating; or

(d) taken such other action as the Hedge Counterparty agrees which will result in the rating (or shadow rating, as applicable) of the relevant Bonds being restored to the level they were immediately prior to the Hedge Counterparty Downgrade,

then the Issuer shall be entitled to terminate the relevant Hedging Agreement.

Swap Counterparties and Liquidity Provider

RBS

The Royal Bank of Scotland plc ("**RBS**") is an Initial Hedge Counterparty, the Initial Authorised Credit Provider and the Initial DSR Liquidity Facility Provider.

The Royal Bank of Scotland Group plc ("**RBSG**") is a diversified financial services group engaged in a wide range of banking, financial or finance related activities in the United Kingdom and internationally. RBSG's operations are principally centred in the United Kingdom. RBSG's principal operating subsidiary is RBS.

As at 31 December 2002, RBSG had total assets of £412 billion and total deposits of £274 billion. Shareholders' funds at 31 December 2002 were £27,052 million.

The short-term unsecured and unguaranteed debt obligations of RBS are currently rated A-1+ by S&P, P-1 by Moody's and F-1+ by Fitch. The long-term unsecured and unguaranteed debt obligations of RBS are currently rated AA- by S&P, Aa1 by Moody's and AA by Fitch.

CITIBANK, N.A.

Citibank, N.A. ("**Citibank**") is an Initial Hedge Counterparty. Citibank was originally organised on 16 June 1812, and Citibank now is a national banking association organised under the National Bank Act of 1864 of the United States. Citibank is a wholly-owned subsidiary of Citicorp, a Delaware corporation, and is Citicorp's principal subsidiary. Citicorp is an indirect wholly-owned subsidiary of Citigroup Inc. ("**Citigroup**"), a Delaware holding company. As of 31 March 2003 the total assets of Citibank and its consolidated subsidiaries represented approximately 69 per cent. of the total assets of Citicorp and its consolidated subsidiaries.

Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank, N.A., London Branch was registered in the United Kingdom as a foreign company in July 1920. The principal offices of the London Branch are located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England. The London Branch is primarily regulated by The Financial Services Authority and operated in the United Kingdom as a fully authorised commercial banking institution offering a wide range of corporate banking products.

For further information regarding Citibank, reference should be made to Citicorp's Quarterly Report on Form 10-Q for the quarter ended March 2003 and to any subsequent reports by Citicorp on Forms 10-K, 10-Q and 8-K and which are filed with the Securities and Exchange Commission of the United States ("**SEC**"). Copies of such material may be obtained, upon payment of a duplicating fee, by writing to the SEC at 450 Fifth Street, N.W. Washington D.C. 20549. In addition, such reports are available at the SEC Web site (http://www.sec.gov).

In addition, Citibank submits quarterly to the Office of the United States Comptroller of the Currency of the United States (the "**Comptroller**") certain reports called "Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices" ("**Call Reports**"). The Call Reports are on file

with and publicly available at the Comptroller's office at 250 E Street, S.W., Washington, D.C. 20219 and are also available on the Web site of the Federal Deposit Insurance Corporation of the United States (http://www.fdic.gov). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates. The Call Reports are prepared in accordance with the regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Citibank, the reports nevertheless provide important information concerning the financial condition and results of operation of Citibank.

The obligations of Citibank, N.A., London Branch under the Hedging Agreements to which it is a party will not be guaranteed by Citicorp or Citigroup or by any other affiliate.

The information in the preceding six paragraphs has been provided by Citibank for use in this Offering Circular. Except for the preceding six paragraphs, Citibank, Citicorp, Citigroup and their affiliates do not accept responsibility for this Offering Circular as a whole.

Other Transaction Documents

Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank will agree to hold the Accounts and operate them in accordance with the instructions of the Cash Manager or Standstill Cash Manager (as applicable). The Cash Manager or Standstill Cash Manager (as applicable) will manage the Accounts on behalf of the SWS Financing Group pursuant to the Common Terms Agreement (see "*Cash Management*" above).

Registered Office Agreement

Pursuant to a registered office agreement entered into between the Issuer and M&C Corporate Services Limited on 1 January 2002 (the "**Registered Office Agreement**"), M&C Corporate Services Limited and/or Maples and Calder provide certain corporate services to the Issuer.

Tax Deeds of Covenant

SW Tax Deed of Covenant

Under the terms of the SW Tax Deed of Covenant, each Obligor will give certain representations and covenants as to its tax status and to the effect that, subject to SWS' membership of the SWS VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which might reasonably be expected to give rise to a liability to tax for an Obligor where that tax is primarily the liability of another person. Certain other companies including SWC and SWI will also represent and covenant that they have not taken nor will take any steps which might reasonably be expected to give rise to a liability for tax for an Obligor where that tax is primarily the liability of another person.

With a view to preventing a liability to tax arising for an Obligor which is primarily the liability of another person, SWI (among others) will, under the SW Tax Deed of Covenant, incur certain obligations in relation to specified events and any change in tax residence of the Obligors. For example, the SW Tax Deed of Covenant provides that in certain circumstances where it is anticipated that there will be a change of control for tax purposes of SWSGH and therefore of the Obligors (say, as a result of the sale of shares in SWC or SWI), SWI can be required, as a condition of that sale, to deposit an amount in a trust account equal to the estimated tax liability (if any) arising or likely to arise in an Obligor as a result of the sale. The money deposited could then be used to pay the tax liability of the Obligor.

Shareholder Tax Deed of Covenant

Under the terms of the Shareholder Tax Deed of Covenant, each of RBSG and Veolia will covenant to the Security Trustee that it and the companies which are controlled by it for tax purposes (excluding in the case of RBSG, SWC, SWI and their Subsidiaries) have not taken and will not take any steps which might reasonably be expected to give rise to a liability to tax for the Obligors where that tax is primarily the liability of a company controlled by RBSG or Veolia (excluding in the case of RBSG, SWC, SWI and their Subsidiaries).

RBSG will also covenant to the Security Trustee to procure that an equivalent covenant is given by any person (and its ultimate parent) which obtains control of SWSGH in certain circumstances.

SWS/SWSG Loan Agreement

Following completion of the Reorganisation Plan, the issue of the Bonds and SWS Preference Shares and the borrowing of the Mezzanine Debt, SWSG will be indebted to SWS in the principal amount of approximately £800,000,000 (the "**SWS/SWSG Loan**"). The terms of the SWS/SWSG Loan will be set out in a loan agreement to be entered into between SWS and SWSG on the Initial Issue Date (the "**SWS/SWSG Loan Agreement**"). Interest will accrue on the SWS/SWSG Loan at the rate of 7 per cent. per annum payable quarterly to the extent that SWSG has on such interest payment date received on such date a dividend from SWS (through SWSH and SWSGH) and/or a payment from SWS for a Permitted Tax Loss Transaction, in each case paid by SWS solely for the purpose of enabling SWSG to meet its scheduled payment obligations under the SWS/SWSG Loan (such dividend payment or payment for a Permitted Tax Loss Transaction a "**SWS/SWSG Debt Service Distribution**"). Interest will roll-up to the extent that SWSG is not put in funds to meet its scheduled payment obligations and the unpaid amount will itself accrue interest at the relevant interest rate.

The SWS/SWSG Loan will be secured by a full first ranking debenture to be granted by SWSG in favour of SWS on the Initial Issue Date creating, *inter alia*, a first fixed charge over SWSG's shares in SWSGH and related rights, a first fixed charge over SWSG's bank account with the Account Bank into which any SWS/SWSG Debt Service Distribution to it will be paid and a first floating charge over all of SWSG's assets, revenues and undertakings. The security will not operate as a fetter on SWSG's ability to dispose of the shares in SWSGH provided that the proceeds from such disposal are sufficient to enable SWSG to repay all amounts outstanding under the SWS/SWSG Loan Agreement.

No SWS/SWSG Debt Service Distribution may be made unless, among other things (a) in the case of a dividend payment, the dividend has been validly declared; (b) in the case of a payment for Permitted Tax Loss Transaction, the payment when made complies in all respects with the SW Tax Deed of Covenant and the CTA; (c) each payment is made against irrevocable payment instructions from SWSG directing the Account Bank to remit the proceeds of such payment on receipt by SWSG directly to an Operating Account of SWS for same day value; (d) no Event of Default is subsisting or would result from the payment; and (e) no event of default under the SWS/SWSG Loan Agreement has occurred and is continuing.

An event of default under the SWS/SWSG Loan Agreement will occur and the security granted by SWSG will become immediately enforceable if SWSG defaults on any of its payment obligations to pay interest or principal, breaches any warranty or covenant contained in the SWS/SWSG Loan Agreement or SWSG commits a TDC Breach (as defined in the SW Tax Deed of Covenant) which has a material adverse effect, becomes insolvent or if the security granted by SWSG becomes invalid.

CHAPTER 8

THE BONDS

Terms and Conditions of the Bonds

The following is the text of the terms and conditions which (subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement (as defined below) and, save for the italicised paragraphs) will be incorporated by reference into each Global Bond (as defined below) representing Bonds (as defined below) in bearer form, Bonds in definitive form (if any) issued in exchange for the Global Bond(s) representing Bonds in bearer form, each Global Bond Certificate (as defined below) representing Bonds in registered form and each Individual Bond Certificate (as defined below) representing Bonds in registered form (only if such incorporation by reference is permitted by the rules of the relevant stock exchange and agreed by the Issuer). If such incorporation by reference is not so permitted and agreed, each Bond in bearer form and each Individual Bond Certificate representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Tranche (as defined below) of Bonds will be given in the relevant Pricing Supplement which will provide for those aspects of these Conditions which are applicable to such Tranche (as defined below) of Bonds, including, in the case of Wrapped Bonds (as defined below), the form of Financial Guarantee (as defined below) and endorsement and, in the case of all Sub-Classes (as defined below), the terms of the relevant advance under the relevant Issuer/SWS Loan Agreement. If a Financial Guarantor (as defined below) other than MBIA (as defined below) is appointed in relation to any Sub-Class of Wrapped Bonds (as specified in the relevant Pricing Supplement) a supplement to this Offering Circular will be produced providing such information about such Financial Guarantor as may be required by the rules of the UK Listing Authority, the London Stock Exchange or such other listing authority or stock exchange on which such Bonds are admitted to listing and/or trading. References in the Conditions to "Bonds" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.

Southern Water Services (Finance) Limited (the "**Issuer**") has established a guaranteed bond programme (the "**Programme**") for the issuance of up to £6,000,000,000 guaranteed bonds (the "**Bonds**"). Bonds issued under the Programme on a particular Issue Date comprise a Series (a "**Series**"), and each Series comprises one or more Classes of Bonds (each a "**Class**"). Each Class may comprise one or more sub-classes (each a "**Sub-Class**") and each Sub-Class comprising one or more tranche (each a "**Tranche**")

The guaranteed wrapped bonds will be designated as "**Class A Wrapped Bonds**" or "**Class B Wrapped Bonds**". The guaranteed unwrapped bonds will be designated as "**Class A Unwrapped Bonds**" (and together with the "**Class A Wrapped Bonds**", the "**Class A Bonds**") or "**Class B Unwrapped Bonds**" (and together with the "**Class B Wrapped Bonds**", the "**Class B Bonds**"). Each Sub-Class will be denominated in different currencies or having different interest rates, maturity dates or other terms. Bonds of any Class may be zero coupon ("**Zero Coupon Bonds**"), fixed rate ("**Fixed Rate Bonds**"), floating rate ("**Floating Rate Bonds**"), index-linked ("**Indexed Bonds**"), dual currency bonds ("**Dual Currency Bonds**"), partly paid bonds ("**Partly Paid Bonds**") or instalment bonds ("**Instalment Bonds**") depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions ("**Conditions**") as supplemented, amended and/or replaced by a pricing supplement in relation to such Sub-Class (a "**Pricing Supplement**"). In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

The Pricing Supplement for this Bond (or the relevant provisions thereof) supplements these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Bond. Reference to a "**Pricing Supplement**" is to the Pricing Supplement (or the relevant provisions thereof) applicable to this Bond.

The Bonds are subject to and have the benefit of a trust deed dated the Initial Issue Date (as defined below) (as amended, supplemented, restated and/or novated from time to time, the "**Bond Trust Deed**") between the Issuer, MBIA Assurance S.A. ("**MBIA**") or another Financial Guarantor (as defined

below) acceding thereto 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).

The Class A Wrapped Bonds and the Class B Wrapped Bonds (each "**Wrapped Bonds**") alone will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and amounts (if any) by which, in the case of Fixed Rate Bonds or Indexed Bonds (other than deferred interest), the Coupons (as defined below) exceeds the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*), and, in the case of Floating Rate Bonds, the Margin on the Coupons (as defined below) exceeds the initial Margin on the Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(i) (*Definitions*)) (in each case, the "**Subordinated Coupon Amounts**"), all such amounts being the "**FG Excepted Amounts**") pursuant to a financial guarantee (each, a "**Financial Guarantee**") to be issued by MBIA or another financial guarantor (MBIA and each other such financial guarantor being a "**Financial Guarantor**") in conjunction with the issue of each Sub-Class of Bonds.

Neither of the Class A Unwrapped Bonds or the Class B Unwrapped Bonds (each "**Unwrapped Bonds**") will have the benefit of any such Financial Guarantee.

The Bonds have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the "**Agency Agreement**") dated the Initial Issue Date (to which the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "**Principal Paying Agent**", "**Paying Agents**", "**Agent Bank**", "**Transfer Agents**" and/or "**Registrar**" means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of Schedule 1 to the Agency Agreement, the "**Calculation Agency Agreement**") between, *inter alia*, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the "**Calculation Agent**").

On 23 July 2003 (the "**Initial Issue Date**"), the Issuer entered into a security agreement (the "**Security Agreement**") with Deutsche Trustee Company Limited as security trustee (the "**Security Trustee**"), pursuant to which the Issuer granted certain fixed and floating charge security (the "**Issuer Security**") to the Security Trustee for itself and on behalf of the other Secured Creditors (as defined below), the Bond Trustee (for itself and on behalf of the Bondholders), the Bondholders, each Financial Guarantor, the Issuer, each Liquidity Facility Provider, the Hedge Counterparties, the Initial Authorised Credit Facility Arranger, the Liquidity Facility Agents, the Initial Authorised Credit Facility Agent, the Initial Authorised Credit Provider and each Authorised Credit Provider (as defined below), each Agent, the Cash Manager (other than when the Cash Manager is SWS), the Standstill Cash Manager, any Additional Secured Creditors (each as defined therein) and the Mezzanine Finance Parties (together, the "**Secured Creditors**"). On the Initial Issue Date, the Issuer entered into a security trust and intercreditor deed (the "**STID**") with, among others, the Security Trustee and other Secured Creditors and pursuant to which the Security Trustee holds the Security on trust for the Secured Creditors and the Secured Creditors agree to certain intercreditor arrangements.

On or about the Initial Issue Date, the Issuer entered into a Dealership Agreement (the "**Dealership Agreement**") with the dealers named therein (the "**Dealers**") in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Sub-Class of Bonds issued by the Issuer, and pursuant to which the Dealers have agreed to subscribe for the relevant Sub-Class of Bonds on behalf of the Issuer.

On the Initial Issue Date, the Issuer entered into a common terms agreement (the "**Common Terms Agreement**") with, among others, the Security Trustee, pursuant to which the Issuer makes certain representations, warranties and covenants and which sets out in Schedule 7 thereof the Events of Default (as defined therein) in relation to the Bonds.

The Issuer has entered or may enter into liquidity facility agreements (together, the "**Liquidity Facility Agreements**") with certain liquidity facility providers (together, the "**Liquidity Facility Providers**") pursuant to which the Liquidity Facility Providers agree to make certain facilities available to meet liquidity shortfalls (including debt service liquidity shortfalls and shortfalls in operating and maintenance expenditure of SWS).

The Issuer has entered or may enter into certain revolving credit facilities (together, the "**Authorised Credit Facilities**") with certain lenders (the "**Authorised Credit Providers**"), pursuant to which the Authorised Credit Providers agree to make certain facilities available to the Issuer for the purpose 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 (together, the "**Hedging Agreements**") with certain hedge counterparties (together the "**Hedge Counterparties**") in respect of certain Sub-Classes of Bonds and Authorised Credit Facilities, pursuant to which the Issuer hedges certain of its currency and interest rate obligations.

The Bond Trust Deed, the Bonds (including the applicable Pricing Supplement), the Security Agreement, the STID (the STID, the Security Agreement and any other documentation evidencing or creating security over any asset of an Obligor to a Secured Creditor under the Finance Documents being together the "**Security Documents**"), the Financial Guarantee Fee Letters, the Finance Lease Documents, the Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Initial Authorised Credit Facility Agreement, the Issuer/SWS Loan Agreements, the G&R Deeds, the Financial Guarantees, the Common Terms Agreement, the Mezzanine Facility Agreements, the CP Agreement, any other Authorised Credit Facilities, the master definitions agreement between, among others, the Issuer and the Security Trustee dated the Initial Issue Date (the "**Master Definitions Agreement**"), the account bank agreement between, among others, the account bank, the Issuer and the Security Trustee (the "**Account Bank Agreement**"), the Tax Deeds of Covenant and the indemnification deed between, among others, the Financial Guarantor(s) and the Dealers dated the Initial Issue Date (the "**Indemnification Deed**"), the SWS Preference Share Deed, the SWS/SWSG Loan Agreement and any related security document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds, (and together with each other agreement or instrument between SWS or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by SWS or the Issuer (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the "**Finance Documents**".

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Pricing Supplement or in the Bond Trust Deed, the Security Agreement or the STID. Copies of, *inter alia*, the Finance Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds), save that, if this Bond is an unlisted Bond of any Sub-Class, the applicable Pricing Supplement will only be obtainable by a Bondholder holding one or more unlisted Bonds of that Sub-Class and such Bondholder must provide evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Bonds and identity.

The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the STID, the Security Agreement, the Common Terms Agreement and the relevant Pricing Supplement and to have notice of those provisions of the Agency Agreement and the other Finance Documents applicable to them.

Any reference in these conditions to a matter being "specified" means as the same may specified in the relevant Pricing Supplement.

1. Form, Denomination and Title

(a) Form and Denomination

The Bonds will be issued either (i) in bearer form ("**Bearer Bonds**"), serially numbered in a Specified Denomination (as specified in the relevant Pricing Supplement), or (ii) in registered form ("**Registered Bonds**") serially numbered in a Specified Denomination or an integral multiple thereof. References in these Conditions to "**Bonds**" include Bearer Bonds and Registered Bonds and all Sub-Classes, Classes, Tranches and Series.

Interest-bearing Bearer Bonds are issued with Coupons (as defined below) (and, where appropriate, a Talon, (as defined below)) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the

principal amount of which is redeemable in instalments may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) 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.

(b) Title

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the "**Register**"), which the Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each "**Bondholder**" (in relation to a Bond, Coupon, Receipt or Talon), "**holder**" and "**Holder**" means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be) and (ii) in relation to Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions "**Bondholder**", "**holder**" and "**Holder**" include the holders of instalment receipts (which, in relation to Class A Bonds will be "**Class A Receipts**", in relation to Class B Bonds, "**Class B Receipts**" and together, the "**Receipts**") appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the "**Receiptholders**"), the holders of the coupons (which, in relation to Class A Bonds will be "**Class A Coupons**", in relation to Class B Bonds, "**Class B Coupons**" and together, the "**Coupons**") (if any) appertaining to interest bearing Bonds in bearer form (the "**Couponholders**"), and the expression Couponholders or Receiptholders includes the holders of talons in relation to Coupons or Receipts as applicable, (which, in relation to Class A Bonds will be "**Class A Talons**", in relation to Class B Bonds, "**Class B Talons**" and together, the "**Talons**") (if any) for further coupons or receipts, as applicable attached to such Bonds (the "**Talonholders**").

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond or Global Bond Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

(c) Fungible Issues of Bonds comprising a Sub-Class

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class, each of which will be issued on identical terms save for the first interest payment, the Issue Date and the Issue Price. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

2. Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds

(a) Exchange of Bonds

Subject to Condition 2(e) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Pricing Supplement, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) Transfer of Registered Bonds

A Registered Bond may be transferred upon the surrender of the relevant Individual Bond Certificate, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Authorised Denominations. In the case of a transfer of part only of a holding of Registered Bonds represented by an Individual Bond Certificate, a new Individual Bond Certificate in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) Delivery of New Individual Bond Certificates

Each new Individual Bond Certificate to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Individual Bond Certificate to such address as may be specified in such request or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the business day (as defined below) following the due date for such payment.

(d) Exchange at the Expense of Transferor Bondholder

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) Closed Periods

No transfer of a Registered Bond may be registered, nor any exchange of a Bearer Bond for a Registered Bond may occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

3. Status of Bonds and Financial Guarantee

(a) Status of Class A Bonds

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*) and rank *pari passu* without any preference among themselves. However, the Class A Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(b) Status of Class B Bonds

This Condition 3(b) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*), are subordinated to the Class A Bonds, Class A Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves. However, the Class B Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(c) Financial Guarantee Issued by Financial Guarantor

This Condition 3(c) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

Each Sub-Class of each Class of Wrapped Bonds will have the benefit of a Financial Guarantee issued by a Financial Guarantor, issued pursuant to a guarantee and reimbursement deed between, amongst others, the Issuer and a Financial Guarantor dated on or before the relevant Issue Date (as defined below) of such Bonds (each an "**G&R Deed**"). Under the relevant Financial Guarantee, the relevant Financial Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest and payment of principal (but excluding FG Excepted Amounts) on such Wrapped Bonds, all as more particularly described in the relevant Financial Guarantee.

The terms of the relevant Financial Guarantee provide that amounts of principal on any such Bonds which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) other than on the relevant Payment Date (as defined under the Financial Guarantee) will not be treated as Guaranteed Amounts (as defined in the Financial Guarantee) which are Due for Payment (as defined in the Financial Guarantee) under the Financial Guarantee unless the Financial Guarantor in its sole discretion elects so to do by notice in writing to the Bond Trustee. The Financial Guarantor may elect to accelerate payments due under the Financial Guarantee in full or partially. All payments made by the relevant Financial Guarantor under the relevant Financial Guarantee in respect of partial acceleration shall be applied (i) to pay the Interest (as defined in the relevant Financial Guarantee) accrued but unpaid on the Principal (as defined in the relevant Financial Guarantee) of such part of the accelerated payment and (ii) to reduce the Principal (as defined in the relevant Financial Guarantee) (or, in the case of Wrapped Bonds repayable in instalments, each principal repayment instalment on a *pro rata* basis with a corresponding reduction of each amount of the Interest (as determined in the Financial Guarantee)) outstanding under the relevant Sub-Classes of Wrapped Bonds. If no such election is made, the Financial Guarantor will continue to be liable to make payments in respect of the Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

To the extent that the early redemption price of any Bonds exceeds the aggregate of the Principal Amount Outstanding of and any accrued interest outstanding on any such Bonds to be redeemed (each as adjusted for indexation in accordance with Condition 7(b) (*Application of the Index Ratio*), if applicable), payment of such early redemption price will not be guaranteed by the Financial Guarantor under the relevant Financial Guarantee.

(d) Status of Financial Guarantee

This Condition 3(d) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

The relevant Financial Guarantee provided by the Financial Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(e) Security Trustee not responsible for monitoring compliance

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, where appropriate, the Super-Majority Creditors or, in particular cases, other specified parties and in accordance with the provisions of the STID.

The Security Trustee shall not be responsible for monitoring compliance by SWS with any of its obligations under the Finance Documents to which it is a party except by means of receipt from SWS of certificates of compliance which SWS has covenanted to deliver to the Security Trustee pursuant to the provisions of the Common Terms Agreement and which will state among other things, that no Default is outstanding. The Security Trustee shall be entitled to rely on certificates absolutely unless it is instructed otherwise by the Majority Creditors in which case it will be bound to act on such instructions in accordance with the STID. The Security Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Finance Documents. The Security Trustee may

call for and is at liberty to accept as sufficient evidence a certificate signed by any two Authorised Signatories of any Obligor or any other party to any Finance Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Security Trustee may require to be satisfied. The Security Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Security Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

All Bondholders shall (on providing sufficient evidence of identity) be entitled to view a copy of the Periodic Information (as defined in the Master Definitions Agreement) as and when available to the Security Trustee pursuant to the terms of the CTA and to view a copy of the unaudited interim accounts and audited annual accounts of SWS within 60 days of 30 September and 120 days of 31 March, respectively.

In addition, each Guarantor has covenanted to provide the Security Trustee with certain additional information (as set out in Schedule 5, Part 1 "*Information Covenants*" of the Common Terms Agreement). Such information may be published on a website designated by the relevant Guarantor and the Security Trustee. Any Bondholder who provides sufficient evidence of identity may obtain the current password to such website upon application to the Principal Paying Agent or the Registrar (as applicable).

In the event the relevant website cannot be accessed or is infected by an electronic virus or function software for a period of five consecutive days, all such information set out above which would otherwise be available will be delivered to the Security Trustee in paper form for onward delivery to the Bond Trustee and the Agents. Copies of such information will be available for inspection at the specified office of the Agents and the Bond Trustee.

4. Security, Priority and Relationship with Secured Creditors

(a) Guarantee and Security

Under the Security Agreement, each of SWS Holdings Limited ("**SWSH**") and SWS Group Holdings Limited ("**SWSGH**") guarantees the obligations of each other Obligor under the Finance Documents and SWS and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee for itself and on behalf of the Secured Creditors (including, without limitation, the Bond Trustee for itself and on behalf of the Bondholders) and secures such obligations upon the whole of its property, undertaking, rights and assets, subject to certain specified exceptions and, in the case of SWS, 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 Initial Issue Date. All Bonds issued by the Issuer under the Programme and any additional creditor of the Issuer acceding to the STID will share in the security (the "**Security**") constituted by the Security Documents.

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 as amended under which the Secretary of State for the Environment appointed SWS as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"**Obligors**" means SWS, SWSGH, SWSH and the Issuer.

(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 16 (*Bond Trustee Protections*).

The STID provides that the Security Trustee (except in relation to its Reserved Matters and Entrenched Rights (each as defined in the Master Definitions Agreement) and subject to certain exceptions) will act on instructions of the Majority Creditors (including the Bond Trustee as trustee for and representative of the holders of each Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default

(as defined in the Master Definitions Agreement) in respect of the Financial Guarantor of such Wrapped Bonds which is continuing) and the holders of Unwrapped Bonds) 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 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 (other than the Excluded Accounts) (each as defined in the Master Definitions Agreement) 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

So long as any of the Bonds remain outstanding, the Issuer has agreed to comply with the covenants as set out in Schedule 5 of the Common Terms Agreement.

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

6. Interest and other Calculations

(a) Interest Rate and Accrual

Each Bond (unless specified in the relevant Pricing Supplement to be a Zero Coupon Bond) bears interest on its Principal Amount Outstanding as defined below (or as otherwise specified in the relevant Pricing Supplement) from the Interest Commencement Date (as defined below) at the Interest Rate (as defined below), such interest being payable in arrear (unless otherwise specified in the relevant Pricing Supplement) on each Interest Payment Date (as defined below).

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date (as defined in Condition 6(i) (*Definitions*)).

In the case of interest on Class B Unwrapped Bonds only, if, on any Interest Payment Date, prior to the taking of Enforcement Action after the termination of a Standstill Period, there are insufficient funds available to the Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Account) to pay such accrued interest, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 12 of the Common Terms Agreement, sufficient funds

available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Unwrapped Bonds.

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Pricing Supplement, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be.

(b) Business Day Convention

If any date referred to in these Conditions or the relevant Pricing Supplement is specified to be subject to adjustment in accordance with a Business Day convention and would otherwise fall on a day which is not a Business Day (as defined below), then if the Business Day Convention specified in the relevant Pricing Supplement is:

(i) the "**Following Business Day Convention**", such date shall be postponed to the next day which is a Business Day;

(ii) the "**Modified Following Business Day Convention**", such 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 date shall be brought forward to the immediately preceding Business Day; or

(iii) the "**Preceding Business Day Convention**", such date shall be brought forward to the immediately preceding Business Day.

(c) Floating Rate Bonds

This Condition 6(c) is applicable only if the relevant Pricing Supplement specifies the Bonds as Floating Rate Bonds.

If "**Screen Rate Determination**" is specified in the relevant Pricing Supplement as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:

(i) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 6(i) (*Definitions*));

(ii) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined below) which appear on the Page as of the Relevant Time (as defined below) on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:

  (a) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(i) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined below) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and

  (b) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested in Condition 6(c)(iii), the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(i) (*Definitions*)) for loans in the Relevant

Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(i) (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined. However, if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

If "**ISDA Determination**" is specified in the relevant Pricing Supplement as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(i) (*Definitions*)); and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Pricing Supplement.

(d) Fixed Rate Bonds

This Condition 6(d) is applicable only if the relevant Pricing Supplement specifies the Bonds as Fixed Rate Bonds.

The Interest Rate applicable to the Bonds for each Interest Period will be the fixed rate specified in the relevant Pricing Supplement.

(e) Indexed Bonds

This Condition 6(e) is applicable only if the relevant Pricing Supplement specifies the Bonds as Indexed Bonds.

Payments of principal on, and the interest payable in respect of, the Bonds will be subject to adjustment for indexation and to the extent set out in Condition 7(b) (*Application of the Index Ratio*). The Interest Rate applicable to the Bonds for each Interest Period will be at the rate specified in the relevant Pricing Supplement.

(f) Rounding

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

(i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);

(ii) all figures will be rounded to seven significant figures (with halves being rounded up); and

(iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "**unit**" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(g) Calculations

The amount of interest payable in respect of any Bond for each Interest Period shall be calculated by multiplying the product of the Interest Rate and the Principal Amount Outstanding of such Bond during that Interest Period by the Day Count Fraction (as defined in Condition 6(i)(*Definitions*) and, in the case of Indexed Bonds only, adjusted according to the indexation set out in Condition 7(b) (*Application of the Index Ratio*), unless an Interest Amount is specified in respect of such period in the relevant Pricing

Supplement, in which case the amount of interest payable in respect of such Bond for such Interest Period will equal such Interest Amount.

(h) Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an "**Instalment Amount**"), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the amount of interest payable (the "**Interest Amounts**") in respect of each Specified Denomination of Bonds for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*), 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, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents 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 and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than (i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without 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 Sub-Class or Class of 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 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. 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 Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(i) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"**Business Day**" means:

(i) in relation to any sum payable in euro, a TARGET 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 relevant Pricing Supplement; and

(ii) 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 Relevant Currency (which in the case of a payment in US Dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Pricing Supplement.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if "**Actual/Actual (ISMA)**" is specified:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x)

the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year but excluding the next Determination Date; and

"**Determination Date**" means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

(ii) if "**Actual/365**" or "**Actual/Actual**" is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366, and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is specified, the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is specified, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified, the number of days in the Calculation 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 (1) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st 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 (2) the last day of the Calculation 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)); and

(vi) if "**30E/360**" or "**Eurobond Basis**" is specified, the number of days in the Calculation 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, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the last day of such 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);

"**euro**" means the lawful currency of the Participating Member States;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Pricing Supplement;

"**Interest Determination Date**" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Pricing Supplement or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the specified currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business Day Convention (as defined below) specified in the relevant Pricing Supplement);

"**Interest Payment Date**" means the date(s) specified as such in the relevant Pricing Supplement;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Rate**" means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Pricing Supplement;

"**ISDA Definitions**" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" means the date specified as such in the relevant Pricing Supplement;

"**Margin**" means the rate per annum (expressed as a percentage) specified as such in the relevant Pricing Supplement;

"**Maturity Date**" means the date specified in the relevant Pricing Supplement as the final date on which the principal amount of the Bond is due and payable.

"**Page**" means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("**Reuters**") and the Moneyline Telerate Monitor Screen ("**Telerate**")) as may be specified in the relevant Pricing Supplement, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty establishing the European Communities (as amended), and "**Participating Member States**" means all of them;

"**Principal Amount Outstanding**" means, in relation to a Bond, Sub-Class or Class, the original face value thereof less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

"**Redemption Amount**" means, the amount provided under Condition 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Pricing Supplement;

"**Reference Banks**" means the institutions specified as such or, if none, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Issuer, in its sole and absolute discretion;

"**Relevant Currency**" means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

"**Relevant Date**" means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

"**Relevant Financial Centre**" means, with respect to any Bond, the financial centre specified as such in the relevant Pricing Supplement or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

"**Relevant Rate**" means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Pricing Supplement);

"**Relevant Time**" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Pricing Supplement or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

"**Representative Amount**" means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Pricing Supplement as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Specified Duration**" means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant Pricing Supplement or, if none is specified, a period of time equal to the relative Interest Period;

"**TARGET Settlement Day**" means any day on which the TARGET system is open; and

"**TARGET system**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer system.

(j) Agent Bank, Calculation Agent and Reference Banks

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(k) Determination or Calculation by Bond Trustee

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Bond Trust Deed) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable).

(l) 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 Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent, the Agent Bank (or the Calculation Agent, if applicable) or, if applicable, any calculation agent, shall (in the absence of wilful default, negligence, bad faith or manifest error) be binding on the Issuer, SWS, SWSH, SWSGH, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, SWS, SWSH, SWSGH, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(m) Interest on Dual Currency Bonds

The rate or amount of interest payable in respect of Dual Currency Bonds shall be determined in the manner specified in the applicable Pricing Supplement.

(n) Interest on Partly Paid Bonds

In the case of Partly Paid Bonds (other than Partly Paid Bonds which are Zero Coupon Bonds), interest will accrue as aforesaid on the paid-up nominal amount of such Bonds and otherwise as specified in the applicable Pricing Supplement.

7. Indexation

This Condition 7 is applicable only if the relevant Pricing Supplement specifies the Bonds as Indexed Bonds.

(a) Definitions

"**affiliate**" means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "**control**" means control as defined in the Companies Act 1985;

"**Base Index Figure**" means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Pricing Supplement;

"**Index**" or "**Index Figure**" means, subject as provided in Condition 7(c)(i) (*Change in base*), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price 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 7(c) (*Changes in Circumstances Affecting the Index*) and (e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication. If the Index is replaced, the Issuer will describe the replacement Index in a supplementary offering circular;

"**Index Ratio**" applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure;

"**Limited Index Ratio**" means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"**Limited Indexation Factor**" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, **provided that** (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Pricing Supplement, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Pricing Supplement, it shall be deemed to be equal to such Minimum Indexation Factor;

"**Limited Indexation Month**" means any month specified in the relevant Pricing Supplement for which a Limited Indexation Factor is to be calculated;

"**Limited Indexed Bonds**" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Pricing Supplement) applies; and

"**Reference Gilt**" means the Treasury Stock specified as such in the relevant Pricing Supplement for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Bond Trustee (an "**Indexation Adviser**").

(b) Application of the Index Ratio

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(f) (*Rounding*).

(c) Changes in Circumstances Affecting the Index

(i) *Change in base*: If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of "**Index**" and "**Index Figure**" in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor), and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being at the Initial Issue Date 178.2) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) *Delay in publication of Index*: If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the "**relevant month**") before the month in

which a payment is due to be made is not published on or before the fourteenth business day before the date on which such payment is due (the "**date for payment**"), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Bond Trustee considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Bond Trustee) or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i) (*Change in base*)) before the date for payment.

(d) Application of Changes

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

(i) in relation to a payment of 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 by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) Cessation of or Fundamental Changes to the Index

(i) If (1) the Bond Trustee has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, 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.

(ii) If the Issuer and the Bond Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Bond Trustee or, failing agreement on and the making of 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 and of any Indexation Adviser and of any of the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Bond Trustee 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 and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be

effective from the date of such notification and binding upon the Issuer, the Financial Guarantor(s), the other Secured Creditors, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

8. Redemption, Purchase and Cancellation

(a) Partial and Final Redemption

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Pricing Supplement as having no fixed maturity date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s)) specified in the relevant Pricing Supplement plus accrued but unpaid interest (other than in the case of Zero Coupon Bonds) and, in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*).

In the case of principal on Class B Unwrapped Bonds only, if on any date, prior to the taking of Enforcement Action after the termination of a Standstill Period, on which such Bond is to be redeemed (in whole of in part) there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 12 of the Common Terms Agreement, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination or a Permitted Lease Termination) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Unwrapped Bonds.

(b) Optional Redemption

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a *pro rata* basis only) on any Interest Payment Date at their Redemption Amount, provided that Floating Rate Bonds may not be redeemed before the date specified in the relevant Pricing Supplement, as follows:

(i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Pricing Supplement, be an amount equal to the higher of (i) their Principal Amount Outstanding 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 such Bonds on the Reference Date (as defined below) is equal to 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 UK 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, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "**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" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002 page 5 or any replacement therefor; "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Pricing Supplement.

(ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Pricing Supplement, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Pricing Supplement) plus any accrued but unpaid interest on the Principal Amount Outstanding.

(iii) In respect of Indexed Bonds, the Redemption Amount will (unless otherwise specified in the relevant Pricing Supplement) be the higher of (i) the Principal Amount Outstanding and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK 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, plus accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Applications of the Index Ratio*)) on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(iii), "**Gross Real 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" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002, page 4 or any replacement therefor, "**Reference Date**" means the date which is two Business Days prior to the despatch of the notice of redemption under Condition 8(b)(iii); and "**Reference Gilt**" means the Treasury Stock specified in the relevant Pricing Supplement.

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

(c) Redemption for Index Event, Taxation or Other Reasons

Redemption for Index Events: Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds are also redeemed at the same time. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Security Trustee, the Majority Creditors and the relevant Financial Guarantor(s) a certificate signed by an authorised signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption.

"**Index Event**" means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

Redemption for Taxation Reasons: In addition, if at any time the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (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 the Cayman Islands or any political subdivision thereof, or any other authority thereof or any change in the application or official interpretation of such laws or regulations, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitutions of a company incorporated under another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under the Issuer/SWS Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*)). If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and, as a result, the relevant deduction or withholding is continuing then the Issuer may, upon giving

not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee, the Security Trustee and the Majority Creditors and the relevant Financial Guarantors a certificate signed by an authorised signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Bonds under the Payment Priorities.

(d) Redemption on Prepayment of Issuer/SWS Loan Agreements

If SWS gives notice to the Issuer under an Issuer/SWS Loan Agreement that it intends to prepay all or part of any advance made under such Issuer/SWS Loan Agreement and such advance was funded by the Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the Majority Creditors, the relevant Financial Guarantors and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(b) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(d), "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(d), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(e) Early redemption of Zero Coupon Bonds

Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Bond at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Bond becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 8(e) or, if none is so specified, a Day Count Fraction of 30/360.

In these Conditions, "**Accrual Yield**" and "**Reference Price**" and "**Zero Coupon Bond**" have the meanings given to them in the relevant Pricing Supplement.

(f) Purchase of Bonds

The Issuer may, provided that no Event of Default has occurred and is continuing, purchase Bonds (provided that all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Individual Bond Certificate, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Individual Bond Certificate in respect of the Bonds which are not to be purchased and despatch such Individual Bond Certificate to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

While the Bonds are represented by a Global Bond or Global Bond Certificate (as defined below), the relevant Global Bond or Global Bond Certificate will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(g) Redemption by Instalments

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Pricing Supplement) and Instalment Amounts (as specified in the relevant Pricing Supplement) will be partially redeemed on each Instalment Date at the Instalment Amount.

(h) Cancellation

In respect of all Bonds purchased by or on behalf of the Issuer, the Bearer Bonds or the Registered Bonds shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(i) Instalments

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Redemption Amount will be determined pursuant to paragraph (b) above.

(j) Partly Paid Bonds

Partly Paid Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

9. Payments

(a) Bearer Bonds

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and provided that the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency provided that such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) Registered Bonds

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named if joint holders) on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that

currency provided that such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Global Bond Certificate by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be *prima facie* evidence that such payment has been made.

(c) Payments in the United States of America

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of this Condition 9. No commission or expenses shall be charged to the Bondholders, Couponholders or Receiptholders (if any) in respect of such payments.

The holder of a Global Bond or Global Bond Certificate shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Global Bond Certificate (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Global Bond Certificate in respect of each amount paid.

(e) Appointment of the Agents

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "**Agents**") appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Pricing Supplement and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, provided that the Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds), (ii) a Registrar (in the case of Registered Bonds), (iii) an Agent Bank or Calculation Agent (as specified in the relevant Pricing Supplement) (in the case of Floating Rate Bonds or Indexed Bonds), (iv) if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing such conclusions or any law implementing or complying with, or introduced to conform to, such Directive; and (v) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system, which, while any Bonds are admitted to the Official List of the UK Listing Authority and/or admitted to trading on the London Stock Exchange shall be in London. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) Unmatured Coupons and Receipts and Unexchanged Talons

(i) Subject to the provisions of the relevant Pricing Supplement, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmatured Coupons attached), unmatured Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(ii) Upon the date for redemption of any Bond, any unmatured Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmatured Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) Non-Business Days

Subject as provided in the relevant Pricing Supplement, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

(h) Talons

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10. Taxation

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or, in respect of Wrapped Bonds, the Financial Guarantors) without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee, the Security Trustee or the Financial Guarantor is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor, as the case may be, 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, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the 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.

If the Issuer is obliged to make any such deduction or withholding, the amount so deducted or withheld is not guaranteed by the Financial Guarantor.

11. Events of Default

The Events of Default (as defined in the Master Definitions Agreement) relating to the Bonds are set out in Schedule 7 of the Common Terms Agreement.

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

(a) Events of Default

If any Event of Default occurs and is continuing in relation to the Issuer, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the 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 Sub-Classes 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 Sub-Classes 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 Sub-Class are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(a), the "**Reference Date**" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 11(a)) or as specified in the applicable Pricing Supplement.

(b) Confirmation of no Event of Default

The Issuer, pursuant to the terms of the Common Terms Agreement, shall provide written confirmation to the Bond Trustee, on an annual basis, that no Event of Default has occurred in relation to the Issuer.

(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 Sub-Class, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and, subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors.

(d) Automatic Acceleration

In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedge Termination or a Permitted Lease Termination (as defined in the Master Definitions Agreement) as set out in the STID), the Bonds of each Series shall automatically become due and repayable at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(d), "**Reference Date**" means the date two Business Days prior to the date of such acceleration) or as specified in the applicable Pricing Supplement plus, in each case, accrued and unpaid interest thereon.

12. Enforcement Against Issuer

No Bondholder is entitled to take any action against the Issuer or, in the case of the holders of Wrapped Bonds, against the Financial Guarantor or against any assets of the Issuer or any Financial Guarantor to enforce its rights in respect of the Bonds or to enforce any of the Security or to enforce any Financial Guarantee unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 11(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors pursuant to the STID, and neither the Bond Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Bonds are outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13. Prescription

Claims against the Issuer for payment in respect of the Bonds, Receipts or Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 6(i) (*Definitions*)) in respect thereof.

14. Replacement of Bonds, Coupons, Receipts and Talons

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds) (and each other listing authority, stock exchange and or quotation system upon which the relevant Bonds have then been admitted to listing, trading and/or quotation), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. 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 (as defined in the Master Definitions Agreement) decisions made pursuant to the Emergency Instruction Procedure (as set out in Clause 9.12 of the STID)).

In the circumstances which do not relate to Entrenched Rights or Reserved Matters of the Bondholders (as set out in the STID), the Bond Trustee shall be entitled to vote as the DIG Representative (as defined in the Master Definitions Agreement) of holders of each Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default (as defined in the Master Definitions Agreement) in respect of the Financial Guarantor of those Wrapped Bonds which is continuing) and of each Sub-Class of Unwrapped Bonds on intercreditor issues (''**Intercreditor Issues**'') but shall not be entitled to convene a meeting of any one or more Sub-Classes of Bondholders to consider the relevant matter unless a Default Situation is subsisting. If 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 or, if there are no Class A Bonds outstanding, Class B Bonds (i) by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds or (ii) (in respect of a DIG Proposal (as defined in the Master Definitions Agreement) to terminate a Standstill (as defined in the Master Definitions Agreement)) as requested in writing by the holders of at least one quarter of the Principal Amount Outstanding of the relevant Sub-Class of Class A Bonds then outstanding, 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 STID 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 $66^{2}/_{3}$ per cent. or more of the aggregate Outstanding Principal Amount (as defined in the Master Definitions Agreement) 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

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed, (in the case of Class A Wrapped Bonds and Class B Wrapped Bonds) the Financial Guarantees 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 including, in the case of any of the Class A Wrapped Bonds or Class B Wrapped Bonds, to Entrenched Rights or Reserved Matters of any Financial Guarantor (as set out in the STID) and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 16(b) (*Exercise of rights by Bond Trustee*) 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 Fourth Schedule to the Bond Trust Deed (the "**Basic Terms Modifications**") in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class 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.

(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 Sub-Class, concur with the Issuer or any other relevant parties in making (i) any modification of these Conditions, the Bond Trust Deed, any Financial Guarantee 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, such Financial Guarantee 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 Sub-Class. Any such modification, consent, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class 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.

16. Bond Trustee Protections

(a) Trustee considerations

Subject to the terms of the STID and Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed, any Financial Guarantee 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 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 two or more Sub-Classes of Bonds of such Class, it shall consider the interests of the holders of the Sub-Class of 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 Sub-Classes 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 Bondholders 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 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), which affects or relates to any Class A Wrapped Bonds and/or Class B Wrapped Bonds, the Bond Trustee shall only act with the consent of the relevant Financial Guarantor(s) (provided no FG Event of Default has occurred and is continuing) 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. As a consequence of being required to act only with the consent of the relevant Financial Guarantor(s) in the circumstances referred to in the previous sentence, the Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Sub-Classes 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, the Conditions or any Financial Guarantee in accordance with the directions of the relevant 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 11 (*Events of Default*) and Condition 15(a) (*Decisions of the Majority Creditors*) only) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Sub-Classes of Bonds outstanding or (b) been so directed by an Extraordinary Resolution 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.

17. Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange and any other listing authority, stock exchange and/or quotation system on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear Bank S.A./N.V. as operator of the Euroclear System or Clearstream Banking, *société anonyme* or any other relevant clearing system as specified in the relevant Pricing Supplement for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

18. Indemnification 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 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 (as defined in Condition 7 (*Indexation*)) are 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 instructed to act by the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) and if indemnified 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 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 (as defined in the Master Definitions Agreement).

19. European Economic and Monetary Union

(a) Notice of redenomination

The Issuer may, without the consent of the Bondholders, and on giving at least 30 days' prior notice to the Bondholders, the Financial Guarantors, the Bond Trustee and the Principal Paying Agent, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Bonds falling on or after the date on which the United Kingdom becomes a Participating Member State.

(b) Redenomination

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Bonds of each Sub-Class denominated in sterling (the "**Sterling Bonds**") shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Bond equal to the principal amount of that Bond in sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty establishing the European Union, as amended, (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Bond Trustee, that the then current market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the London Stock Exchange and any stock exchange (if any) on which the Bonds are then listed and the Principal Paying Agent of such deemed amendments;

(ii) if Bonds have been issued in definitive form:

(a) all Bonds denominated in sterling will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Bondholders and the Bond Trustee that replacement Bonds denominated in Euro are available for exchange (provided that such Bonds are available) and no payments will be made in respect thereof;

(b) the payment obligations contained in all Bonds denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Bonds in accordance with this Condition 19 shall remain in full force and effect; and

(c) new Bonds denominated in Euro will be issued in exchange for Sterling Bonds in such manner as the Principal Paying Agent or the Registrar, as the case may be, may specify and as shall be notified to the Bondholders in the Euro Exchange Notice;

(iii) all payments in respect of the Sterling Bonds (other than, unless the Redenomination Date is on or after such date as sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by cheque drawn on, or by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State; and

(iv) a Bond may only be presented for payment on a day which is a business day in the place of presentation.

(c) Interest

Following redenomination of the Bonds pursuant to this Condition 19:

(i) where Sterling Bonds have been issued in definitive form, the amount of interest due in respect of the Sterling Bonds will be calculated by reference to the aggregate principal amount of the Sterling Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01; and

(ii) the amount of interest payable in respect of each Sub-Class of Sterling Bonds for any Interest Period shall be calculated by applying the Interest Rate applicable to the Sub-Class of Bonds denominated in Euro ranking *pari passu* to the relevant Sub-Class.

20. Miscellaneous

(a) Governing Law

The Bond Trust Deed, STID, the Security Agreement, the Bonds, the Coupons, the Receipts, the Talons (if any), the relevant Financial Guarantee (if any) and the other Finance Documents are, and all matters arising from or in connection with such documents shall be governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bonds, the Coupons, the Receipts, the Talons, the relevant Financial Guarantee (if any) and the Finance Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) the relevant Financial Guarantee (if any) and/or the Finance Document may be brought in such courts. The Issuer has in each of the Finance Documents irrevocably submitted to the jurisdiction of such courts.

(c) Third Party Rights

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

Forms of the Bonds

Form and Exchange – Bearer Bonds

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "**Temporary Global Bond**"), without Coupons or Talons attached, or a permanent global bond (the "**Permanent Global Bond**"), without interest Coupons or Talons attached, in each case as specified in

the relevant Pricing Supplement. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a "**Global Bond**") will be delivered on or prior to the issue date of the relevant Sub-Class of the Bonds to a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Bonds.

Temporary Global Bond exchangeable for Permanent Global Bond

If the relevant Pricing Supplement specifies the form of Bonds as being represented by "Temporary Global Bond exchangeable for a Permanent Global Bond", then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Coupons or Talons attached, not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Paying Agent; and
- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however,* that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form ("**Definitive Bonds**"):

- on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- at any time, if so specified in the relevant Pricing Supplement; or
- if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Temporary Global Bond exchangeable for Definitive Bonds

If the relevant Pricing Supplement specifies the form of Bonds as being ''Temporary Global Bond exchangeable for Definitive Bonds'' and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Pricing Supplement specifies the form of Bonds as being ''Temporary Global Bond exchangeable for Definitive Bonds'' and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

Permanent Global Bond exchangeable for Definitive Bonds

If the relevant Pricing Supplement specifies the form of Bonds as being ''Permanent Global Bond exchangeable for Definitive Bonds'', then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bonds:

- on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- at any time, if so specified in the relevant Pricing Supplement; or
- if the relevant Pricing Supplement specifies ''in the limited circumstances described in the Permanent Global Bond'', then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Conditions applicable to the Bonds

The Conditions applicable to any Definitive Bond will be endorsed on that Bond and will consist of the Conditions set out under ''*Terms and Conditions of the Bonds*'' above and the provisions of the relevant Pricing Supplement which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bond to the extent described under ''*Provisions Relating to the Global Bonds*''.

Legend concerning United States persons

Global Bonds and Definitive Bonds having a maturity of more than 365 days and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

''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 in such legend provide that a United States person who holds a Bond, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Form and Exchange – Global Bond Certificates

Global Certificates

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or other clearing system will be represented by a global bond certificate (each a "**Global Bond Certificate**") which will be registered in the name of a nominee for, and deposited with, a depositary for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

Exchange

The Global Bond Certificate will become exchangeable in whole, but not in part, for individual bond certificates (each an "**Individual Bond Certificate**") if (a) Euroclear or Clearstream, Luxembourg and/or other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs, (c) at any time at the request of the registered Holder if so specified in the Pricing Supplement or (d) the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Global Bond Certificate.

Whenever the Global Bond Certificate is to be exchanged for Individual Bond Certificates, such will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within seven business days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate to the Registrar or the Transfer Agents (as the case may be) of such information as is required to complete and deliver such Individual Bond Certificates (including the names and addresses of the persons in whose names the Individual Bond Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Bond Certificate at the specified office of the Registrar or the Transfer Agent (as the case may be). Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar or the Transfer Agents (as the case may be) may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Rights Against Issuer

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed and the STID) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Global Bond Certificate became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

Provisions Relating To The Bonds While In Global Form

Clearing System Accountholders

References in the Conditions of the Bonds to "**Bondholder**" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Global Bond Certificate.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Global Bond Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor, to such Accountholder and in relation to all other rights arising under the Global Bond or Global Bond Certificate. The extent to which, and the manner in which, Accountholders may exercise

any rights arising under a Global Bond or Global Bond Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Global Bond Certificate, Accountholders shall have no claim directly against the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor in respect of payments due under the Bonds and such obligations of the Issuer and, in the case of Wrapped Bonds, the relevant Financial Guarantor will be discharged by payment to the bearer of the Global Bond or the registered holder of the Global Bond Certificate, as the case may be.

Amendment to Conditions

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Offering Circular. The following is a summary of certain of those provisions:

- *Meetings:* The holder of a Global Bond or Global Bond Certificate shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Global Bond Certificate shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Global Bond Certificate may be exchanged.
- *Cancellation:* Cancellation of any Bond represented by a Global Bond or Global Bond Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Global Bond Certificate.
- *Notices:* So long as any Bonds are represented by a Global Bond or Global Bond Certificate and such Global Bond or Global Bond Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to the Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions provided that, in any case, all such notices shall be published in a leading English language daily newspaper having general circulation in Europe (which is expected to be the *Financial Times*) in accordance with Condition 17 (*Notices*).

PRO FORMA PRICING SUPPLEMENT

The Pricing Supplement in respect of each Sub-Class of Bonds will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Bonds and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.

Pricing Supplement dated [●]

SOUTHERN WATER SERVICES (FINANCE) LIMITED

Issue of [*Sub-Class [-[●] (delete as appropriate)*] [*Aggregate Nominal Amount of Sub-Class*] [*Title of Bonds*]

[(*if Class A Wrapped Bonds or Class B Wrapped Bonds issued including the following:*): unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest by

[Name of Financial Guarantor]]

under the £6,000,000,000 Guaranteed Bond Programme

This document constitutes the Pricing Supplement relating to the issue of [*indicate relevant Sub-Class*] Bonds described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●]. This Pricing Supplement must be read in conjunction with such Offering Circular.

[Repayment of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed by MBIA Assurance S.A. or by any other financial institution.]

[*Note: include above paragraph if neither Class A Wrapped Bonds nor Class B Wrapped Bonds being described in the Pricing Supplement.*]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.*]

1.	(i)	Issuer:	Southern Water Services (Finance) Limited
	(ii)	Guarantors:	Southern Water Services Limited, SWS Holdings Limited and SWS Group Holdings Limited
	(iii)	Financial Guarantor:	[Name of Financial Guarantor] [*delete if not Wrapped Bonds*]
2.	(i)	Series Number:	[●]
	(ii)	Sub-Class Number: *(If fungible with an existing Sub-Class, details of that Sub-Class, including the date on which the Bonds become fungible).*	[●]
3.		Relevant Currency or Currencies:	[●]
4.		Aggregate Nominal Amount:	
	(i)	Series:	[●]
	(ii)	Tranche:	[●]
	(iii)	Sub-Class:	[●]

5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*]] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net proceeds: (required only for listed issues)	[●]
6.		Specified Denominations: (*in the case of Registered bonds, this means the minimum integral amount in which transfers can be made*). *Bonds (including Bonds denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*	[●] [●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date (if different from the Issue Date):	[●]
8.		Maturity Date:	[*specify date or (for Floating Rate Bonds) Interest Payment Date falling in [the relevant month and year*]]
9.		Instalment Date:	[Not applicable/*specify*]
10.		Interest Basis:	[●] per cent. Fixed Rate] [[specify reference] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [specify other]
11.		Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Partly Paid] [Instalment] [Dual Currency] [specify other]
12.		Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of Bonds into another interest or redemption/payment basis*]
13.		Call Options:	Issuer Call Option [(further particular specified below)]

14.	(i)	Status and Ranking:	[*if Class A Wrapped Bonds or Class A Unwrapped Bonds*] The Class A Wrapped Bonds and Class A Unwrapped Bonds rank *pari passu* among each other in terms of interest and principal payments and rank in priority to the Class B Bonds. [*if Class B Bonds:*] The Class B Wrapped Bonds and the Class B Unwrapped Bonds rank *pari passu* among each other and are subordinated in terms of interest and principal payments to the Class A Bonds.
	(ii)	Status of the Guarantees:	Senior
	(iii)	Status of the Financial Guarantee:	The Financial Guarantee will rank *pari passu* with all unsecured obligations of the Financial Guarantor.
	(iv)	FG Event of Default (if not MBIA)	[*Only required if Wrapped Bonds. Specify for Financial Guarantor*]
15.	Listing:		[*London*] [*and other exchanges as applicable*]
16.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	Fixed Rate Bond Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Rate:	[●] per cent. per annum [payable [annually / semi-annually / quarterly / monthly] in arrear]
	(ii)	Interest Determination Date:	[●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon – only relevant where day count fraction is Actual/Actual (ISMA))*
	(iii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted]
	(iv)	First Interest Payment Date	[●]
	(v)	Fixed Coupon Amount[(s)]:	[●] per [●] in Nominal Amount
	(vi)	Broken Amount(s):	[*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*]
	(vii)	Day Count Fraction:	[Actual/Actual ISMA] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or bond basis] [30E/360 or Eurobond Basis]
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[*Not Applicable/give details*]
	(ix)	Reference Gilt	[●]

18.	Floating Rate Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii)	First Interest Payment Date	[●]
	(iii)	Business Day Convention:	[Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
	(iv)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
	(v)	Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank):	[Not applicable/Calculation Agent]
	(vi)	Screen Rate Determination:	
		– Relevant Rate:	[●]
		– Interest Determination Date(s):	[●]
		– Relevant Screen Page:	[●]
	(vii)	ISDA Determination:	
		– Floating Rate Option:	[●]
		– Designated Maturity:	[●]
		– Reset Date:	[●]
	(viii)	Margin(s):	[+/-][●] per cent. per annum
	(ix)	Minimum Rate of Interest:	[Not Applicable]
	(x)	Maximum Rate of Interest:	[Not Applicable]
	(xi)	Day Count Fraction:	[Actual/Actual ISMA] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]
	(xii)	Additional Business Centre(s):	[●]
	(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions:	[●]
	(xiv)	Relevant Financial Centre:	[●]
	(xv)	Representative Amount:	[●]

19.	Zero Coupon Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Accrual Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 8(e)/specify other] (*Consider applicable day count fraction if not U.S dollar denominated*)

20.	Indexed Bond Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Index/Formula:	[UK Retail Price Index]
	(ii)	Interest Rate:	[●]
	(iii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not applicable/Calculation Agent]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	Applicable – Condition 7(c) and 7(e)
	(v)	Interest Payment Dates:	[●]
	(vi)	First Interest Payment Date:	[●]
	(vii)	Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(viii)	Minimum Indexation Factor:	[Not Applicable/*specify*]
	(ix)	Maximum Indexation Factor:	[Not Applicable/*specify*]
	(x)	Limited Indexation Month(s):	[●]
	(xi)	Reference Gilt	[●]
	(xii)	Day Count Fraction:	[Actual/Actual ISMA] [Actual/365 or Actual/Actual] [Actual/365 Fixed] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis]

21.	Dual Currency Bond Provisions		[Applicable/Not Applicable] [*If not applicable, delete the remaining sub-paragraphs of this paragraph*]
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[Give details]
	(ii)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not applicable/Calculation Agent]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

22.	Call Option:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	Yes. [In the case of Floating Rate Bonds, not before [●] and at a premium of [●], if any.]
	(ii)	Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●]

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [Not applicable]

(b) Maximum Redemption Amount: [Not applicable]

(iv) Notice period (if other than as set out in the Conditions): [Not applicable]

23. Final Redemption Amount: [Par/other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE BONDS

24. Form of Bonds: [Bearer/Registered]

(i) If issued in Bearer form: [Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]

[Temporary Global Bond exchangeable for Definitive Bonds on [●] days' notice.]

[Permanent Global Bond exchangeable for Definitive Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]

(ii) If Registered Bonds: [Global Bond Certificate exchangeable for Individual Bond Certificates]

25. Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Not applicable/give details.]

26. Talons for future Coupons or Receipts to be attached to Definitive Bonds (and dates on which such Talons mature): [Yes/No. *If yes, give details*]

27. Details relating to Partly Paid Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Bonds and interest due on late payment: [Not applicable/*give details*]

28. Details relating to Instalment Bonds: [Not Applicable/*give details*]

(i) Instalment Date: [●]

(ii) Instalment Amount: [●]

29. Redenomination, renominalisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 19/ annexed to this Pricing Supplement] apply]

30. Consolidation provisions: [Not Applicable/The provisions annexed to this Pricing Supplement] apply]

31. Other terms or special conditions: [Not Applicable/*give details*]

32. TEFRA rules: [TEFRA C/TEFRA D/Not applicable]

ISSUER/SWS LOAN TERMS

33.	Interest rate on relevant Term Advance/ Index Linked Advances:	[●]
34.	Term of relevant Term Advance/Index Linked Advances:	[●]
35.	Other relevant provisions:	[●]

DISTRIBUTION

36.	(i)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii)	Stabilising Manager (if any):	[Not Applicable/give name]
37.	If non-syndicated, name of Dealer:		[Not Applicable/*give name*]
38.	Additional selling restrictions:		[Not Applicable/*give details*]

OPERATIONAL INFORMATION

39.	ISIN Code:	[●]
40.	Common Code:	[●]
41.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
42.	Delivery:	Delivery [against/free of] payment
43.	Additional Paying Agent(s) (if any):	[●]

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Bonds described herein pursuant to the listing of the Programme for the issuance of up to £3,000,000,000 Guaranteed Wrapped Bonds and £3,000,000,000 Guaranteed Unwrapped Bonds financing Southern Water Services Limited.

RESPONSIBILITY

The Issuer and each Guarantor accepts responsibility for the information contained in this Pricing Supplement [save for the [Financial Guarantor] Information]*

[The Financial Guarantor accepts responsibility for the [Financial Guarantor] Information contained in this Pricing Supplement.]*

Signed on behalf of the Issuer:

By: .....
Duly authorised

Signed on behalf of Southern Water Services Limited:

By: .....
Duly authorised

Signed on behalf of SWS Holdings Limited:

By: .....
Duly authorised

Signed on behalf of SWS Group Holdings Limited:

By: .....
Duly authorised

[Signed on behalf of [Financial Guarantor]]*:

By: .....
Duly authorised

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* Delete as applicable

CHAPTER 9

USE OF PROCEEDS

The gross proceeds from the issue of Bonds on the Initial Issue Date will be used directly or indirectly by the Issuer, among other things:

(a) to make advances to SWS under the Initial Issuer/SWS Loan Agreement to enable SWS to repay all existing intercompany indebtedness owed by it to the Issuer;

(b) to repay the Issuer's existing intercompany indebtedness to SWI;

(c) to pay all amounts due under the term loan facility granted to the Issuer under the Bridge Facility Agreement;

(d) to settle certain termination payments in relation to existing hedging contracts to be terminated prior to the Initial Issue Date; and

(e) to meet certain transaction fees and expenses.

The proceeds from each subsequent issue of Bonds under the Programme will be on-lent to SWS under the terms of further Issuer/SWS Loan Agreements to be applied by SWS for its general corporate purposes or used to repay or service the Issuer's Financial Indebtedness.

CHAPTER 10

MBIA AND ITS FINANCIAL GUARANTEES

MBIA ASSURANCE S.A.

General

MBIA Assurance S.A. ("**MBIA**") is a *société anonyme* that was created and incorporated in France under French law on 3 May 1990. MBIA's corporate charter expires on 3 May 2089. MBIA's principal activity is the guarantee of financial obligations. MBIA has been set up in the form of a joint stock corporation and is subject to the provisions of the French Code of Commerce ("**Code de Commerce**") as the law of 24 July 1966 has been replaced by the Code of Commerce.

Furthermore, MBIA is licensed in the French Republic, under the terms of Article L 321-1 of the French Insurance Code ("**Code des Assurances**"), to carry out operations of the type corresponding to Branch 15 Guarantee listed in Article R 321-1 of the aforementioned Code ("Journal Officiel" dated 28 March 1991). MBIA is under the supervision of the Commission de Contrôle des Assurances. It is registered in Paris at the Commercial Register (Paris Register of Trade and Companies) (Registration No. B377883293 (98 B 05130)). MBIA has its head office in Paris at 112, Avenue Kléber, 75116 Paris, France.

MBIA has used the provisions of the Third Non-life Insurance Directive No. 92/49/EEC to operate in the United Kingdom both on a services and a branch basis. It was established as an overseas company under number FC020116 and as a branch under number BR003789 in England and Wales under Schedule 21A to the Companies Act 1985 on 10th February 1997. MBIA's business in the United Kingdom is to a limited extent subject to supervision by the Financial Services Authority. Its branch office is located at 1 Great St Helen's, 2nd Floor, London, EC3A 6HX, United Kingdom.

Business and Financial Structure

MBIA is licensed to do business in, and is subject to regulation under the laws of the French Republic. MBIA is a 99.99% owned subsidiary of MBIA Insurance Corp. MBIA Insurance Corp. is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obliged to pay the debts of, or claims against, MBIA Insurance Corp. or MBIA.

MBIA is engaged primarily in carrying out insurance and reinsurance transactions of any kind authorised by the Commission de Contrôle des Assurances, excepting insurance transactions involving commitments, the performance of which depends on human life, but including particularly guarantee transactions, and notably, insuring the repayment of financial or other contractual obligations entered into by local governments, other public entities, companies, trusts and other commercial entities as well as any ancillary activities. MBIA may, to this purpose, make any investment and acquire any stake, in France and/or abroad, through the acquisition of a participating interest or securities, contributions in cash or in kind, subscription to any issue of shares or bonds, loans or credits; and may, to this end, borrow and make use of any means of financing it may choose and pledge such investments or interests as it sees fit. MBIA may carry out in France and/or abroad any industrial, commercial, financial or real estate operations that may be linked, directly or indirectly, to the above activities or are likely to facilitate the development thereof within the scope of the legislation specific to insurance companies.

Financial Strength Ratings

Moody's Investor Service, Inc. ("**Moody's**") rates the financial strength of MBIA Insurance Corp. and MBIA "**Aaa**".

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("**S&P**") rates the financial strength of MBIA Insurance Corp. and MBIA "**AAA**".

Fitch, Inc. ("**Fitch**") rates the financial strength of MBIA Insurance Corp. and MBIA "**AAA**".

Each rating of MBIA Insurance Corp. and MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the financial strength of MBIA Insurance Corp. and MBIA and their ability to pay claims on their policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the obligations, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the obligations.

MBIA Insurance Corp. and MBIA do not guarantee the market price of the obligations nor do they guarantee that the ratings on the obligations will not be revised or withdrawn.

Summary of Financial Information

For the periods ended 31 December 2000, 2001 and 2002, MBIA had net income/(loss) of (155,712) Euros, (1,389,753) Euros and 7,066,119 Euros, respectively. During the year 2000, MBIA established a branch in the United Kingdom. As a start-up entity, the UK branch operated at a net loss for the periods ended 31 December 2000 and 2001. Its accounts are included in the financial statements of MBIA for the periods ended 31 December 2000, 2001 and 2002. For the years ended 31 December 2000, 2001 and 2002, MBIA had net assets of 32,357,277 Euros, 31,002,236 Euros and 38,068,355 Euros, respectively.

Capitalisation and Indebtedness Table

As at 31 December 2002 and 31 December 2001, the capitalisation and indebtedness of MBIA was as follows:

MBIA Assurance S.A. - Capitalisation and Indebtedness Table[1]
(thousands of euros)

	31 December 2002 (audited)	31 December 2001 (audited)
Indebtedness		
— Funds Held[2]	0	499
Shareholders' Equity		
— Common stock, par value 15 euros per share: 1,750,000 authorised and issued shares (fully paid)	26,250	26,250
— Retained Earnings, Other reserves, Net Loss	11,818	4,752
Total Shareholders Equity	38,068	31,002
Total Capitalisation and Indebtedness[3]	**38,068**	**31,501**

(1) This Capitalisation and Indebtedness Table has been prepared in accordance with generally accepted accounting principles in France and has been extracted without material adjustment from the audited financial statements of MBIA Assurance S.A. for the years ended 31 December 2001 and 31 December 2002. Save as set out in the Table, MBIA Assurance S.A. did not at the relevant dates have any loan capital outstanding or created but unissued, term loans or any other borrowings in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, mortgages, charges, finance lease commitments, hire purchase obligations or guarantees, or contingent liabilities.

(2) Represents a security deposit held by MBIA Assurance S.A. in respect of an insured transaction relating to a past securitisation. There is a corresponding asset of equal value on the MBIA Assurance S.A. balance sheet. These funds constitute a short-term security deposit and were entirely released on 12 April 2002. There is no medium or long-term indebtedness.

(3) There has been no material change in the capitalisation and indebtedness, contingent liabilities or guarantees of MBIA Assurance S.A. since 31 December 2002.

Risk Diversification

MBIA Insurance Corp. and MBIA seek to maintain a diversified insured portfolio designed to spread risk based on a variety of criteria, including revenue source, issue size, type of bond and geographic area. As at 31 December 2002, MBIA Insurance Corp. had 32,588 policies outstanding. These policies are diversified among 10,590 ''credits'', which MBIA Insurance Corp. defines as any group of issues supported by the same revenue source. MBIA seeks similar diversification. The breakdown of risks insured by MBIA (before reinsurance) and in force as at 31 December 2002 is presented in the following table. (*source: MBIA's books and records*):

Table of Risks
(thousand of euros)

	2002	2001	2000
Sovereign and Sub-Sovereign	1,505,487	1,202,950	1,320,690
Public Utilities	6,206,452	3,406,744	1,121,994
Structured Finance	2,216,384	903,246	1,178,424
Financial Institutions[1]	148,301	173,591	251,185
Investor Owned Utilities	254,283	268,731	255,546
Total	**10,330,907**	**5,955,262**	**4,127,839**

(1) Consists in large part of risks involving smaller banks and insurance companies.

Relationship between MBIA and MBIA Insurance Corp.

MBIA Insurance Corp. and MBIA have entered into (i) a reinsurance agreement dated 1 January 1993 (as amended and restated on 1 January 2002) providing for MBIA Insurance Corp.'s reinsurance of the risks of MBIA (the ''**Reinsurance Agreement**'') and (ii) an agreement dated 1 November 1991 (as amended and restated on 1 April 2002) whereby MBIA Insurance Corp. agrees to maintain the net worth of MBIA, to remain its sole shareholder* and not to pledge its shares of MBIA (as amended, the ''**Net Worth Maintenance Agreement**''). Under the Reinsurance Agreement, MBIA Insurance Corp. agrees to reimburse MBIA, on an excess of loss basis, for losses incurred in each calendar year for net retained insurance liability. MBIA Insurance Corp. shall reimburse MBIA for the amount of MBIA's losses paid in each calendar year which amount is in the aggregate in excess of an amount equal to the greater of: (1) US$500,000 or (2) 40% of MBIA's net earned premium income for that same calendar year. The liability of MBIA Insurance Corp. shall not exceed, in any one calendar year, MBIA's net retention with respect to the principal outstanding plus interest insured under MBIA's largest policy in effect as of 11:59 p.m. on 31 December of the prior year.

Under the Net Worth Maintenance Agreement, MBIA Insurance Corp. agrees to cause MBIA to maintain a minimum capital and surplus position of 4,573,471 euros, or such greater amount as shall be required now or in the future by French law or French regulatory authorities; provided however, (i) any contributions to MBIA for such purpose shall not exceed 35% of MBIA Insurance Corp.'s policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (ii) any contribution shall be made in compliance with Section 1505 of the New York State Insurance Law.

MBIA has no subsidiaries.

Bondholders should note that the Net Worth Maintenance Agreement between MBIA and MBIA Insurance Corp. and the Reinsurance Agreement (together, the ''MBIA Assurance Agreements'') are entered into for the benefit of MBIA and are not, and should not be regarded as guarantees by MBIA Insurance Corp. of the payment of any indebtedness, liability or obligations of the Issuer, the Bonds or any Financial Guarantees.

Information in this Offering Circular concerning MBIA Insurance Corp. is provided for background purposes only in view of the importance to MBIA and the MBIA Assurance Agreements. It does not imply that the MBIA Assurance Agreements are guarantees for the benefit of Bondholders. Payments of principal and of interest on the obligations will be guaranteed by MBIA pursuant to the Financial Guarantee and will not be additionally guaranteed by MBIA Insurance Corp.

The MBIA Assurance Agreements are agreements solely between MBIA and MBIA Insurance Corp. and do not confer rights on third parties; however, these arrangements, together with the ownership of MBIA by MBIA Insurance Corp. and the underwriting support supplied to MBIA by MBIA Insurance Corp., may make information about MBIA Insurance Corp. of interest to holders of policies and guarantees issued by MBIA. Additionally, the MBIA Assurance Agreements were relevant to the rating agencies in justification of the triple-A ratings granted to MBIA. Any modifications to the Net Worth Maintenance Agreement may not occur without confirmation from each of S&P and Moody's that such modifications will not result in the reduction or withdrawal of the claims-paying ratings then assigned to MBIA.

* MBIA Insurance Corp. owns all shares of MBIA Assurance S.A. with the exception of 10 shares, each of which is attributed to each director of MBIA Assurance S.A. during the term of his/her office for French Corporate Law purposes.

Pursuant to procedures initially developed by MBIA Insurance Corp., MBIA is selective in the risks it chooses to underwrite. Logistic and underwriting support are supplied to MBIA from MBIA Insurance Corp. A logistic review of a credit and the proposed structure is undertaken by an analyst. Both the credit and the structure are then presented to a separate underwriting committee composed of persons not involved in the analysis. Only following approval of both the credit and the structure may a policy or guarantee be issued by MBIA.

Management

At the date of this Offering Circular, the members of the Board of Directors of MBIA, their ages and positions within MBIA and their other principal activities are as follows:

Name	**Age**	**Title**	**Other Activities**
John B. Caouette	58	Member of the Board of Directors	Vice Chairman of MBIA Insurance Corp.
Karen E. Decter	36	Member of the Board of Directors	Senior Analyst of MBIA Insurance Corp.
David H. Dubin	41	Member of the Board of Directors	Managing Director of MBIA Insurance Corp.
Gary C. Dunton	48	Member of the Board of Directors	President and Chief Operating Officer of MBIA Insurance Corp.
Kathleen M. Reagan	42	Member of the Board of Directors	Director of MBIA Insurance Corp.
Philip C. Sullivan	47	Member of the Board of Directors	Managing Director of MBIA Insurance Corp.
Juliet S. Telford	38	Member of the Board of Directors	Vice President of MBIA Insurance Corp.
Richard L. Weill	60	Member of the Board of Directors	Vice Chairman of MBIA Insurance Corp.
Ram D. Wertheim	49	Member of the Board of Directors	General Counsel and Assistant Secretary of MBIA Inc.
Deborah M. Zurkow	46	President of the Board of Directors and Managing Director	Managing Director of MBIA Insurance Corp.

The board members do not perform any activities which are significant in the context of the issue of the obligations save as indicated above.

The business address of Ms. Decter and Ms. Zurkow is 112, Avenue Kléber, 75116 Paris, France. The business address of Ms. Telford and Messrs. Caouette, Dubin and Sullivan is 1 Great St. Helen's, London EC3A 6HX, United Kingdom. The business address of Ms. Reagan and Messrs. Dunton, Weill and Wertheim is 113 King Street, Armonk, New York 10504, United States.

MBIA INSURANCE CORPORATION

General

MBIA Inc. ("**MBIA Inc.**") is engaged in providing financial guarantee insurance and investment management and financial services to public finance clients and financial institutions on a global basis. Financial guarantees for municipal bonds, asset-backed and mortgage-backed securities, investor-owned utility bonds, and collateralised obligations of sovereigns, corporations and financial institutions, both in the new issue and secondary markets, are provided through MBIA Inc.'s wholly-owned subsidiary, MBIA Insurance Corporation ("**MBIA Insurance Corp.**"). MBIA Insurance Corp. is the successor to the business of the Municipal Bond Insurance Association (the "**Association**") which began writing financial guarantees for municipal bonds in 1974. MBIA Insurance Corp. is the parent of MBIA Insurance Corp. of Illinois ("**MBIA Illinois**") and Capital Markets Assurance Corporation ("**CapMAC**"), both financial guarantee companies. In 1990, MBIA Inc. formed a French insurance company, MBIA Assurance S.A. ("**MBIA Assurance**"), to write financial guarantee insurance in the countries of the European community. MBIA Assurance, which is also a 99.99% subsidiary of MBIA Insurance Corp., writes policies insuring sovereign risk, public infrastructure financings, asset-backed transactions and certain collateralised obligations of corporations and financial institutions. MBIA has used the provisions of the Third Non-life Insurance Directive No. 92-49-EEC to operate in the United Kingdom both on a services and a branch basis. Generally, throughout the text, references to MBIA Insurance Corp. include the activities of its subsidiaries, MBIA Illinois, MBIA Assurance and CapMAC.

Business and Financial Structure

Financial guarantee insurance provides an unconditional and irrevocable guarantee of the payment of the principal and interest or other amounts owing, on insured obligations when due. MBIA Insurance Corp. primarily insures obligations which are sold in the new issue and secondary markets, or which are held in unit investment trusts ("**UIT**") and by mutual funds. It also provides surety bonds for debt service reserve funds. The principal economic value of financial guarantee insurance to the entity offering the obligations is the savings in interest costs resulting from the difference in the market yield between an insured obligation and the same obligation on an uninsured basis. In addition, for complex financings and for obligations of issuers that are not well-known by investors, insured obligations receive greater market acceptance than uninsured obligations. The municipal obligations that MBIA Insurance Corp. insures include tax-exempt and taxable indebtedness of states, counties, cities, utility districts and other political subdivisions, as well as airports, higher education and health care facilities and similar authorities. The asset-backed or structured finance obligations insured by MBIA Insurance Corp. typically consist of securities that are payable from or which are tied to the performance of a specified pool of assets that have a defined cash flow. These include residential and commercial mortgages, a variety of consumer loans, corporate loans and bonds and equipment and real property leases.

MBIA Inc. also provides investment management products and financial services through a group of subsidiary companies. These services include cash management, municipal investment agreements, discretionary asset management, purchase and administrative services, and municipal revenue enhancement services. MBIA Municipal Investors Service Corporation ("**MBIA-MISC**") provides cash management services and investment placement services to local governments and school districts, and provides those clients with investment fund administration services. MBIA Investment Management Corp. ("**IMC**") offers guaranteed investment agreements primarily for bond proceeds to states and municipalities. MBIA Capital Management Corp. ("**CMC**") performs investment management services for the Company, MBIA-MISC, IMC and selected external clients. In 1998, the company acquired 1838 Investment Advisors, Inc. ("**1838**"), an investment advisor to equity mutual funds and to third party clients. In 1999, MBIA Inc. formed a holding company, MBIA Asset Management Corporation, to consolidate the resources and capabilities of these four entities. MBIA Global Funding, LLC ("**GFL**"), which was formed in 2002, raises funds through the issuance of medium term notes, with the proceeds invested in high quality eligible investments.

Financial Strength Ratings

MBIA Insurance Corp. has a Triple-A financial strength rating from S&P, which it received in 1974; from Moody's, which it received in 1984; from Fitch, which it received in 1995; and from Japan Rating and Investment Information, Inc. ("**JRII**"), which it received in 1998. Obligations which are guaranteed by MBIA Insurance Corp. are rated Triple-A primarily based on the financial strength of MBIA Insurance Corp. Both S&P and Moody's have also continued the Triple-A rating on MBIA Illinois and CapMAC guaranteed bond issues. The Triple-A ratings are important to the operation of MBIA Inc.'s business and

any reduction in these ratings could have a material adverse effect on MBIA Insurance Corp.'s ability to compete and could have a material adverse effect on the business, operations and financial results of MBIA Inc.

Capitalisation and Indebtedness Table

The following table sets forth the capitalisation and indebtedness of MBIA Insurance Corp. as at 31 December 2002 and 31 December 2001 *(source: audited accounts of MBIA Insurance Corp. for financial years ended 31 December 2002 and 2001):*

	31 December 2002 (audited)	31 December 2001 (audited)
	(US$ in thousands)	
Long-term Debt	Nil	Nil
Investors' Equity:		
Common stock, par value $150 per share; authorised, issued and outstanding – 100,000 shares	15,000	15,000
Additional paid-in capital[1]	1,610,574	1,567,478
Retained earnings	3,943,341	3,572,397
Accumulated other comprehensive income	339,710	71,014
Total Investors' Equity	**US$5,908,625**	**US$5,225,889**
Total Capitalisation and Indebtedness[2]	**US$5,908,625**	**US$5,225,889**

(1) Represents the additional contribution from MBIA Inc. above the par value of the common stock.

(2) There has been no material change in the capitalisation, indebtedness, contingent liabilities and guarantees of MBIA Insurance Corp. since 31 December 2002.

Risk Diversification

At 31 December 2002, the net par amount outstanding on MBIA Insurance Corp.'s insured obligations (including insured obligations of MBIA Illinois, MBIA and CapMAC, but excluding the guarantee of US$8.0 billion of investment management transactions for IMC and GFL) was US$497.3 billion. Net insurance in force was US$781.6 billion.

Because generally, MBIA Insurance Corp. guarantees to the holder of the underlying obligation the timely payment of amounts due on such obligation in accordance with its original payment schedule, in the case of a default on an insured obligation, payments under the insurance policy cannot be accelerated unless MBIA Insurance Corp. consents to the acceleration. Otherwise, MBIA Insurance Corp. is required to pay principal, interest or other amounts only as originally scheduled payments come due.

MBIA Insurance Corp. underwrites financial guarantee insurance on the assumption that the insurance will remain in force until maturity of the insured obligations. MBIA Insurance Corp. estimates that the average life (as opposed to the stated maturity) of its insurance policies in force at 31 December 2002 was 10.5 years. The average life was determined by applying a weighted average calculation, using the remaining years to maturity of each insured obligation, and weighting them on the basis of the remaining debt service insured. No assumptions were made for any future refundings of insured issues. Average annual debt service on the portfolio at 31 December 2002 was US$61.8 billion.

Reinsurance

State insurance laws and regulations, as well as Moody's and S&P, impose minimum capital requirements on financial guarantee companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. MBIA Insurance Corp. increases its capacity to write new business by using treaty and facultative reinsurance to reduce its gross liabilities on an aggregate and single risk basis.

As a primary insurer, MBIA Insurance Corp. is required to honour its obligations to its policyholders whether or not its reinsurers perform their obligations to MBIA Insurance Corp. The financial position of all reinsurers is monitored by MBIA Insurance Corp. on a regular basis.

Regulation

MBIA Insurance Corp. is licensed to do insurance business in, and is subject to insurance regulation and supervision by, the State of New York (its state of incorporation), the 49 other US states, the District of Columbia, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States, the Commonwealth of Puerto Rico, the Kingdom of Spain, the Republic of France and the Republic of Singapore. MBIA Assurance is licensed to do insurance business in France and is subject to regulations under the corporation and insurance laws of the French Republic. MBIA has used the provisions of the Third Non-life Insurance Directive to operate in the United Kingdom both on a services and a branch basis and is to a limited extent subject to supervision by the Financial Services Authority. The extent of state insurance regulation and supervision varies by jurisdiction, but New York, Illinois and most other jurisdictions have laws and regulations prescribing minimum standards of solvency, including minimum capital requirements and business conduct which must be maintained by insurance companies. These laws prescribe permitted classes and concentrations of investments. In addition, some state laws and regulations require the approval or filing of policy forms and rates. MBIA Insurance Corp. is required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed. The operations and accounts of MBIA Insurance Corp. are subject to examination by these regulatory agencies at regular intervals. MBIA Inc. is subject to the direct and indirect effects of governmental regulation, including changes in tax laws affecting the municipal and asset-backed debt markets. No assurance can be given that future legislative or regulatory changes might not adversely affect the results of operations and financial conditions of MBIA Inc.

MBIA Insurance Corp. is licensed to provide financial guarantee insurance under Article 69 of the New York Insurance Law. Article 69 defines financial guarantee insurance to include any guarantee under which loss is payable upon proof of occurrence of financial loss to an insured as a result of certain events. These events include the failure of any obligor on or any issuer of any debt instrument or other monetary obligation to pay principal, interest, premium, dividend or purchase price of or on such instrument or obligation, when due. Under Article 69, MBIA Insurance Corp. is licensed to transact financial guarantee insurance, surety insurance and credit insurance and such other kinds of business to the extent necessarily or properly incidental to the kinds of insurance which MBIA Insurance Corp. is authorised to transact. In addition, MBIA Insurance Corp. is empowered to assume or reinsure the kinds of insurance described above.

As a financial guarantee insurer, MBIA Insurance Corp. is required by the laws of New York, California, Connecticut, Florida, Illinois, Iowa, New Jersey and Wisconsin to maintain contingency reserves on its municipal bonds, asset-backed securities and other financial guarantee liabilities. Under New Jersey, Illinois and Wisconsin regulations, contributions by such an insurer to its contingency reserves are required to equal 50% of earned premiums on its municipal bond business. Under New York law, such an insurer is required to contribute to contingency reserves 50% of premiums as they are earned on policies written prior to 1 July 1989 (net of reinsurance) and, with respect to policies written on and after 1 July 1989, must make contributions over a period of 15 or 20 years (based on issue type), or until the contingency reserve for such insured issues equals the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.5%, depending upon the type of obligation guaranteed (net of reinsurance, refunding, refinancing and certain insured securities). California, Connecticut, Iowa and Florida law impose a generally similar requirement. In each of these states, MBIA Insurance Corp. may apply for release of portions of the contingency reserves in certain circumstances.

The laws and regulations of these states also limit both the aggregate and individual municipal bond risks that MBIA Insurance Corp. may insure on a net basis. California, Connecticut, Florida, Illinois and New York, among other things, limit insured average annual debt service on insured municipal bonds with respect to a single entity and backed by a single revenue source (net of qualifying collateral and reinsurance) to 10% of policyholders' surplus and contingency reserves. In New Jersey, Virginia and Wisconsin, the average annual debt service on any single issue of municipal bonds (net of reinsurance) is limited to 10% of policyholders' surplus. Other states that do not explicitly regulate financial guarantee or municipal bond insurance do impose single risk limits which are similar in effect to the foregoing. California, Connecticut, Florida, Illinois and New York also limit the net insured unpaid principal on a municipal bond issued by a single entity and backed by a single revenue source to 75% of policyholders' surplus and contingency reserves.

Under New York, California, Connecticut, Florida, Illinois, New Jersey and Wisconsin law, aggregate insured unpaid principal and interest under policies insuring municipal bonds (in the case of New York, California, Connecticut, Florida and Illinois, net of reinsurance) are limited to certain multiples of policyholders' surplus and contingency reserves. New York, California, Connecticut, Florida, Illinois and other states impose a 300:1 limit for insured municipal bonds, although more restrictive limits on bonds of other types do exist. For example, New York, California, Connecticut and Florida impose a 100:1 limit for certain types of non-municipal bonds.

MBIA Inc., MBIA Insurance Corp., MBIA Illinois and CapMAC are subject to regulation under the insurance holding company statutes of New York, Illinois and other jurisdictions in which MBIA Insurance Corp., MBIA Illinois and CapMAC are licensed to write insurance. The requirements of holding company statutes vary from jurisdiction to jurisdiction but generally require insurance holding companies, such as MBIA Inc., and their insurance subsidiaries, to register and file certain reports describing, among other information, their capital structure, ownership and financial condition. The holding company statutes also generally require prior approval of changes in control, of certain dividends and other inter-corporate transfers of assets, and of transactions between insurance companies, their parents and affiliates. The holding company statutes impose standards on certain transactions with related companies, which include, among other requirements, that all transactions be fair and reasonable and that those exceeding specified limits receive prior regulatory approval.

Prior approval by the New York Insurance Department is required for any entity seeking to acquire "**control**" of MBIA Inc., MBIA Insurance Corp., or CapMAC. Prior approval by the Illinois Department of Insurance is required for any entity seeking to acquire "**control**" of MBIA Inc., MBIA Insurance Corp. or MBIA Illinois. In many states, including New York and Illinois, "**control**" is presumed to exist if 10% or more of the voting securities of the insurer are owned or controlled by an entity, although the supervisory agency may find that "**control**" in fact does or does not exist when an entity owns or controls either a lesser or greater amount of securities.

The laws of New York regulate the payment of dividends by MBIA Insurance Corp. and provide that a New York domestic stock property/casualty insurance company (such as MBIA Insurance Corp.) may not declare or distribute dividends except out of statutory earned surplus. New York law provides that the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as shown by the most recent statutory financial statement on file with the New York Insurance Department, and (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the New York Superintendent of Insurance approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations and writings. The foregoing dividend limitations are determined in accordance with Statutory Accounting Practices ("**SAP**"), which generally produce statutory earnings in amounts less than earnings computed in accordance with Generally Accepted Accounting Principles ("**GAAP**"). Similarly, policyholders' surplus, computed on a SAP basis, will normally be less than net worth computed on a GAAP basis.

MBIA Insurance Corp., MBIA Illinois and CapMAC are exempt from assessments by the insurance guarantee funds in the majority of the states in which they do business. Guarantee fund laws in most states require insurers transacting business in the state to participate in guarantee associations, which pay claims of policyholders and third-party claimants against impaired or insolvent insurance companies doing business in the state. In most cases, insurers licensed to write only municipal bond insurance, financial guarantee insurance and other forms of surety insurance are exempt from assessment by these funds and their policyholders are prohibited from making claims on these funds.

Management

At the date of this Offering Circular, the executive officers and their present ages and positions within MBIA Insurance Corp. are set forth below:

Name	Age	Title
Joseph W. Brown	54	Chairman and Chief Executive Officer
Gary C. Dunton	48	President and Chief Operating Officer
Richard L. Weill	60	Vice Chairman and Secretary
John B. Caouette	58	Vice Chairman
Neil G. Budnick	49	Vice Chairman and Chief Financial Officer
Ram D. Wertheim	49	General Counsel and Assistant Secretary

Recent Developments[1]

For the three months ended 31 March 2003, MBIA Insurance Corp. had net income of US$219.7 million as compared to US$161.0 million for the three months ended 31 March 2002. At 31 March 2003, MBIA Insurance Corp.'s investor's equity was US$6.1 billion.

MBIA Insurance Corp. guaranteed US$20.2 billion of net par value during the first three months of 2003, an increase of 15 per cent. over the US$17.5 billion of net par insured in the same 2002 period. During the first three months of 2003, MBIA Insurance Corp. insured US$14.2 billion of net par value of municipal bonds, a 75 per cent. increase from US$8.1 billion insured in the same 2002 period. In the domestic structured finance market, which includes mortgage-backed and asset-backed transactions, MBIA Insurance Corp. insured US$2.9 billion of net par value, a decrease of 59 per cent. from the US$7.0 billion insured in the same period last year. In addition, MBIA, Insurance Corp. insured US$3.1 billion of net securities internationally compared with US$2.3 billion net in 2002.

Gross premiums written during the first three months of 2003 increased to US$288.1 million from US$186.8 million a year ago. Net premiums earned during the first three months of 2003 were US$161.2 million, up from US$139.0 million in the comparable 2002 period. Net investment income, excluding net realised capital gains, remained flat at $106.1 million. Revenues of MBIA Insurance Corp. for the three months ended 31 March 2003 increased to US$359.9 million compared with US$263.4 million for the three months ended 31 March 2002. Total expenses for the three months ended 31 March 2003 were US$53.0 million compared to US$45.3 million for the three months ended 31 March 2002.

Computed on a statutory basis, as of 31 March 2003, MBIA Insurance Corp.'s unearned premium reserve was US$2.8 billion, and its capital base, consisting of capital and surplus and contingency reserve, was US$5.6 billion. Total claims-paying resources at 31 March 2003, rose to US$11.4 billion, compared with US$11.0 billion at 31 December 2002.

1 The source of the financial information appearing in the section entitled "Recent Developments" is MBIA Insurance Corp.'s books and records.

MBIA Financial Guarantee

The following is the text, subject to completion and amendment, of the Financial Guarantee that will be issued in relation to the Class A Wrapped Bonds issued on the Initial Issue Date:

MBIA Assurance S.A.
London Branch
1 Great St. Helen's
2nd Floor
London EC3A 6HX

Telephone: 00 44 20 7920 6363

Fax: 00 44 20 7588 3393

Financial Guarantee in respect of Class A Wrapped Bonds

Financial Guarantee Number:	[●]
Guaranteed Obligations:	the payment obligations of Southern Water Services (Finance) Limited (the "**Issuer**") in respect of each amount of Principal and Interest owing by the Issuer and outstanding pursuant to the Issuer's [Sub-Class [●] £/€/$ [●] [●] per cent./Floating Rate/[●] per cent. Index Linked] Guaranteed Class A Wrapped Bonds due [●] (the "**Class A Wrapped Bonds**")
Beneficiary:	Deutsche Trustee Company Limited or any additional or successor trustee appointed pursuant to the Bond Trust Deed as trustee for the Holders of the Guaranteed Obligations (the "**Bond Trustee**")

MBIA Assurance S.A. ("**MBIA**"), a *société anonyme* incorporated under the laws of the French Republic (registered with the Paris Register of Trade and Companies under No. B377883293 (98 B 05130)) and acting through its registered branch office in England and Wales (registration number BR003789) in consideration of the payment of the financial guarantee fee and subject to the terms of this Financial Guarantee (including the Endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the Bond Trustee for the benefit of the Holders of the Guaranteed Obligations an amount equal to that portion of the Guaranteed Amounts which shall become Due for Payment but shall remain unpaid by reason of Non-payment.

MBIA will make any such payments to the Bond Trustee from its own funds by 11.00 a.m. London time on the later of (a) the fourth Business Day following Receipt by MBIA of a Notice of Demand specifying that Non-payment will occur on the applicable Payment Date or (b) the applicable Payment Date or, if that is not a Business Day, on the next succeeding Business Day. Such payments of Principal or Interest shall be made only upon presentation of a validly completed Notice of Demand signed by the Bond Trustee and in the form hereto attached. MBIA shall be subrogated to the Holders' and the Bond Trustee's rights to payment on the Guaranteed Obligations to the extent of any payments made by or on behalf of MBIA under this Financial Guarantee. Once payments of any Guaranteed Amounts have been made to the Bond Trustee or as the Bond Trustee shall have directed, MBIA shall have no further obligation hereunder in respect of such Guaranteed Amounts.

In the event that the Bond Trustee has notice that any payment of Guaranteed Amounts in respect of Guaranteed Obligations which has become Due for Payment and which was made to the Bond Trustee or a Holder by or on behalf of the Issuer has been deemed an unfair preference and recovered from the Bond Trustee or such Holder pursuant to sections 239 to 244 of the Insolvency Act 1986 or otherwise pursuant to applicable bankruptcy or insolvency law in accordance with a final, non-appealable order of a court of competent jurisdiction, the Bond Trustee will be entitled to payment from MBIA to the extent of such recovery if sufficient funds are not otherwise available.

This Financial Guarantee is non-cancellable by MBIA for any reason, including failure to receive payment of any part of the financial guarantee fee due in respect of this Financial Guarantee. The financial guarantee fee on this Financial Guarantee is not refundable for any reason. This Financial Guarantee does not guarantee any prepayment or other acceleration payment which at any time may become due in respect of any Guaranteed Obligation, other than at the sole option of MBIA as specified

below, nor against any risk other than Non-payment, including failure of the Bond Trustee or any Paying Agent to make any payment due to Holders of Guaranteed Amounts.

The obligations of MBIA under this Financial Guarantee shall not be affected by any lack of validity or enforceability or any amendment or modification or waiver with respect to the Guaranteed Obligations or the Bond Trust Deed or the granting of any time, indulgence or concession to the Issuer. In addition, notwithstanding that this Financial Guarantee is a guarantee and not a contract of insurance, to the fullest extent permitted by applicable law, MBIA hereby waives for the benefit of the Bond Trustee and each Holder and agrees not to assert any and all rights (whether by counterclaim, set-off or otherwise) and defences (including, without limitation, any defence of fraud (including fraud on the part of any agent for the Bond Trustee but excluding fraud by the Bond Trustee itself) or any defence based on misrepresentation, breach of warranty, or non-disclosure of information by any person) whether acquired by subrogation, assignment or otherwise to the extent such rights and defence may be available to MBIA, to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions hereof. MBIA agrees that nothing in this Financial Guarantee (including the Endorsement attached hereto) constitutes a warranty or a condition precedent to this Financial Guarantee.

All payments of Guaranteed Amounts by MBIA shall be made without withholding or deduction for, or on account of, any present or future tax, duties, assessment or other governmental charges of whatever nature, unless the withholding or deduction of such tax, assessment or other governmental charge is required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, MBIA shall pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. **MBIA shall not be obliged to pay any amount to the Bond Trustee, any Holder or any other person in respect of the amount of such withholding or deduction.**

Any capitalised terms not defined herein shall have the meaning given to such terms in the Endorsement attached hereto which forms an integral part of this Financial Guarantee. This Financial Guarantee shall be governed by and construed in accordance with the laws of England and Wales.

This Financial Guarantee (including the Endorsement attached hereto) constitutes the entire agreement between MBIA and the Bond Trustee in relation to MBIA's obligation to make payments to the Bond Trustee for the benefit of the Holders of the Guaranteed Obligations in respect of Guaranteed Amounts which shall become Due for Payment but shall have remained unpaid by reason of Non-payment and supersedes any previous agreement between MBIA and the Bond Trustee in relation thereto.

Unless prior to such date the Issuer has become subject to any insolvency or analogous proceedings in respect of its insolvency, winding-up or administration under any applicable insolvency law, this Financial Guarantee shall terminate on the date falling two years and one day after the last Payment Date and MBIA shall cease to be liable for any demand made in respect hereof after such date.

IN WITNESS WHEREOF MBIA has caused this Financial Guarantee to be signed by its duly authorised representative.

MBIA ASSURANCE S.A.

Authorised Representative

Initial Issue Date:

MBIA Assurance S.A.
London Branch
1 Great St Helen's
2nd Floor
London EC3A 6HX

Telephone: 00 44 20 7920 6363

Fax: 00 44 20 7588 3393

Financial Guarantee Endorsement (the ''Endorsement'') No. UK [●]

Date of Endorsement: [●]

Attached to and forming a part of Financial Guarantee No. UK [●] (the ''**Financial Guarantee**'') issued in respect of:

Guaranteed Obligations: the payment obligations of Southern Water Services (Finance) Limited in respect of each amount of Principal and Interest owing by the Issuer and outstanding pursuant to the Issuer's [Sub-Class [●] £/€/$ [●] [●] per cent./Floating Rate/[●] per cent. Index Linked] Guaranteed Class A Wrapped Bonds due [●] (the ''**Class A Wrapped Bonds**'').

For all purposes of the Financial Guarantee, the following terms shall have the following meanings:

''**Affiliate**'' shall mean, as to any person which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the first person where ''**control**'' means the possession, directly or indirectly of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting stock, by contract or otherwise.

''**Agency Agreement**'' shall have the meaning given to it pursuant to the Conditions.

''**Bond Trust Deed**'' shall have the meaning given to it pursuant to the Conditions.

''**Bond Trustee**'' shall mean Deutsche Trustee Company Limited or any additional or successor trustee appointed pursuant to the terms of the Bond Trust Deed, which expression includes any modification or supplement thereto.

''**Business Day**'' shall have the meaning given to it pursuant to Condition 6(i).

''**Common Terms Agreement**'' shall mean the common terms agreement dated on or about the date of the Financial Guarantee between, among others, MBIA, the Bond Trustee and the Issuer.

''**Conditions**'' shall mean the terms and conditions of the Class A Wrapped Bonds as may from time to time be amended, varied or supplemented.

''**Due for Payment**'' shall mean due and payable on a Payment Date.

''**Guarantee and Reimbursement Deed**'' shall mean the deed, governed by the laws of England and Wales, between, *inter alia*, the Issuer and MBIA pursuant to which, *inter alia*, MBIA has agreed to issue the Financial Guarantee subject to the satisfaction (or waiver by MBIA) of certain conditions precedent, in particular the payment to MBIA of the financial guarantee fee, and the Issuer has agreed, *inter alia*, to indemnify MBIA for, and to MBIA being subrograted to the rights of the Holders and the Bond Trustee in respect of, any payments made by MBIA under the Financial Guarantee.

''**Guaranteed Amounts**'' means, with respect to any Payment Date, the sum of (i) an amount equal to the amount of Interest due on the Guaranteed Obligations as of such Payment Date and (ii) an amount equal to the Principal due on the Guaranteed Obligations on such Payment Date.

''**Guaranteed Obligations**'' shall mean the payment obligations of the Issuer in respect of each amount of Principal and Interest owing by the Issuer and outstanding and Due for Payment under the Class A Wrapped Bonds.

'**Holder**'' shall mean if and to the extent the Guaranteed Obligations are represented by definitive bonds held outside of the Euroclear system operational by Euroclear S.A./N.V. as operator of the Euroclear System (''**Euroclear**'') and Clearstream Banking, société anonyme (''**Clearstream, Luxembourg**'' and together with Euroclear and any additional or substitute clearing system from time to time nominated by the Issuer and/or Bond Trustee and approved by MBIA, the ''**Clearing Systems**''), the bearers thereof and if and to the extent the Guaranteed Obligations are represented by a temporary or permanent global bond or definitive bonds held in a Clearing System, the persons for the time being shown in the records

of the relevant Clearing System (other than Euroclear if Euroclear shall be an accountholder of Clearstream, Luxembourg and other than Clearstream, Luxembourg if Clearstream, Luxembourg shall be an accountholder of Euroclear) as being holders of Guaranteed Obligations (each an "**accountholder**") in which regard any certificate or other document issued by the relevant Clearing System as to the principal amount of the Guaranteed Obligations standing to the account of any accountholder shall be conclusive and binding for all purposes hereof.

"**Interest**" shall mean any amount in respect of regularly scheduled interest (as adjusted for indexation in accordance with the Conditions, if applicable) owing by the Issuer under the Class A Wrapped Bonds when issued excluding any amount relating to prepayment, early redemption, broken-funding indemnities, penalties or default interest or any amounts by which the [margin on the]* coupon on such Class A Wrapped Bonds exceeds the initial [margin on the]* coupon as at the date on which such Class A Wrapped Bonds were issued.

"**Issuer**" shall mean Southern Water Services (Finance) Limited a company incorporated as an exempted company with limited liability in the Cayman Islands with registered number 112331.

"**Master Definitions Agreement**" shall mean the master definitions agreement dated on or about the date of the Financial Guarantee between, among others, MBIA, the Bond Trustee and the Issuer.

"**Non-payment**" shall mean, as of any Payment Date, the failure by the Issuer to pay all or any part of any Guaranteed Amount.

"**Notice of Demand**" shall mean the notice of demand and certificate attached hereto.

'**Paying Agent**" shall have the meaning given to it pursuant to the Conditions.

"**Payment Date**" means:

(a) in respect of Interest, an Interest Payment Date (as defined in Condition 6(i));

(b) in respect of Principal, the scheduled date(s) for repayment specified in the Conditions; and

(c) any earlier date for the payment of Interest or repayment of Principal to which MBIA shall have consented at its sole discretion.

"**Preferential Payment**" shall mean any relevant payment made by MBIA under the Financial Guarantee pursuant to the third paragraph of the Financial Guarantee.

"**Principal**" shall mean the outstanding nominal amount of the relevant Class A Wrapped Bonds (as adjusted for indexation in accordance with the Conditions), as reduced by each amount of principal repaid or prepaid by the Issuer pursuant to the Conditions (if applicable), excluding (if MBIA elects in its sole discretion to accelerate payments due under the Financial Guarantee) any additional amount relating to premium, prepayment, early redemption, broken funding indemnities or penalties.

"**Principal Paying Agent**" shall have the meaning given to it pursuant to the Conditions.

"**Receipt**" shall mean (a) actual delivery to MBIA at its address above (or such other office as shall have been notified by MBIA to the Bond Trustee from time to time by at least seven Business Days' notice) prior to 12.00 noon, London time, on a Business Day or (b) if such actual delivery takes place either on a day that is not a Business Day or after 12.00 noon, London time, "**Receipt**" shall be deemed to have occurred on the next succeeding Business Day.

"**Transaction Documents**" shall have the meaning given to it pursuant to the Master Definitions Agreement.

The Financial Guarantee is hereby amended to provide that:

(i) There shall be no acceleration payment due under the Financial Guarantee unless such acceleration is at the sole option of MBIA and communicated in writing by MBIA to the Bond Trustee without the need for Receipt of a further Notice of Demand.

In the event that MBIA decides in its absolute discretion to accelerate any payments due under the Financial Guarantee, nothing in the Financial Guarantee shall oblige MBIA to make payments in respect of the Guaranteed Obligations which would be greater than the outstanding principal amount of such part of the Class A Wrapped Bonds (plus accrued but unpaid interest) as adjusted

* Floating Rate Notes only.

for indexation in accordance with the Conditions and MBIA's obligations under the Financial Guarantee shall be satisfied in full by the payment of Interest and Principal in accordance with the terms of the Financial Guarantee. MBIA may elect to accelerate payments due under the Financial Guarantee in full or partially. All payments made by MBIA under the Financial Guarantee in respect of partial acceleration shall be applied (a) to pay the Interest accrued but unpaid on the Principal of such part of the accelerated payment and (b) to reduce the Principal outstanding under the Class A Wrapped Bonds.

(ii) Payments due under the Financial Guarantee will be satisfied by payment to the person specified in the relevant Notice of Demand in [pounds Sterling/euro/United States Dollar] by credit to a [pounds Sterling/euro/United States Dollar] account at a bank in London, England, as specified in the Notice of Demand. Payment to such person shall discharge the obligations of MBIA under the Financial Guarantee to the extent of such payment, whether or not funds are properly applied by such person.

(iii) Any Notice of Demand shall be delivered by registered mail or personally to the address set out in the Notice of Demand or such other address as MBIA may notify in writing to the Bond Trustee. If any Notice of Demand given hereunder by the Bond Trustee is not in proper form or is not properly completed, executed or delivered, it shall be deemed not to have been received and MBIA shall promptly so advise the Bond Trustee and the Bond Trustee may submit to MBIA an amended Notice of Demand.

(iv) At any time during the term of the Financial Guarantee, MBIA may appoint a fiscal agent (the "**Fiscal Agent**") for the purposes of the Financial Guarantee by written notice to the Bond Trustee at the notice address specified in the Bond Trust Deed specifying the name and notice address of the Fiscal Agent, which Fiscal Agent shall be situated in the City of New York or London. From and after the date of receipt of such notice by the Bond Trustee, (A) copies of all notices including the Notice of Demand and other documents required to be delivered to MBIA pursuant to the Financial Guarantee shall be simultaneously delivered to the Fiscal Agent and to MBIA and shall not be deemed to be received until they are received by both the Fiscal Agent and MBIA, and (B) all payments required to be made by MBIA under the Financial Guarantee shall be made directly by MBIA or by the Fiscal Agent on behalf of MBIA, provided, however, that payment by MBIA to the Fiscal Agent shall not discharge MBIA's obligations hereunder in respect of Guaranteed Amounts. The Fiscal Agent is the agent of MBIA only and the Fiscal Agent shall in no event be liable to the Bond Trustee nor to any Holder for any acts of MBIA or any failure of MBIA to deposit, or cause to be deposited, sufficient funds to make payments under the Financial Guarantee.

In the event that any term or provision on the face of the Financial Guarantee is inconsistent with the provision of this Endorsement, the provisions of this Endorsement shall take precedence and shall be binding.

The obligations of MBIA hereunder may be assigned or transferred by MBIA to any Affiliate of MBIA provided that, *inter alia*:

(i) no FG Event of Default (as defined in the Master Definitions Agreement) has occurred and is continuing at the time of such assignment or transfer;

(ii) MBIA or such assignee or transferee delivers to the Bond Trustee written confirmation from the Rating Agencies (as defined in the Master Definitions Agreement) which, at the time of such assignment or transfer, rate the financial strength of MBIA, that, at such time, the claims paying ability of such Affiliate was rated at least equal to the claims paying ability of MBIA at that time and there is no downgrade to the then current rating of the Class A Wrapped Bonds by reason only of such assignment or transfer; and

(iii) MBIA or such assignee or transferee thereafter delivers to the Bond Trustee written notice of any such assignment or transfer and such assignee or transferee assumes the obligations of MBIA herewith and accedes to the relevant Transaction Documents.

The Financial Guarantee shall be governed by and construed in accordance with the laws of England.

MBIA irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any suit, action or proceedings, and to settle any disputes, which arises out of or in connection with the Financial Guarantee, and agrees not to claim that any such court is not a convenient or appropriate forum.

The obligations of MBIA under this Financial Guarantee shall not be affected by any redenomination of the Guaranteed Obligations into euro pursuant to the Conditions save that, following such redenomination, payments of Guaranteed Amounts hereunder shall be made in euro.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the Financial Guarantee other than as above stated.

Any right under the United Kingdom Contracts (Rights of Third Parties) Act 1999 which any person (other than MBIA as issuer of the Financial Guarantee and the Bond Trustee as beneficiary of the Financial Guarantee) may otherwise have to enforce any term or condition of the Financial Guarantee and this Endorsement is expressly excluded.

Unless prior to such date the Issuer has become subject to any insolvency or analogous proceedings in respect of its insolvency, winding-up or administration under any applicable insolvency law, this Financial Guarantee shall terminate on the date falling two years and one day after the last Payment Date and MBIA shall cease to be liable for any demand made in respect hereof after such date.

IN WITNESS WHEREOF MBIA has caused this Endorsement to the Financial Guarantee to be signed by its duly authorised representative.

MBIA ASSURANCE S.A.

Authorised Representative

Initial Issue Date:

Notice of Demand

MBIA Assurance S.A.
London Branch
1 Great St Helen's
2nd Floor
London EC3A 6HX

Telephone: 00 44 20 7920 6363

Fax: 00 44 20 7588 3393

Attention: Insured Portfolio Management/Global Public Finance

[Copy to: Fiscal Agent][1]

The undersigned, a duly authorised officer of Deutsche Trustee Company Limited or any additional or successor trustee appointed pursuant to the terms of the Bond Trust Deed (the "**Bond Trustee**"), hereby certifies to MBIA Assurance S.A. ("**MBIA**"), with reference to Financial Guarantee No. UK [●] and the endorsement thereto dated [insert date] (together, the "**Financial Guarantee**") issued by MBIA in respect of the payment obligations of Southern Water Services (Finance) Limited (the "**Issuer**") in respect of each amount of Principal and Interest owing by the Issuer and outstanding pursuant to the [Issuer's Sub-Class [●] £/€/$ [●] [●] per cent./Floating Rate/[●] per cent. Index-Linked] Guaranteed Class A Wrapped Bonds due [●] (the "**Guaranteed Obligations**"), that:

(i) The Bond Trustee is the trustee for Holders under the Bond Trust Deed.

(ii) The Bond Trustee has been notified by the Principal Paying Agent that the deficiency in respect of Guaranteed Amounts which are Due for Payment on [*insert Payment Date*] will be £/€/$ [*insert applicable amount*] (the "**Shortfall**").

(iii) The Bond Trustee is making a demand under the Financial Guarantee for the Shortfall to be applied to the payment of Guaranteed Amounts which are Due for Payment.

(iv) The Bond Trustee agrees that, following payment of funds by or on behalf of MBIA to the Bond Trustee (if applicable), it shall procure that (a) it shall hold such amounts in trust for the benefit of the Holders and procure that such amounts are applied directly to the payment of Guaranteed Amounts which are Due for Payment; (b) such funds are not applied for any other purpose; (c) such funds are not co-mingled with other funds held by the Bond Trustee; and (d) a record of such payments with respect to each Guaranteed Obligation and the corresponding demand on the Financial Guarantee and the proceeds thereof is maintained by the Principal Paying Agent in accordance with the terms of the Agency Agreement.

(v) Payment should be made [in £/€/$] by credit to a designated [pounds Sterling/euro/United States Dollar] account of the [*insert payee*] at [*insert account details*] with [*insert bank details*].

Unless the context otherwise requires, capitalised terms used in this Notice of Demand and not defined herein shall have the meanings provided in the Financial Guarantee.

This Notice of Demand may be revoked by written notice by the Bond Trustee to MBIA at any time prior to 10.00 a.m. (London time) on the second Business Day prior to the date specified above on which Guaranteed Amounts are Due for Payment if and only to the extent that moneys are actually received in respect of the Guaranteed Obligations prior to such time from a source other than MBIA.

This Notice of Demand shall be governed by and construed in accordance with the laws of England and Wales.

IN WITNESS WHEREOF the Bond Trustee has executed and delivered this Notice of Demand on the [*insert date*] day of [*insert date*].

DEUTSCHE TRUSTEE COMPANY LIMITED

By:.....

Title: .....

1 Delete if no Fiscal Agent appointed

CHAPTER 11

TAX CONSIDERATIONS

The following is a summary of the UK withholding taxation treatment in relation to payments of principal and interest in respect of the Bonds as at the date of this Offering Circular. These comments do not deal with other UK tax aspects of acquiring, holding or disposing of Bonds and do not take into consideration any tax implications which may arise on substitution of the Issuer. They relate only to the position of persons who are unconnected with the Issuer and are the absolute beneficial owners of their Bonds and who hold their Bonds as investments. Some sections do not apply to certain classes of taxpayer (such as dealers). Prospective purchasers of Bonds should be aware that the particular terms of issue of any Sub-Class of Bonds as specified in the relevant Pricing Supplement may affect the tax treatment of that and other Sub-Classes or Series of Bonds. This summary as it applies to UK taxation is based upon UK law and Inland Revenue practice as in effect on the date of this Offering Circular and is subject to any change in law or practice that may take effect after such date.

Bondholders who may be liable to taxation in respect of their acquisition, holding or disposal of Bonds are advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions) and, if so liable, the basis of determining (including any method of calculating) their liability to tax with respect to the Bonds, since the following comments relate only to certain UK taxation aspects of payments in respect of the Bonds. 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 even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

Prospective purchasers who are in any doubt as to their tax position should consult their professional advisers.

UK Withholding Tax on UK source interest

The Bonds issued by the Issuer will constitute ''quoted Eurobonds'' within the meaning of Section 349 of the Income and Corporation Taxes Act 1988 provided they are and continue to be listed on a recognised stock exchange. Under a United Kingdom Inland Revenue interpretation, securities will be regarded as listed on a recognised stock exchange if they are listed by a competent authority in a country which is a member state of the European Union or which is part of the European Economic Area and are admitted to trading on a recognised stock exchange in that country. The London Stock Exchange is a recognised stock exchange for these purposes. While the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

Subject to ''*Payments by the Financial Guarantor*'' below, in all cases falling outside the exemption described above, interest on the Bonds will be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or, in certain circumstances, where an exemption for payments between certain United Kingdom companies and partnerships contained in Section 349A Income and Corporation Taxes Act 1988 applies. However, this withholding will not apply if the relevant interest is paid on Bonds with a maturity of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Bonds part of a borrowing with a total term of a year or more. If United Kingdom withholding tax is imposed, then the Issuer will not pay additional amounts in respect of the Bonds.

Provision of Information by United Kingdom Paying and Collecting Agents

Bondholders who are individuals should note that where any interest on Bonds is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a ''**paying agent**''), or is received by any person in the United Kingdom acting on behalf of the relevant Bondholder (other than solely by clearing or arranging the clearing of a cheque) (a ''**collecting agent**''), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Bondholder (including the Bondholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Bondholder is resident in the United Kingdom for

United Kingdom taxation purposes. Where the Bondholder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Bondholder is resident for taxation purposes.

For the above purposes, ''interest'' should be taken, for practical purposes, as including payments made by the Financial Guarantor in respect of interest on Wrapped Bonds.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Bonds issued at an issue price of less than 100 per cent. of their principal amount.

Payments by a Financial Guarantor under the Financial Guarantees

If a Financial Guarantor makes any payments in respect of principal and interest on the Wrapped Bonds (or other amounts due under the Wrapped Bonds other than the repayment of amounts subscribed for such Bonds) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 22 per cent) subject to such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by a Financial Guarantor may not be eligible for any of the other exemptions described in ''*UK Withholding Tax on UK Source Interest*'' above. If UK withholding tax is imposed, then a Financial Guarantor will not pay any additional amounts under the Financial Guarantees.

Other Rules relating to United Kingdom Withholding Tax

Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bonds will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned in ''*UK Withholding Tax on UK Source Interest*'' above, but may be subject to reporting requirements as outlined in ''*Provision of Information by United Kingdom Paying and Collecting Agents*'' above.

Where Bonds are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 15(d) of the Bonds and does not consider the tax consequences of any such substitution.

EU Savings Directive

On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 January 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payment of interest or other similar income paid by a person within its jurisdiction to, or for the benefit of, an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Cayman Islands

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, the Issuer (which was incorporated under the name London 70 Limited) has obtained an undertaking from the Governor in Council of the Cayman Islands substantially in the following form:

''The Tax Concessions Law (1999 Revision) Undertaking as to Tax Concessions

In accordance with Section 6 of the Tax Concessions Law (1999 Revision), the Governor in Council undertakes with London 70 Limited (the ''Company''):

(a) that no Law which is hereafter enacted in the islands imposing any tax to be levied on profits, income gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) the Tax Concessions Law (1999 Revision).

The concessions shall be for a period of twenty years from 4 September 2001.

Governor in Council''

CHAPTER 12

SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of The Royal Bank of Scotland plc, Citigroup Global Markets Limited, Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited and any other dealer appointed from time to time (the "**Dealers**") pursuant to the dealership agreement dated on or about the date of this Offering Circular made between, amongst others, SWS, the Issuer, the Co-Arrangers and the Dealers (the "**Dealership Agreement**"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Issuer, failing whom SWS, has each agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States of America

The Bonds and any 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 in Regulation S.

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

Each Dealer has agreed that, except as permitted by the Dealership Agreement, it will not offer, sell or deliver Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds comprising the relevant Sub-Class, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Sub-Class of Bonds to or through more than one Dealer, by each of such Dealers as to the Bonds of such Sub-Class purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them in Regulation S.

In addition, until 40 days after the commencement of the offering of Bonds comprising any Sub-Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has represented, warranted and agreed that:

(a) ***No offer to public — listed Bonds***: in relation to Bonds which have a maturity of one year or more and which are to be admitted to the Official List of the UK Listing Authority, it has not offered or sold and will not offer or sell any such Bonds to persons in the United Kingdom prior to admission of such Bonds to listing in accordance with Part VI of the FSMA, except 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 otherwise in circumstances which have not resulted

and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSMA;

(b) ***No offer to public – unlisted Bonds:*** in relation to Bonds which have a maturity of one year or more and which are not to be admitted to the Official List of the UK Listing Authority, it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such Bonds, will not offer or sell any such Bonds to persons in the United Kingdom except 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 otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(c) ***No deposit-taking:*** in relation to any Bonds having a maturity of less than one year:

(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:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) 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;

(d) ***Financial Promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 FSMA does not apply to the Issuer; and

(e) ***General Compliance:*** it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Cayman Islands

No invitation or solicitation will be made to the public in the Cayman Islands to subscribe for the Bonds.

General

Save for obtaining the approval of the Offering Circular by the UK Listing Authority in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange, no action has been or will be taken in any jurisdiction by the Issuer, the other Obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Offering Circular or any other offering material, in any jurisdiction where the action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Offering Circular or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Offering Circular.

CHAPTER 13

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Bonds thereunder have been duly authorised by resolutions of the Board of Directors of the Issuer passed at a meeting of the Board held on 9 June 2003, as approved by resolutions of SWI dated 9 June 2003 and at a meeting of the Board held on 15 July 2003, as also approved by resolutions of SWI dated 15 July 2003 and SWS dated 15 July 2003. 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 guarantees by each of SWS, SWSGH and SWSH has been duly authorised by a resolution of the Board of Directors of each of SWS, SWSGH and SWSH, respectively, each of which were dated 15 July 2003.

The issue of the Initial Financial Guarantees by MBIA in respect of the first Sub-Classes of Class A Wrapped Bonds to be issued under the Programme has been duly authorised by a resolution of the meeting of the board of directors of MBIA passed on 30 June 2003.

Listing of Bonds

It is expected that each Sub-Class of Bonds which is to be admitted to the Official List and to trading on the London Stock Exchange 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 Sub-Class. In the case of each Sub-Class of Wrapped Bonds, admission to the Official List and to trading on the London Stock Exchange is subject to the issue of the relevant Financial Guarantee by MBIA or any other Financial Guarantor in respect of such Sub-Class. The listing of the Programme in respect of Bonds is expected to be granted on or around the Initial Issue Date.

However, Bonds may also be issued pursuant to the Programme which will not be listed on the London Stock Exchange or any other Stock Exchange or which will be listed on such Stock Exchange as the Issuer and the relevant Dealer(s) may agree.

Documents Available

For so long as the Programme remains in effect or any Bonds shall be outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

(i) the Memorandum and Articles of Association of each of the Issuer and the other Obligors;

(ii) MBIA's Articles of Association and By-laws;

(iii) English translation of MBIA's Articles of Association and By-laws;

(iv) the audited financial statements of MBIA for the years ended 31 December 2001 and 31 December 2002 (in French accompanied by an English translation thereof);

(v) the audited financial statements of SWS for the years ended 31 March 2002 and 31 March 2003;

(vi) the audited financial statements of SWSGH and SWSH for the period from 19 November 2001 (their respective dates of incorporation) to 31 March 2003;

(vii) the accountants' report from PricewaterhouseCoopers LLP in respect of the SWSGH Group included in Appendix D;

(viii) the consolidated audited annual and semi annual financial statements (if any) of SWSGH;

(ix) the accountants' report from PricewaterhouseCoopers LLP on the Projections included in Appendix E;

(x) the audited financial statements of the Issuer for the period from its date of incorporation to 31 March 2003;

(xi) the accountants' report from PricewaterhouseCoopers LLP in respect of the Issuer included in Appendix F;

(xii) the unaudited pro forma net asset statement of the SWSGH Group and the Issuer as at 31 March 2003 included in Appendix G;

(xiii) the auditor's report from Coopers & Lybrand Audit included in Appendix C in respect of MBIA's financial statements (in French accompanied by an English translation thereof);

(xiv) a copy of this Offering Circular;

(xv) any Pricing Supplement relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Bondholders);

(xvi) each Investors' Report;

(xvii) each Financial Guarantee and all related Endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;

(xviii) each G&R Deed

(xix) each Issuer/SWS Loan Agreement;

(xix) the Common Terms Agreement;

(xxi) the Registered Office Agreement;

(xxii) the Master Definitions Agreement;

(xxiii) the STID;

(xxiv) the Indemnification Deed;

(xxv) the Security Agreement;

(xxvi) the Bond Trust Deed;

(xxvi) each DSR Liquidity Facility Agreement;

(xxviii) each O&M Reserve Facility Agreement (if any);

(xxix) each Hedging Agreement;

(xxx) the Account Bank Agreement;

(xxxi) each Subscription Agreement;

(xxxii) the Dealership Agreement;

(xxxiii) the Agency Agreement;

(xxxiv) the Tax Deeds of Covenant;

(xxxv) each Initial Authorised Credit Facility Agreement;

(xxxvi) the Senior Mezzanine Facility Agreement and the Junior Mezzanine Facility Agreement;

(xxxvii) the SWS/SWSG Loan Agreement and related security document;

(xxxviii) the technical report from W.S. Atkins Consultants Limited set out in Appendix B; and

(xxxx) the Ofwat letter set out in Appendix A.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Sub-Class of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Bonds are to clear through an additional or alternative clearing system (including Sicovam) the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of either the Issuer (or its subsidiaries), SWS (or its subsidiaries), SWSH (or its subsidiaries) or SWSGH (or its subsidiaries), each since 31 March 2003.

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of MBIA, nor any material adverse change in the financial position or prospects of MBIA, since 31 December 2002.

Litigation

None of the Issuer or its subsidiaries, SWSGH or its subsidiaries, SWSH or its subsidiaries or SWS or its subsidiaries is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the relevant Obligor is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or its subsidiaries, SWSGH or its subsidiaries, SWSH or its subsidiaries or SWS or its subsidiaries, respectively.

MBIA is not involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which MBIA is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of MBIA.

Availability of Financial Statements

The audited annual financial statements of the Issuer and the consolidated audited annual financial statements of SWS will be prepared as of 31 March in each year. The Issuer has not published and does not intend to publish any interim financial statements, but SWS intends to publish semi-annual unaudited financial statements. The unaudited interim consolidated (if any) financial statements of SWS will be prepared as of 30 September in each year. All future audited annual financial statements (and any published interim financial statements) of the Issuer and the consolidated audited annual financial statements of SWS will be available free of charge in accordance with ''*Documents Available*'' above.

The audited annual financial statements and the unaudited semi-annual financial statements of the MBIA will be prepared as of 31 December and 30 June in each year respectively. All future audited annual financial statements (and any published interim financial statements) of MBIA will be available free of charge in accordance with paragraph ''*Documents Available*'' above.

Auditors

The auditors of SWS are PricewaterhouseCoopers LLP (as successor entity to PricewaterhouseCoopers), chartered accountants, of 1 Embankment Place, London, WC2N 6RH who have audited SWS' accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the three financial years ended on 31 March 2003.

PricewaterhouseCoopers LLP, chartered accountants, have audited, without qualification, the regulatory financial information of SWS in accordance with generally accepted auditing standards in the United Kingdom for the year ended 31 March 2003.

PricewaterhouseCoopers LLP, chartered accountants, of 1 Embankment Place, London, WC2N 6RH have audited, without qualification, the financial statements of the Issuer in accordance with generally accepted auditing standards in the United Kingdom for the period from its incorporation to 31 March 2003.

The auditors of SWSGH are PricewaterhouseCoopers LLP, chartered accountants, of 1 Embankment Place, London, WC2N 6RH who have audited SWSGH's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the period from its incorporation to 31 March 2003.

The auditors of SWSH are PricewaterhouseCoopers LLP, chartered accountants, of 1 Embankment Place, London, WC2N 6RH who have audited SWSH's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the period from its incorporation to 31 March 2003.

The auditors of MBIA are Coopers & Lybrand Audit, statutory auditors, of 32 rue Guersant, 75833, Paris, Cedex 17, France who have audited MBIA's accounts, without qualification, in accordance with

professional standards applied in France for each of the three financial years ended on 31 December 2002.

PricewaterhouseCoopers LLP as reporting accountants of each of the Issuer and SWSGH (in respect of the SWSGH Group) and Coopers & Lybrand Audit as statutory auditors of MBIA, have given, and not withdrawn, their consent to the inclusion in these Listing Particulars of their reports in the form and context in which they are included and have authorised the contents of that part of the listing particulars for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

Consents

W.S. Atkins Consultants Limited as technical advisers to SWS have given, and not withdrawn, their consent to the inclusion in these Listing Particulars of the letter summarising their technical due diligence report in the form and context in which it is included and have authorised the contents of that part of the listing particulars for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

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.

Legend

Bonds, Receipts, Talons and Coupons appertaining thereto will bear a legend substantially to the following effect: ''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 in such legend provide that a United States person who holds a Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

APPENDIX A

Ofwat Letter

MD166
TO MANAGING DIRECTORS OF ALL
WATER AND SEWERAGE COMPANIES AND
WATER ONLY COMPANIES

31 January 2001

THE REGULATORY FRAMEWORK

Following the 1999 Periodic Review, a number of companies have considered the possibility of establishing new structural arrangements in order to carry out their duties as water and sewerage undertakers. In November last year, I issued a consultation paper on one such proposal, that of the intention of Glas Cymru to acquire Dwr Cymru (Welsh Water). I have today issued a further paper that sets out my conclusions on this proposal. In this paper I referred to my intention to set out in a MD letter the duties of the Director General of Water Services in relation to all regulated water and sewerage undertakers, irrespective of their structure. This is set out in the attached appendix together with how these duties are put into practice, in particular at Periodic Reviews.

The appendix also explains the protections in the Licence that allow the Appointee, in particular circumstances, to seek an increase in price limits between Periodic Reviews. Finally, it summarises the protection for creditors (including lenders) that the Water Act 1991 provides should an Appointee's licence be terminated.

The majority of the material in the appendix has already been issued into the public domain in various ways but it has now been brought together in one place for ease of reference.

I am not formally requesting responses on the contents of the MD letter but if recipients have comments they wish to make, I would welcome them.

PHILIP FLETCHER

APPENDIX TO OFWAT LETTER

THE DUTIES OF THE DIRECTOR GENERAL OF WATER SERVICES AND THE REGULATORY FRAMEWORK

1. The Director's duties

(i) The Director's primary duties, as set out in the Water Industry Act 1991 ('the Act'), are to act in a manner that he considers best calculated to secure that the functions of Appointees are properly carried out and that Appointees are able to finance the proper carrying out of those functions. The Director also has duties to protect the interests of customers, to promote economy and efficiency and to facilitate competition and has certain environmental and recreational duties.

2. The Director's approach to Periodic Reviews

(i) The Director is required to reset price limits at five-yearly reviews. In doing so, he must have regard to his primary duties. Although the detailed methodology is not set out either in the Act or in companies' licence conditions, Ofwat has sought to conduct the reviews in an open and transparent manner and will continue to do so. The principles and methodology that have been adopted have been subject to wide consultation and consequent refinement.

(ii) Prices are set so that revenues cover the cost of the efficient provision of operations and capital investment, and allow a reasonable return on capital. The ability of the Appointee to maintain an adequate level and trend of critical financial indicators is also taken into account. This is with a view to ensuring that, provided the Appointee is efficiently managed and financed, it will remain able to finance its functions (including new investment), readily and at reasonable cost. Where appropriate, account is taken of the Appointee's duty to maintain investment grade credit ratings.

(iii) Ofwat has taken 'capital' to be the 'Regulatory Capital Value' (''RCV'') of the Appointed Business. The criteria for determining the RCV are set out in *Setting price limits for water and sewerage services: The framework and business planning process for the 1999 Review (February 1998)* and updated in MD145, *The framework for setting prices*, published in March 1999. The approach taken at the 1999 Periodic Review built on that adopted at the 1994 review. The initial capital value, as placed on the holding companies of the Appointees by the financial markets in 1989, was adjusted for net new allowable capital expenditure and depreciation charges since then, including at the 1999 review an adjustment to reflect past capital efficiencies, to arrive at the RCV. The implications of subsequent capital transactions including mergers and takeovers have not been taken into account when considering the RCV at Periodic Reviews.

(iv) At the 1999 Review the return on capital allowed was based on an assessment of the real post-tax weighted average cost of debt and equity for an efficiently-financed stand-alone listed water and sewerage company. This assessment was based on the market's view of a forward-looking cost of capital. Amongst other things, this assessment reflected Ofwat's perception that investors, despite the significant capital investment requirements, viewed the water industry as relatively low risk and that it represents a lower risk than the UK stock market as a whole.

(v) Ofwat included in the allowed return at the 1999 Periodic Review an adjustment to reflect the prudently incurred cost of long term fixed rate debt. This adjustment was made to take into account a change in the 1999 methodology from the glidepath of returns on existing assets set in 1994. Ofwat also placed greater emphasis on current market evidence of the cost of capital rather than on longer term historical averages. There can, however, be no guarantee that such financing costs will be passed on to customers at future reviews since similar circumstances are unlikely to occur. The Director will be guided primarily by consideration of the Appointee's relative efficiency in managing its financial affairs, just as he will be guided by this consideration with regard to other areas of costs. An Appointee that fails to maintain the flexibility to respond to changing market conditions risks being judged relatively inefficient.

(vi) In setting prices, either at a five-yearly Periodic Review or if a company applies for an Interim Determination of price limits, the Director must make judgements as to the efficient level of costs to assume. A wide range of comparative techniques has been used to inform these judgements since privatisation.

(vii) Ultimately, the Director has discretion over the ways in which price limits are set and he needs to keep under review the regulatory framework in the light of all relevant developments.

Consequently, whilst there can be no assurance that future Periodic Reviews will be conducted in the same manner as past ones, nevertheless, the principles underlying the present price review methodology have been developed over the past ten years and have proved robust. For the next Periodic Review, Ofwat will, of course, take into account the conclusions of the recent Competition Commission reviews in respect of Mid Kent Water and Sutton & East Surrey Water.

3. Regulation between five-yearly reviews

(i) Companies may seek a change to their price limits between Periodic Reviews under the Interim Determination arrangements set out in their Licences. These can be triggered in defined circumstances, for example, where a new legal obligation is imposed which was not taken into account at the last Periodic Review. These instances have, so far, not been very frequent.

(ii) A modification to the assessment of materiality for Interim Determinations was published with the Final Determination of price limits for 2000-05. This has now been accepted by the majority of companies. The Director believes that this licence modification strengthens the protection available to companies because it includes the effect of revenue loss and operating expenditure over a 15 year horizon in the assessment as to whether the materiality threshold for triggering a price limit adjustment has been met.

(iii) The Director has proposed in MD167 (31 January 2001) that the provisions commonly known as the 'shipwreck' clause be extended to all companies. The clause enables companies' price limits to be reset between Periodic Reviews if there has been a substantial* adverse or favourable effect that could not have been avoided or is not attributable to prudent management action. The clause was (in its original form) included in all companies' licences at privatisation but was removed or revised as part of a review of Condition B of the licence before the 1995 Periodic Review. Less than half of the companies now have the clause in its licence. One company has asked the Director to reinsert this clause in their licence. The Director believes that it is desirable in principle that water companies' licences should not differ unnecessarily and hence has proposed making the modification to all companies' licences.

4. Consistency and new ownership structures

(i) Following the 1999 Periodic Review a number of companies have explored the possibility of establishing new structural arrangements for the carrying out of their duties as water and sewage undertakers. Companies that choose to structure their business in ways other than the equity-owned, vertically-integrated structure established at privatisation will receive no special or preferential treatment from Ofwat. Licence holders will continue to bear all of the licence obligations of a water and sewerage undertaker. They will continue to be regulated in the same way as other Appointees, and will operate under a price cap and be subject to Periodic Reviews.

(ii) A consistent approach is particularly important when considering whether licence conditions should be modified from the model which currently applies to the other Appointees. In each case the Director would consider carefully the need for licence modifications and would consult publicly on these.

(iii) The performance of all companies (in terms of efficiency and customer services) will be judged in a consistent manner, both through the league tables and analysis that Ofwat publishes annually and at Periodic Reviews. The ability to compare companies is an important tool for the regulator of the water and sewerage companies. It is an essential part of the system of incentive regulation and has led to substantial improvements in efficiency since privatisation.

(iv) Where Appointees have put in place new structural arrangements, the approach at Periodic Reviews will follow that for an equity-owned, vertically integrated Appointee. For example, the approach to RCVs will be assessed similarly and the weighted average cost of capital will be that which applies to the industry as a whole. The Director will, at the time, take account of the market's view of the cost of capital for the water industry.

(v) The proposal by a number of companies to separate the ownership of the assets from their operations and to contract out the latter will provide additional information to assist the Director with his assessment of relative efficiency. However, the appropriate level of costs to be assumed within price limits will continue to be assessed on a comparative basis and the existence of competitively tendered prices will not be seen, a priori, as evidence of efficiency nor guarantee that such costs will be fully reflected in price limits.

(vi) By way of illustration, Ofwat's approach to comparisons of capital programmes has identified widespread differences between companies' unit costs. This is despite these being based upon competitively tendered work or actual costs for capital works. Consequently, at the last Periodic Review, adjustments to capital costs varied from nil to a reduction of 25%.

(vii) As for all Appointees, Ofwat will ensure that customers' interests continue to be protected after any new structural arrangements are in place through the provisions in the Water Industry Act 1991. This includes, in the last resort, using the powers to apply for the appointment of a Special Administrator in particular circumstances (as set out in Section 5(iv) and 5(v), together with sections 6(iii) and 6(vii)). The main reasons for doing this would be a breach by the company of one of its principal duties in the Act (see sections 47 and 94 of the Act), insolvency or non-compliance with an enforcement order following breach of a licence condition.

5. Licence termination

(i) There are a number of circumstances as provided in the Act in which a particular company could cease to be the licence holder for all or part of its area. These are set out below.

(ii) An Appointee could consent to the making of a replacement Appointment or a Variation, which changes its Water Supply or Sewerage Service Area. In these circumstances the Director has the authority to appoint a new licence holder.

(iii) An Appointee's Licence could be terminated in the circumstances set out in Condition O of its Licence. These are that it is at least 25 years after the 'Transfer Date' (1 September 1989) and 10 years after notice has been served by the Secretary of State (DETR)*. Termination would occur when a successor had been appointed. The power to terminate each Appointee's licence and appoint a successor in these circumstances lies with the Secretary of State although the Director may be authorised to do those things. When required to do so, Ofwat will advise the Secretary of State on the issue of notice of licence termination for any or all undertakers.

(iv) An Appointee's Licence could be terminated under the provisions of Special Administration. The Secretary of State* may apply to the High Court for a Special Administration Order and can also authorise the Director to do so. The main reasons for doing this would be a breach by the Appointee of one of its principal duties in the Act (see sections 37 and 94 of the Act) insolvency or non-compliance with an enforcement order following breach of a licence condition.

(v) A Special Administration Order requires the appointment by the High Court of a Special Administrator. The Special Administrator would have responsibility for transferring the water and sewerage business as a going concern to a successor company or companies, under a scheme which must be approved by the Secretary of State*, and running the business in the meantime.

(vi) The Act also provides in certain circumstances for the appointment of a new Appointee for part of the existing Appointee's Water Supply or Sewerage Service Area. These appointees are more commonly known as 'Inset Appointments'. These are allowed where the appointment relates to a part of the Appointee's area where no premises are served by the licence holder or the premises are supplied with not less than 100 megalitres of water in any period of twelve months or if the licence holder consents. The Director is authorised to appoint a new licence holder when making Inset Appointments.

6. Creditor protection in the event of licence termination

(i) In the event of licence termination by agreement or under the circumstances set out in Condition O (see 5(iii) above) the outgoing Appointee should prepare a 'Transfer Scheme', covering the transfer of property, rights and liabilities to new Appointee(s). The scheme may provide for debt obligations to be transferred to the new Appointee(s). The scheme would have to be agreed by the outgoing Appointee and the new Appointee and approved by the Secretary of State* or the Director if authorised.

(ii) In making an Appointment or Variation replacing the incumbent as the Appointee, the Secretary of State* (or Director) would (so far as is consistent with his other duties, particularly those in Section 2 of the Act) have to ensure that the interests of its creditors were not unfairly prejudiced by the transfer terms. This would be addressed through the requirement for approval of the Transfer Scheme.

(iii) Under Special Administration, the Act provides for the replacement of the Appointee by a successor. In the meantime the Special Administrator must run the business in a manner which protects the interests of shareholders and creditors of the company.

(iv) The Secretary of State*, or with his consent the Director, may approve a Transfer Scheme which moves the Appointed Business into the control of a successor. The Special Administrator would oversee the preparation of the Transfer Scheme.

(v) There can be no assurance that the transfer following Special Administration could be achieved on terms that enabled creditors of the Appointee to recover amounts due to them in full. The successor Appointee would be subject to the price limits applicable to the original Appointee prior to the transfer becoming effective. Ofwat's duty to protect customers would preclude the granting of price limit relief in such circumstances, unless these were justified by reference to factors other than the Special Administration and the transfer.

(vi) In addition under Special Administration the Secretary of State* may, with Treasury consent, arrange for financial assistance to be provided for the purpose of achieving the transfer of the business and its running in the meantime.

(vii) Although the protection of creditors is explicit in the Act, no licence has, as yet, been terminated under Condition O, nor has a Special Administration Order been made or sought.

* In the case of Dwr Cymru and Dee Valley Water, these powers would be exercised by the National Assembly for Wales.

APPENDIX B

W.S. Atkins Letter

Southern Water Services Limited
Yeoman Road
Worthing
West Sussex BN13 3NX

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

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
London E14 5LB

MBIA Assurance S.A.
1 Great St. Helen's Street
London EC3A 6HX

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB

15 July 2003

Dear Sirs,

This letter is not a recommendation to buy, sell or hold securities and for the avoidance of doubt independent professional advice should be taken on investment decisions.

WS Atkins Consultants Limited has not verified the information upon which this letter is based and it is based upon a number of assumptions, data supplied in a data room and through conversations with senior management of Southern Water Services Limited (the "**Company**"). No representation, warranty or undertaking, express or implied is made and no responsibility or liability is accepted by WS Atkins Consultants Limited as to the accuracy or completeness of any information supplied for the purpose of this letter or the report upon which it is derived.

Any projections made in this letter and in the report from which it is derived have been for illustrative purposes only. Actual events and circumstances may vary materially from the assumptions made.

This letter draws together and summarises the findings and conclusions of a technical due diligence study of the appointed business of the Company that you engaged us to undertake. The study was focused on:-

- reviewing and assessing some of the technical risks to the Company meeting its obligations within the Final Determination for the five year period starting on 1st April 2000 (the "**K3 Period**") set by Ofwat;
- assessing some of the expenditures that would not or may not attract funding through the Ofwat Final Determination of funding for the K3 Period or otherwise through logging up in the K3 Period;
- assessing some of the risks to the Company's income and stating some of the options relating to it;
- reviewing and commenting on the approach of the Company in managing the condition, service ability and performance of its assets; and
- reviewing and commenting on some of the environmental risks faced by the Company.

The findings and conclusions in this letter reflect the professional judgement of WS Atkins Consultants Limited based solely upon the information made available to it. It should be noted and caution should be taken that if any information or the assumptions based upon the information prove incorrect, actual results will vary from those set out in the report.

We have based our study on:

- an assessment of the Company's submissions to Ofwat, letters to and from Ofwat on the submissions and on issues arising during the development of the K3 programme and during progress of the K3 Period, and comments of the appointed Reporter for the Company;
- study of documents made available in a data room, a study of documents and analysis by the Company made available in response to questions raised and study of documents passed over formally at meetings with the Company's management. This was done during the period of October 2001 to end February 2003; and
- meetings and contacts with the Company's management responsible for operations, regulatory aspects of the appointed business, financial reporting and capital programme delivery.

We conclude from this assessment and study that:

- The Company has well experienced senior management for a water and sewerage company. During the period from privatisation until 2001/02 the Company has had a generally favourable response from the economic regulator Ofwat in relation to discharging the Company's duties for capital and operational expenditure. The Company has historically generally out performed the capital expenditure and operational expenditure Final Determinations from Ofwat.
- The Final Determination for the K3 Period was very challenging. The Company appears to have followed current industry practice in forming contractor/designer alliances carrying out programmes of works to manage costs as tightly as possible.
- The management team have a record of managing the operational costs and they plan to continue to meet obligations within the operational expenditure allowances.
- The Reporter's comment on condition of assets in 1998 was that condition was indicatively ''stable''. New assets and asset improvements have been undertaken over the K3 Period and such assets should be in better condition than in 1998 when the last formal review was undertaken. Any deterioration in unimproved assets that will occur over the period from 1998 to end of the K3 Period should not significantly impact the levels of service in water and sewerage services to customers provided appropriate levels of management of the systems are maintained.
- The Company faces a range of environmental risks which include, but are not limited to, contamination of water supplies by third parties, flooding from sewers, pollution discharges from their facilities, management of sludge and effluents, legislative requirements to improve sustainability of the water environment. These risks are similar to those faced by other water companies operating under the UK regulatory environment. The Company has mitigation measures, emergency and contingency plans and management structures in place.

During the study WS Atkins Consultants Limited has only reviewed the technical issues, risks and mitigating factors associated with the above elements.

Yours faithfully

Mike Woolgar
Project Director

MBIA Assurance S.A.

Statutory Auditors' Report on the Financial Statements
For the year ended 31 December 2002

STATUTORY AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

(Translated from French into English)

To the shareholders of
MBIA Assurance S.A.
112, avenue Kléber
75116 Paris

Dear Sirs,

In compliance with the assignment entrusted to us at the Annual Shareholder's Meeting, we hereby report to you, for the year ended December 31, 2002 on:

— the audit of the accompanying financial statements of MBIA Assurance, expressed in euros,

— the specific verifications and information required by the law.

These financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

1. OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with the professional standards applied in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the company's financial position and its assets and liabilities as of December 31, 2002, and of the results of its operations for the year then ended in accordance with French accounting principles and regulations.

Without qualifying the above opinion, we draw the shareholder's attention to note II c) which describes the change made in the determination of the reserves for unearned installment premiums and the corresponding impact to the financial statements for the year ended December 31, 2002.

2. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by the law, in accordance with the professional standards applied in France.

We have no comments as to the fair presentation and the conformity with the financial statements of the information given in the management report of the Board of directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Paris, June 13, 2003

Statutory Auditors

Coopers & Lybrand Audit
Member of PricewaterhouseCoopers

Catherine Thuret

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: BALANCE SHEET/ASSETS (in Euros)

ASSETS	At Dec. 31, 2002	At Dec. 31, 2001
Subscribed capital uncalled	0	0
Intangible assets	0	0
Investments		
Land and buildings	0	0
Investments in related parties	0	0
Other investments	130,277,108	73,540,362
Cash deposits with guarantors	0	0
	130,277,108	**73,540,362**
Investment related to unit-linked contracts	**0**	**0**
Reinsurers' share in technical reserves		
Unearned premiums and premium deficiency reserves		
Related parties	469,586	608,959
Third party reinsurers	49,529,055	30,985,587
Claims reserve	0	0
Provision for profit sharing	0	0
Equalization reserve	0	0
Other technical provisions	0	0
Technical reserve for unit-linked contracts	0	0
	49,998,641	**31,594,546**
Debtors		
Amounts receivable from parent company	4,300,515	5,032,519
Insurance debtors		
Other	355,723	65,601
Reinsurance debtors		
Other	301,684	180,824
Other Debtors		
Prepaid and recoverable taxes	2,697,119	0
Sundry debtors		
Related parties	977,350	790,228
Other	448	479
Titrimmo guarantee deposit	0	498,707
	8,632,839	**6,568,358**
Other assets		
Tangible assets	380,739	281,210
Other deposits and guarantees	82,936	67,769
Cash and cash equivalents	2,541,152	779,736
	3,004,827	**1,128,715**
Prepayments and accrued income		
Other	377,741	226,785
Deferred acquisition costs	4,272,931	1,311,965
Accrued interest and rental income	516,637	654,841
	5,167,309	**2,193,591**
Unrealised exchange differences	2,467,938	2,104,611
TOTAL ASSETS	**199,548,662**	**117,130,183**

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: BALANCE SHEET/LIABILITIES (in Euros)

LIABILITIES	At Dec. 31, 2002	At Dec. 31, 2001
Shareholders' equity		
Share capital	26,250,000	26,250,000
Other reserves	457,731	457,731
Retained earnings/(deficit)	4,294,505	5,684,258
Net income/(loss) for the year	7,066,119	(1,389,753)
	38,068,355	**31,002,236**
Subordinated liabilities	0	0
Gross technical reserves		
Unearned premiums and premium deficiency reserves	127,963,776	64,237,422
Claims reserve	0	0
Other technical reserves	0	0
	127,963,776	**64,237,422**
Technical reserve for unit-linked contracts	0	0
Provisions for liabilities and charges		
Provision for exchange losses	3,038,661	2,117,575
Provision for charges	0	0
	3,038,661	**2,117,575**
Cash deposits received from reinsurers	**2,195,266**	**2,195,266**
Other liabilities		
Amounts due to parent company	14,894,133	8,957,206
Insurance creditors		
Related parties	0	0
Third party reinsurers	244	0
Reinsurance creditors		
Related parties	3,073,176	2,150,333
Third party reinsurers	1,656,592	81,784
Bond issue	0	0
Amounts due to credit institutions (loans)	6,100	11,690
Other liabilities		
Other cash deposits received		
Related parties	0	0
Other	1,168,647	1,150,350
Accrued personnel costs	472,746	194,711
Accrued taxes and social security charges	1,230,650	1,677,548
Sundry creditors		
Related parties	0	0
Other	486,574	602,627
Titrimmo guarantee deposit	0	498,707
	22,988,862	**15,324,956**
Accruals and deferred income		
Other accruals	5,293,742	2,252,728
	5,293,742	**2,252,728**
Unrealised exchange differences	0	0
TOTAL LIABILITIES	**199,548,662**	**117,130,183**

MBIA ASSURANCE S.A.

FINANCIAL STATEMENTS: PROFIT AND LOSS ACCOUNT (in Euros)

NON LIFE INSURANCE TECHNICAL ACCOUNT	2002 Gross	Ceded business	2002 Net	2001 Net
Earned premiums				
Premiums	69,035,496	(21,342,278)	47,693,218	10,057,786
Change in unearned premiums reserve	(68,037,984)	20,375,658	(47,662,326)	(4,382,901)
Allocated investment income	275,800		275,800	1,420,561
Other technical income	11,445,725		11,445,725	99,545
Claim charges	0		0	0
Charges from other technical reserves	0		0	0
Acquisition and administration costs				
Acquisition costs	(1,860,315)		(1,860,315)	(2,914,670)
Administration costs	(6,267,436)		(6,267,436)	(4,966,585)
Reinsurance commissions received		3,464,082	3,464,082	682,130
Other Technical charges	0		0	0
	4,591,286	2,497,462	7,088,748	(4,134)
Non-life underwriting result			7,088,748	(4,134)
NON-LIFE INSURANCE NON-TECHNICAL ACCOUNT				
Investment income				
Investment revenues			2,659,816	2,004,540
Other investment income			2,145,033	3,757,391
Gains on sale of investments			275,774	981,192
Allocated investment income			0	0
Investment expense				
Interest and portfolio expenses			(44,396)	(39,684)
Other investment expenses			(278,023)	(164,328)
Losses on sale of investments			(4,347,738)	(3,795,836)
Investment income transferred to the technical accounts			(275,800)	(1,420,561)
Other non-technical income			296	61,635
Other non-technical expense			(149)	0
Non-recurring income/expense				
Non-recurring income			0	656
Non-recurring expense			(288)	0
Employee profit sharing			0	0
Income tax			(157,154)	(2,770,624)
Non-technical result on non-life insurance			**(22,629)**	**(1,385,619)**
INCOME FOR THE YEAR			**7,066,119**	**(1,389,753)**

NOTES TO THE FINANCIAL STATEMENTS

I – BUSINESS OF THE COMPANY

MBIA Assurance S.A. ''MBIA Assurance'' or ''the Company'' is a *Société Anonyme* with a share capital of 26,250,000 euros. MBIA Assurance is a 99.99% owned subsidiary of MBIA Insurance Corporation.

MBIA Assurance carries out operations of the type corresponding to Branch 15 Guarantee listed in Article R 321-1 of the French Insurance Code.

MBIA Assurance's principal activity is the guarantee of financial obligations, and notably with respect to securisations, structured finance, and project finance transactions.

Financial guarantee insurance policies issued by MBIA Assurance provide an unconditional and irrevocable guarantee of the payment of the principal and interest, or other amounts owed, on insured obligations when due.

II – ACCOUNTING POLICIES AND METHODS

The annual financial statements are prepared and presented in accordance with the provisions of the French Insurance Code (decree dated June 8, 1994 and the regulation dated June 20, 1994) so as to incorporate the EEC directive n°91-674 dated December 19, 1991 regarding the financial statements of insurance companies. Since there is no specific provision related to these texts, the applied principles are those defined by the ''Plan comptable général'', the French accounting convention. The accounting year has a 12-month duration.

The Company does not produce consolidated accounts since it has no subsidiaries. However, during the year 2000, the Company established a branch in the United Kingdom whose accounts are included in the Company's financial statements. The accounting principles and methods used at year-end and summarized below remain unchanged from the previous year-end accounts.

(a) Investments

Bonds and other fixed-income securities are stated at cost, excluding interest accrued at the date of acquisition. Premiums and discounts on bonds and other fixed-income securities (difference between the purchase price and the redemption price) are written off to the profit and loss account over the residual lives of the securities in accordance with article R 332-19 of the French Insurance Code. The differences between the redemption prices to be received and the depreciation of these differences are recorded under ''accrued income'' or ''deferred income''.

At year-end, the realisable value corresponds to the quoted value on the last trading day of the year or to the market value for the securities that are not listed. In application of Article R 332-19, no provision is made for unrealised losses corresponding to the difference between the amortised cost of securities and their fair market value. However, a provision for counterparty risks is recorded if the Company has reason to believe that the issuer will be unable to fulfil its obligations in terms of the payment of principal or interest.

Equities and other variable income securities are stated at cost, excluding accrued interest at the acquisition date. Values are determined using the First In-First Out method ''FIFO''.

A provision is recorded separately for each line of securities when a decrease in book value is considered permanent in accordance with the Avis N°2002-F of the French Accounting Standard Council dated December 18, 2002 which redefines the evaluation methodology of the provision for this depreciation. Securities which are deemed to have suffered a permanent diminution in value are analysed according to their redemption value, taking into consideration the company's capacity to hold on to the securities for the anticipated term. A provision is made against these securities, which is equal to the difference between the purchase price of the security and its redemption value. As of December 31, 2002 the Company did not have to record any such provision.

In addition, when the realisable value (excluding fixed-rate securities) is globally less than the book value, adjusted by the above-mentioned provision, a liquidity risk reserve is set up for the shortfall. The liquidity risk reserve is shown on the balance sheet in the ''technical reserves'' section of the liabilities. As of December 31, 2002, the Company did not have to record such liquidity risk reserve.

Investment income and expenses:

Investment income includes accrued interest and rental income for the year, reversal of provisions, income from redemption price differences, investment revenues as well as investment gains (gains on the sale of investments, reversal of the capitalisation reserve) and, if appropriate, net realised exchange gains as well as reversals of provisions for exchange losses.

Investment expenses include portfolio expenses, interest expenses, increases in provisions against investment, amortization of redemption price differences as well as investment losses (losses on sale of investments, increases in the capitalization reserve) and, if appropriate, realised exchange losses as well as increases in the exchange losses provision.

Gains and losses on the sale of investments are calculated using the First In-First Out method.

The sale of certain redeemable transferable securities (bonds, negotiable debt securities) leads to contributions or withdrawals on the capitalisation reserve depending on the results of the sale. This regulatory reserve is recorded on a specific line under shareholders' equity.

Investment income and expenses are recorded into the non-technical account. A percentage of net investment income is transferred from the non-technical account to the technical account on the basis of the following formula: Net technical provision (+ capitalisation reserve) divided by the sum of shareholders' equity, excluding the capitalisation reserve, and net technical provision (+ capitalisation reserve).

(b) Premiums

Premiums represent written premiums (excluding taxes and net of cancellations) and variations of the provision for premiums to be written. MBIA Assurance does not register future premiums that are linked to a contract setting up the payment of the premiums by instalments and which would necessitate an equal and opposite provision for deferred premiums if they were registered.

(c) Technical reserves

— Unearned premium reserve (''UPR''):

The reserve for unearned premiums is calculated on a contract by contract basis, taking into account the risk cycle, in order to comply better with Article R 333-1 of the French Insurance Code and Article 57-2 of the European Directive n°91/674/CEE of December 19, 1991 applicable to statutory and consolidated accounts. This states that: ''In classes of insurance where the assumption of a temporal correlation between risk experience and premium is not appropriate, calculation methods shall be applied that take into account the differing pattern of risk over time''.

Since December 31, 2000, at the request of the *Commission de Contrôle des Assurances*, UPR, previously calculated on a *pro rata* basis through December 31, 1999, is now calculated based upon the risk cycle. When a guarantee is issued upon a loan, the UPR takes into account the repayment schedule of the loan.

In 2002, we reviewed the way we record our instalment premiums to comply better with the recommendations of the *Commission de Contrôle des Assurances*. Taking into account the risk cycle in a more precise manner, the way we calculate the provision for unearned premiums was revised at December 31, 2002. Had the provisions for net unearned premiums been calculated using the previous method they would have been lower by € 675,070.

— Claim paying reserves:

Since its formation, MBIA Assurance has never recorded any claims.

(d) Expense allocation

Effective from January 1, 1995, a distinction is made between acquisition and administration costs. These costs mainly correspond to personnel expenses which are allocated based on the position occupied by each employee.

Deferred acquisition costs (''DAC'') linked to UPR are recorded in the balance sheet under the caption DAC, in accordance with article R 332-33 of the French Insurance Code. The amount is calculated separately for each unearned premium and is limited to the amount posted for unearned premium reserves for each of the policies in accordance with the Commission's recommendation. DAC is

amortised on a straight-line basis over the period between the balance sheet date and the end of the contract, limited to five years.

The portion of commissions received from reinsurers that is not related to the accounting year is also recorded in the balance sheet. The amount deferred is calculated and then taken to the profit and loss account in the same manner as that employed for the calculation of DAC for the same contracts.

(e) Reinsurance cessions

Reinsurance cessions are calculated in accordance with treaties signed between MBIA Assurance and various reinsurers. Pledged investments received from reinsurers are booked off-balance sheet and evaluated at year-end at market value. Cash deposits received from reinsurers are booked under liabilities in the balance sheet.

(f) Debtors

Debtors are posted at face value and include:

— Technical debtors

— Amounts receivable from parent company

— Recoverable taxes and amounts receivable from staff

— Sundry debtors

— Accrued income

Provisions for bad debt are made to the extent that a collection risk is identified.

Exchange gains and losses

Foreign currency transactions are converted into euros at year-end exchange rates.

The elements in the balance sheet that relate to the UK branch and which are in foreign currencies are converted into British pounds at year-end exchange rates. This exchange gain or loss that is calculated and posted in British pounds is then recorded in the euro accounts at year-end exchange rates.

Unrealised exchange gains and losses for all currencies combined are netted and included in the balance sheet in either assets or liabilities. A related provision is recorded in the case of a net unrealised exchange loss. This provision is calculated for the French operations and the UK operations separately.

(g) Tangible fixed assets used in the business

Tangible fixed assets are stated at cost. Maintenance charges are charged to the profit and loss account when incurred, except where they serve to increase productivity or extend the useful life of the asset concerned.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets, in accordance with French tax rules. The main estimated useful lives are as follows:

Leasehold improvements, fixtures and fittings	8 years
Vehicles	5 years
Office and computer equipment	4 years
Furniture	5 to 8 years

(h) Taxes

Taxes are recorded in the profit and loss account and correspond to the tax payable for the period. Tax is related to both transactions concluded by the French office of MBIA Assurance and by its UK branch.

III – NOTES TO THE BALANCE SHEET

(a) Investment portfolio

Investments recorded in the balance sheet at December 31, 2002 in accordance with Articles R 332-19 and R 332-20 of the French Insurance Code are as follows:

Description of securities	Units	At cost	Unit market price (rounded)	Market value	Unrealised gains/ (losses)
Long-term investments					
OAT	3,887,448	4,177,735	1.1430	4,443,765	266,030
BTAN	8,500,000	8,466,850	1.0085	8,572,250	105,400
Govt. bonds in USD		12,357,171	1.1954	12,551,732	194,561
Govt. bonds in GBP		21,067,579	3.9123	21,126,469	58,890
Total within the OECD		**46,069,335**		**46,694,216**	**624,881**
Total outside the OECD		**0**		**0**	**0**
Total long-term investment		**46,069,335**		**46,694,216**	**624,881**
Short-term investments					
Credis EUR	874	300,456	384	335,599	35,143
Credis USD	483	1,127,193	2,501	1,208,145	80,952
Credis CAD	317	284,403	1,117	354,019	69,616
FCP Berri Monetaire	110	2,784,925	25,548	2,810,283	25,358
FCP Primerus Monetaire	869	2,000,733	2,562	2,226,030	225,297
FCP Fructifonds	393	10,815,918	29,609	11,636,345	820,427
Fixed deposit HKD		281,239		281,239	
Fixed deposit GBP		47,381,041		47,381,041	
Fixed deposit USD		2,525,132		2,525,132	
Fixed deposit EUR		5,662,093		5,662,093	
Sicav GBP	1,993	11,044,640	5,701	11,362,459	317,819
Total within the OECD		**84,207,773**		**85,782,385**	**1,574,612**
Total outside the OECD		**0**		**0**	**0**
Total short-term investment		**84,207,773**		**85,782,385**	**1,574,612**
Total investment within the OECD		**130,277,108**		**132,476,601**	**2,199,493**
Total investment outside the OECD		**0**		**0**	**0**
TOTAL investments in euros		**130,277,108**		**132,476,601**	**2,199,493**

All the above investments have been valued in accordance with Articles R 332-19 and R 332-20 of the French Insurance Code. The realisable value of the securities corresponds to their market value at December 31, 2002.

(b) Debtors and creditors

At December 31, 2002, the maturity of all amounts due from debtors and to creditors was less than one year, except for the deposit received from CapMAC, for the amount of € 1,168,647.

(c) Related party debtors and creditors (in euros)

Debtors	Reinsurers' share of technical reserves	Insurance receivables	Inter-company account
MBIA Insurance Corporation and branches	**469,586**	**0**	**4,300,515**

Creditors	Reinsurance debts	Guarantee deposit	Inter-company account
MBIA Insurance Corporation	2,404,676	2,195,266	14,894,133
MBIA Inc.	668,500		
Total	**3,073,176**	**2,195,266**	**14,894,133**

(d) Share capital and changes in shareholders' equity

At December 31, 2002, the Company's issued share capital was made up of 1,750,000 ordinary shares with a par value of 15 euros each. MBIA Insurance Corporation held 99.99% of the capital at that date.

Changes in shareholders' equity during 2002 were as follows:

	January 1, 2002	Allocation of 2001 earnings	Reduction of capital	Other changes	December 31, 2002
			(in thousands of euros)		
Share capital	26,250				26,250
Legal reserve	4				4
Capitalisation reserve	25				25
Unavailable reserves	429				429
(Deficit)/retained earnings	5,674	(1,390)			4,284
Branch exchange rate difference	10				10
Result 2001	(1,390)	1,390			0
Result 2002	0			7,066	7,066
Total	**31,002**	**0**	**0**	**7,066**	**38,068**

(e) Currency balances

	Assets		Liabilities	
12/31/02	Value In base currency	Converted in euros	Value In base currency	Converted in euros
USD	21,773,741	20,823,750	26,863,029	25,616,129
GBP	77,664,482	119,097,026	70,947,428	109,065,993
CAD	836,707	505,563	682,277	412,252
NZD	111,063	55,601	—	—
HKD	2,813,433	344,020	367,740	44,966
JPY	89,849,878	722,324	313,331,824	2,518,947
Total		**141,548,284**		**137,658,287**

At December 31, 2002, the unrealised exchange differences amounted to € 2,467,938 and were recorded as assets.

(f) Accrued and deferred income (in euros)

	2002	2001
Other accruals		
– Amortisation of capital gains	1,857	120,790
– Prepayments	375,884	105,995
Deferred acquisition costs	4,272,931	1,311,965
Accrued interest and rental income	516,637	654,841
Total Assets	**5,167,309**	**2,193,591**

	2002	2001
Other accruals		
– Amortisation capital losses	409,429	303,914
– Deferred commissions	4,884,313	1,948,814
Total Liabilities	**5,293,742**	**2,252,728**

(g) Fixed assets and depreciation

Fixed assets (in euros)	**Balance at 01/01/02**	**Additions**	**Disposals**	**Balance at 12/31/02**
Installations, office layout	342,575	182,057	—	524,632
Office supplies	46,351	8,410	456	54,305
Computer supplies	83,619	21,406	8,520	96,505
Computer system	47,417	—	47,417	—
Office furniture	144,319	160,149	3,367	301,101
Total fixed assets	**664,281**	**372,022**	**59,760**	**976,543**

Depreciation (in euros)	**Balance at 01/01/02**	**Depreciation charge**	**Disposals**	**Balance at 12/31/02**
Installations, office layout	211,467	197,336	7,793	401,010
Office supplies	16,051	15,917	4,501	27,467
Computer supplies	47,301	21,840	6,663	62,478
Computer system	47,417	—	47,417	—
Office furniture	60,835	48,920	4,906	104,849
Total depreciation	**383,071**	**284,013**	**71,280**	**595,804**

IV - NOTES TO THE PROFIT AND LOSS ACCOUNTS

(a) Investment income and expenses

Investment income and expenses mainly include investment revenues (interest, rental income, cash dividends), income and charges linked to the realization of investments as well as results from exchange rate operations.

Investment income (in thousands of euros)

	2002	2001
Revenues from investments in subsidiaries and affiliates	—	—
Revenues from property holdings	—	—
Other investment revenues	2,660	2,005
Total	**2,660**	**2,005**

Breakdown of other investment income (in thousands of euros)

	2002	2001
Exchange gain on investments	(22)	1,110
Amortisation of capital gains	50	178
Reversal of provision for exchange loss on investments	2,117	2,469
Total	**2,145**	**3,757**

Breakdown of investment expenses (in thousands of euros)

	2002	2001
Interest and bank fees	44	40
Amortisation of capital losses	278	164
Charge to provision for exchange loss on investments	3,039	2,118
Exchange losses on investments	1,168	1,589
Loss on sale of investments	141	64
Capitalisation reserve	0	25
Total	**4,670**	**4,000**

(b) Additional notes to the profit and loss accounts

Personnel costs

Personnel costs for the period 2000 through 2002 are as follows:

(in euros)	**2002**	**2001**	**2000**
Wages and salaries	1,221,414	357,991	350,069
Social security taxes	291,805	161,549	126,964
Other	673,207	482,391	231,169
Total	**2,186,426**	**1,001,931**	**708,202**
of which related to UK branch	*668,882*	*515,632*	*179,913*

Breakdown of gross premiums written

Gross premiums written in the period 2000 through 2002 are as follows:

(By product type in euros)	**2002**	**2001**	**2000**
Local government	12,896,287	(22,425)	236,273
Structured finance	1,243,887	1,269,941	2,236,684
Concessions and corporates	54,895,322	19,832,859	17,346,323
Total	**69,035,496**	**21,080,375**	**19,819,280**

(By geographic region in euros)	**2002**	**2001**	**2000**
Europe	68,685,371	20,997,027	19,725,553
of which France	*193,931*	*298,647*	*620,954*
The Americas	305,318	0	0
Asia	44,807	83,348	93,727
Total	**69,035,496**	**21,080,375**	**19,819,280**

Other technical income corresponds to studies, services and surveillance work provided by MBIA Assurance during the year.

V – OTHER INFORMATION

(a) Consolidating entity

MBIA Assurance is a 99.99% owned subsidiary of MBIA Insurance Corporation whose head office is located at 113 King Street, Armonk, New York, 10504, USA.

Relationship between MBIA Assurance and MBIA Insurance Corporation

The relationship between MBIA Assurance and MBIA Insurance Corporation is based upon the maintenance of the net worth of the French subsidiary (under the conditions of the ''Net Worth Maintenance Agreement'' described below) and on the reinsurance of MBIA Assurance risk by MBIA Insurance Corporation.

This relationship is the basis upon which the rating agencies have granted a Triple-A rating to MBIA Assurance.

Agreements between MBIA Assurance and MBIA Insurance Corporation

Net Worth Maintenance Agreement

MBIA Assurance signed a ''Net Worth Maintenance Agreement'' with MBIA Insurance Corporation on January 1, 1991 which was amended and restated on April 1, 2002.

Under the ''Net Worth Maintenance Agreement'', MBIA Insurance Corporation agrees to remain the sole shareholder of MBIA Assurance and not to pledge its shares. It also agrees to maintain for its French subsidiary a minimum capital and surplus position of 4,573,470.52 euros, or such greater amount as shall be required now or in the future by French law or French regulatory authorities provided that:

(i) any contributions to MBIA Assurance for such purpose shall not exceed 35% of MBIA Insurance Corporation's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York; the total amount of surplus was US$ 2,857,439 at December 31, 2001 and US$ 3,158,009 at December 31, 2002;

(ii) any contribution shall be made in compliance with Section 1505 of the New York State Insurance law; provided that MBIA Insurance Corporation hereby confirms that it may make single contributions to MBIA Assurance that do not exceed a total of US$200 million without taking any additional actions under Section 1505 of the New York State Insurance Law with respect to any such single contribution.

Any modifications to the ''Net Worth Maintenance Agreement'' may not occur without confirmation from each Standard & Poor's Rating Services and Moody's Investors Service, that such modifications will not result in the reduction or the withdrawal of the claims-paying ratings then assigned to MBIA Insurance Corporation.

Reinsurance Agreement

MBIA Assurance has signed a ''Reinsurance Agreement'' with MBIA Insurance Corporation on January 1, 1993 which was amended and restated on January 1, 2002.

Under the ''Reinsurance Agreement'', MBIA Insurance Corporation shall reimburse MBIA Assurance for the amount of MBIA Assurance's losses paid in each calendar year which amount is in the aggregate in excess of an amount equal to the greater of:

(i) US$ 500,000 or

(ii) 40% of MBIA Assurance's net earned premium income for that same calendar year.

However, the liability of MBIA Insurance Corporation shall not exceed, in any one calendar year, MBIA Assurance's net retention with respect to the principal outstanding plus interest insured under its largest policy in effect as of December 31 of the prior year.

(b) Average number of employees

The average number of employees for the years 2002 and 2001 was four and two people, respectively, for MBIA Assurance, and thirteen and nine, respectively, for the UK branch.

In addition, MBIA Insurance Corporation provided employees who have been seconded to the UK branch of MBIA Assurance.

(c) Off-balance sheet commitments

Commitments received

At December 31, 2002, the shares and cash pledged by AMBAC Assurance Corporation in relation to reinsurance transactions amounted to € 10,814,524 and is broken down as follows:

— Fixed-term deposit of GBP 2,755,015 (€ 4,235,226 including € 21,021.89 in interest)

— Cash deposit of GBP 103,700 (€ 159,416)

— Cash deposit of € 294,912

— French government bonds of € 6,124,969 including € 135,888 of interest

At December 31, 2002, the securities and cash amounts received as pledge from Riverstone (formerly known as CTR), in regard to reinsurance operations, amounted to € 18,202 and were composed of 22 shares of FCP CTR Réserve, with a unit value of € 821.23 each, and held by DWS.

At December 31, 2002, the Company had no other off-balance sheet commitments and had not carried out any off-balance sheet financial instrument transactions.

Commitment paid

On July 17, 2002, MBIA Assurance provided a guarantee to one of its employees, for their lessor, in regard to the payment of their rent (which might be revised) and any other fees up to € 65,280. This will stay in effect until the end of the lease, i.e. for nine years until July 31, 2011.

(d) Guarantees issued

The following chart represents the amounts guaranteed by MBIA Assurance at December 31, 2002. Amounts are stated in par and gross of reinsurance.

(in thousands of euros)	**2002**	**2001**	**2000**
Sovereign and Sub-sovereign	1,505,487	1,202,950	1,320,690
Public Utilities	6,460,735	3,675,475	1,377,540
Structured Finance	2,216,384	903,246	1,178,424
Financial Institutions[(1)]	148,301	173,591	251,185
Total	**10,330,907**	**5,955,262**	**4,127,839**

(1) mainly banks and insurance companies.

(e) Payments to Management

The total amount paid to the members of the Board of Directors was € 2,088,881 including salaries and benefits in kind.

VI - POST BALANCE SHEET EVENTS

No such events have taken place.

SWSGH Group

Combined financial information
for the two years ended 31 March 2003

SWSGH GROUP
COMBINED FINANCIAL INFORMATION FOR THE TWO YEARS ENDED 31 MARCH 2003

The following is the text of the report on the business of the SWSGH Group by PricewaterhouseCoopers LLP, Reporting Accountants:

PRICEWATERHOUSECOOPERS

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The Directors
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17 July 2003

Dear Sirs

SWSGH Group

Introduction

We report on the combined financial information (the ''Combined Financial Information'') set out below. This Combined Financial Information has been prepared for inclusion in the listing particulars dated 17 July 2003 (''the Listing Particulars'') relating to the issue of up to £3,000,000,000 Guaranteed Wrapped Bonds and £3,000,000,000 Guaranteed Unwrapped Bonds (the ''Bonds'') by Southern Water Services (Finance) Limited (the ''Issuer''). The payment of all amounts owing in respect of the Bonds will be unconditionally and irrevocably guaranteed by SWS Group Holdings Limited (''SWSGH''), and its wholly owned subsidiaries SWS Holdings Limited (''SWSH'') and Southern Water Services Limited (''SWS''), together the ''SWSGH Group''.

SWSGH has not been required to produce consolidated accounts for statutory purposes. Furthermore, the SWSGH Group has not existed as a group in its present form throughout the period under review. Accordingly it has been necessary to compile the Combined Financial Information of the SWSGH Group for the purposes of this report.

Basis of preparation

The Combined Financial Information set out below has been prepared to show the results and the financial position of the SWSGH Group as if the group had been in existence since 1 April 2001. The Combined Financial Information is presented in accordance with the basis of preparation set out in note 1.

The Combined Financial Information, for each of the two years ended 31 March 2002 and 31 March 2003, is based on:

- the audited financial statements of SWSGH for the period from its incorporation (19 November 2001) to 31 March 2003;
- the audited financial statements of SWSH for the period from its incorporation (19 November 2001) to 31 March 2003 ; and
- the audited financial statements of SWS for the years ended 31 March 2002 and 31 March 2003.

No adjustments were considered necessary in preparing the Combined Financial Information.

Responsibility

The financial statements of the companies comprising the SWSGH Group, on which the Combined Financial Information is based, are the responsibility of the directors of those companies, who approved their issue.

The directors of each of the Issuer, SWS, SWSH and SWSGH are responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to compile the Combined Financial Information set out in our report from the financial statements of the companies comprising the SWSGH Group, to form an opinion on the Combined Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the Combined Financial Information. The evidence included that previously obtained by us and PricewaterhouseCoopers relating to the audit of the financial statements underlying the Combined Financial Information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the Combined Financial Information and whether the accounting policies are appropriate to the circumstances of the SWSGH Group, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Combined Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Combined Financial Information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of the SWSGH Group as at the dates stated and of its profits and cash flows for the periods then ended.

COMBINED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 31 March 2003 £m	2002 £m
Turnover	2,3	436.5	428.9
Cost of sales		(230.7)	(195.9)
Gross profit		205.8	233.0
Administrative expenses – Normal	3	(26.7)	(23.4)
Administrative expenses – Exceptional	5	—	(9.6)
Total administrative expenses		(26.7)	(33.0)
Other operating income	3	1.5	1.6
Total operating profit		180.6	201.6
Profit on disposal of fixed assets		8.8	1.6
Net interest and similar charges – Normal	4	(76.3)	(71.9)
Net interest and similar charges – Exceptional	4,5	(14.0)	—
Total net interest and similar charges		(90.3)	(71.9)
Profit on ordinary activities before taxation	5	99.1	131.3
Tax on profit on ordinary activities	6	(35.5)	(38.3)
Profit on ordinary activities after taxation	17	63.6	93.0
Dividends	7,17	(68.0)	—
Retained (loss)/profit for the financial year		(4.4)	93.0

All amounts included in the combined profit and loss accounts relate to continuing operations.

A statement of total recognised gains and losses and a reconciliation to historical cost profits and losses are not shown as all gains and losses for 2002 and 2003 are recognised in the combined profit and loss accounts under the historical cost convention.

COMBINED BALANCE SHEETS

	Notes	31 March 2003 £m	31 March 2002 £m
Fixed assets			
Tangible assets	8	2,631.9	2,504.8
Current assets			
Stock	9	1.8	4.1
Debtors	10	97.8	111.8
		99.6	115.9
Creditors – Amounts falling due within one year	11	(1,516.5)	(939.5)
Net current liabilities		(1,416.9)	(823.6)
Total assets less current liabilities		1,215.0	1,681.2
Creditors – Amounts falling due after more than one year	12	—	(482.1)
Provisions for liabilities and charges	14	(372.2)	(355.2)
Grants and contributions	15	(40.7)	(37.4)
Net assets		802.1	806.5
Capital and reserves			
Called up share capital	16	0.1	0.1
Share premium account	17	46.2	46.2
Merger reserve	17	0.1	0.1
Profit and loss account	17	755.7	760.1
Equity shareholder's funds		802.1	806.5

COMBINED CASH FLOW STATEMENTS

	Notes	Year ended 31 March 2003 £m	2002 £m
Net cash inflow from operating activities	18	299.9	216.3
Returns on investments and servicing of finance			
Interest received		—	0.2
Interest paid		(116.2)	(43.0)
Net cash outflow from returns on investments and servicing of finance		(116.2)	(42.8)
Taxation		(18.7)	(32.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(171.6)	(239.6)
Infrastructure renewals expenditure		(32.1)	(26.4)
Movement in capital creditors		27.4	(16.8)
Sale of tangible fixed assets		8.8	1.6
Receipt of grants and contributions		15.8	12.1
Net cash outflow for capital expenditure and financial investment		(151.7)	(269.1)
Equity dividends paid to shareholders		(68.0)	(47.8)
Net cash outflow before financing		(54.7)	(176.1)
Financing			
Decrease in borrowings		(1,148.1)	(14.4)
Increase in borrowings		1,210.6	182.8
Net cash inflow from financing		62.5	168.4
Increase/(decrease) in net cash		7.8	(7.7)
Reconciliation to net debt			
Net debt at beginning of period		(1,202.6)	(1,026.5)
Increase/(decrease) in net cash		7.8	(7.7)
Movement in borrowings		(62.5)	(168.4)
Net debt at end of period	19	(1,257.3)	(1,202.6)

NOTES TO THE COMBINED FINANCIAL INFORMATION

1. Basis of preparation

The Combined Financial Information set out below has been prepared to show the results and the financial position of the SWSGH Group as if the SWSGH group had been in existence since 1 April 2001. The Combined Financial Information, for each of the two years ended 31 March 2002 and 31 March 2003, is based on:

- the audited financial statements of SWSGH for the period from its incorporation (19 November 2001) to 31 March 2003;
- the audited financial statements of SWSH for the period from its incorporation (19 November 2001) to 31 March 2003; and
- the audited financial statements of SWS for the years ended 31 March 2002 and 31 March 2003.

SWSGH was incorporated as Framescreen Limited on 19 November 2001 and changed its name to SWS Group Holdings Limited on 14 December 2001. SWSH was incorporated as Minorscreen Limited on 19 November 2001 and changed its name to SWS Holdings Limited on 14 December 2001. On 8 February 2002, SWSGH issued 100,000 ordinary shares to its direct parent company, Southern Water Limited (formerly Southern Water plc) (''SWL''), in connection with a share for share exchange for a 100 per. cent interest in SWS. On 14 February 2002, the effective date of the ''merger'', SWSH issued 100,000 ordinary shares to its direct parent company SWSGH, in connection with a share for share exchange for the 100 per cent. interest in SWS. SWSGH did not trade from the date of its incorporation to 8 February 2002 and SWSH did not trade from the date of its incorporation to 14 February 2002.

The acquisition of SWS by SWSGH and subsequently by SWSH, has been accounted for using the principles of merger accounting in accordance with FRS 6 ''Acquisitions and Mergers''. All intercompany transactions have been eliminated.

During the period covered by the Combined Financial Information, SWS had a wholly owned subsidiary Southern Water Services Finance plc (''SWSF''). SWSF issued £100 million of bonds on 26 March 1998 the proceeds of which were then on lent to SWS. These borrowings were repaid on 26 March 2003. Subsequent to 31 March 2003, SWSF has been transferred out of the SWSGH Group and has therefore not been included in the Combined Financial Information. This has no material impact on the Combined Financial Information.

2. Accounting policies

Accounting convention

The Combined Financial Information has been prepared under the historical cost convention and, other than the treatment of infrastructure grants and contributions (described below), is in accordance with applicable accounting standards in the United Kingdom which have been applied on a consistent basis.

Turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of the business for goods and services provided and, in respect of unbilled charges, includes an accrual for measured and unmeasured income.

Measured income arises from customers who have meters fitted at their premises. Therefore amounts billed are based on actual water consumption. Unmeasured income bills are based on the rateable value of properties.

The income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average tariffs and historical billing and consumption information.

Bad Debts

The bad debt provision is calculated based on applying expected recovery rates to an aged debt profile.

Research and development

Expenditure on research and development is charged to the combined profit and loss account as it is incurred.

Tangible fixed assets

(i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems.

Expenditure on infrastructure assets (including staff costs capitalised) relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition to fixed assets and is stated at cost after deducting grants and contributions. Staff costs represent those costs directly related to the construction of a specific infrastructure asset and are capitalised as part of infrastructure assets on the basis of the amount of time spent by individuals on capital projects.

The depreciation charge for infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan determined by the water industry regulator as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

(ii) Other assets (including overground assets, plant and equipment) are stated at cost less accumulated depreciation. Other assets are depreciated on the straight-line method over their estimated useful economic lives which are principally as follows:

	Years
Buildings	10 – 60
Operational structures	15 – 80
Fixed plant	10 – 40
Vehicles, computers and mobile plant	3 – 10

Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

(iii) Freehold land is not depreciated

Assets in the course of construction are not depreciated until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor following completion of performance and take-over tests.

Grants and contributions

Capital grants and customer contributions in respect of additions to non-infrastructure fixed assets are treated as deferred income and released to the combined profit and loss account over the estimated operational lives of the related assets in accordance with the provisions of the Companies Act 1985.

Capital grants and contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets as permitted by Statement of Standard Accounting Practice (SSAP4). This is not in accordance with Schedule 4 to the Companies Act 1985 which requires fixed assets to be stated at their purchase price or production cost. The Companies Act 1985 does not permit the deduction of contributions, hence these would have been accounted for as deferred income.

This departure from the requirements of the Companies Act 1985 is, in the opinion of the directors of SWSGH, necessary for the Combined Financial Information to give a true and fair view because infrastructure assets do not have determinable finite lives. Accordingly related capital contributions would not be recognised in the combined profit and loss account. The effect of this treatment on tangible fixed assets is disclosed in note 8.

Revenue grants and contributions are credited to the combined profit and loss account in the year to which they relate.

Leased assets

Fixed assets leased to the SWSGH Group under finance leases are capitalised and depreciated in line with the SWSGH Group's depreciation policy. The interest element of finance lease repayments is charged to the combined profit and loss account in proportion to the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged to the combined profit and loss account on a straight line basis over the lease term.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Taxation

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with Financial Reporting Standard 19 ‘‘Deferred Tax’’. Deferred taxation balances are not discounted.

Pensions

The majority of the employees of the SWSGH Group are members of the defined benefit pension schemes operated by SWL. A valuation of the defined benefits pension schemes is normally conducted by an independent actuary every three years. In accordance with Statement of Standard Accounting Practice (SSAP) 24, the regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the combined profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the combined profit and loss account and the actual contributions paid to the pension schemes is included as an asset or liability in the balance sheet.

Provisions

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial instruments

Financial assets are recognised when the SWSGH Group has rights or other access to economic benefits. Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset, or to exchange financial instruments with another entity on potentially unfavourable terms. When these criteria no longer apply, a financial asset or liability is no longer recognised.

Interest income is credited to income in the period in which it is earned.

Where the fair value of a financial asset classified as a current asset falls below its carrying value a provision is made.

3. Turnover and segmental reporting

Turnover represents income receivable for providing water supply and wastewater services and is generated and supplied wholly from within the United Kingdom.

The directors believe that the whole of the SWSGH Group’s activities constitute a single class of business.

Cost of sales reflects the direct costs of providing water supply and wastewater services. Administrative expenses comprise the indirect costs of the business. Other operating income refers to rents receivable.

4. Net interest and similar charges

	Year ended 31 March	
	2003 £m	2002 £m
Interest payable on bank loans and overdrafts	(1.2)	(2.2)
Interest payable on other loans	(75.1)	(69.9)
	(76.3)	(72.1)
Exceptional cost arising due to early redemption of £100m bond by SWSF (note 5)	(14.0)	—
Total interest and similar charges payable	(90.3)	(72.1)
Total interest receivable	—	0.2
Net interest payable and similar charges	(90.3)	(71.9)

For the years ended 31 March 2002 and 31 March 2003, the SWSGH Group paid interest of £69.9m and £75.1m respectively, to related party companies which is explained in further detail in note 27.

5. Profit on ordinary activities before taxation

	Year ended 31 March	
	2003 £m	2002 £m
Profit before taxation is stated after charging/(crediting)		
Staff costs (note 21)	45.5	43.8
Depreciation of tangible fixed assets		
– owned assets	92.9	75.1
– assets held under finance leases	0.4	0.4
Total depreciation	93.3	75.5
Operating lease rentals	4.9	5.3
Research and development expenditure	1.8	2.0
Release of grants and contributions (note 15)	(1.9)	(1.6)

Audit fees and fees paid to the auditors for non-audit services in the United Kingdom were as follows:

	Year ended 31 March	
	2003 £m	2002 £m
Audit fees and expenses	0.1	0.1
Non-audit fees and expenses	0.1	0.1
	0.2	0.2

Exceptional items

During the year ended 31 March 2002, net exceptional costs of £9.6m were incurred which comprised legal and professional fees arising from the aborted refinancing of the Southern Water group in March 2002.

During the year ended 31 March 2003, a net exceptional finance cost of £14.0m was incurred with respect to the early redemption of the £100m bonds issued by SWSF and charged to the SWSGH Group.

6. Tax on profit on ordinary activities

	Year ended 31 March	
	2003 £m	2002 £m
Analysis of charge in period		
United Kingdom		
Corporation tax at 30% (2002: 30%)	18.5	20.2
Adjustment in respect of prior years	—	(2.3)
Total current tax	18.5	17.9
Deferred tax		
Origination and reversal of timing differences	11.9	20.4
Adjustment in respect of prior years	5.1	—
Total deferred tax	17.0	20.4
Tax on profit on ordinary activities	35.5	38.3

The tax for the periods presented varied from the standard rate of corporation tax in the United Kingdom (30 per cent. for the years ended 31 March 2002 and 2003) as explained below:

	Year ended 31 March	
	2003 £m	2002 £m
Profit on ordinary activities before tax	99.1	131.3
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	29.7	39.4
Effects of:		
Adjustments to tax in respect of prior period	—	(2.3)
Other differences	(0.6)	—
Expenses not deductible for tax purposes	1.3	1.2
Capital allowances in excess of depreciation	(11.9)	(20.4)
Current tax charge for period	18.5	17.9

Factors that may affect future tax charges

Based on current capital investment plans, the SWSGH Group expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

7. Dividends

	Year ended 31 March	
	2003 £m	2002 £m
Equity – Ordinary		
Interim paid		
– 23 July 2002: £269.73 per £1 share	27.0	—
– 23 October 2002: £203.80 per £1 share	20.4	—
– 23 January 2003: £205.79 per £1 share	20.6	—
Final proposed	—	—
	68.0	—

8. Tangible fixed assets

	Freehold land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Infra-structure assets £m	Assets in the course of construction £m	Other £m	Total £m
Cost or valuation							
At 1 April 2001	610.6	590.4	0.7	941.1	646.1	215.1	3,004.0
Additions	62.6	84.6	—	75.4	—	26.3	248.9
Transfers	17.1	36.4	—	80.4	(148.9)	15.0	—
Grants and contributions	—	—	—	(9.2)	—	—	(9.2)
Disposals	(0.6)	(0.9)	—	(0.8)	—	(0.1)	(2.4)
At 31 March 2002	689.7	710.5	0.7	1,086.9	497.2	256.3	3,241.3
Additions	46.2	83.6	—	71.3	—	29.9	231.0
Transfers	81.2	45.8	—	55.7	(186.6)	3.9	—
Grants and contributions	—	—	—	(10.6)	—	—	(10.6)
Disposals	(0.3)	(0.5)	—	(0.7)	—	(9.8)	(11.3)
At 31 March 2003	816.8	839.4	0.7	1,202.6	310.6	280.3	3,450.4

	Freehold land and buildings £m	Plant and machinery £m	Vehicles and office equipment £m	Infra-structure assets £m	Assets in the course of construction £m	Other £m	Total £m
Aggregate depreciation							
At 1 April 2001	153.7	171.8	0.7	209.1	—	128.1	663.4
Charge for the year	15.8	27.2	—	21.0	—	11.5	75.5
Disposals	(0.7)	(0.9)	—	(0.7)	—	(0.1)	(2.4)
At 31 March 2002	168.8	198.1	0.7	229.4	—	139.5	736.5
Charge for the year	17.8	30.8	—	23.7	—	21.0	93.3
Disposals	(0.3)	(0.5)	—	(0.7)	—	(9.8)	(11.3)
At 31 March 2003	186.3	228.4	0.7	252.4	—	150.7	818.5
Net book amount							
At 31 March 2002	520.9	512.4	—	857.5	497.2	116.8	2,504.8
At 31 March 2003	630.5	611.0	—	950.2	310.6	129.6	2,631.9

Of the additions to infrastructure assets, the amount spent on infrastructure renewals during the years ended 31 March 2002 and 31 March 2003 was £32.9m and £41.0m, respectively. Of the grants and

contributions set against infrastructure assets during the years ended 31 March 2002 and 31 March 2003, £6.5m and £8.9m respectively, relates to infrastructure renewals.

For the years ended 31 March 2002 and 31 March 2003, the net book value of infrastructure assets is stated after deducting grants and contributions since privatisation of £115.1m and £125.7m, respectively.

Freehold land is stated at a cost of £39.5m and £40.8m at 31 March 2002 and 31 March 2003, respectively, and is not depreciated.

Other assets relate primarily to computer equipment and meter reading devices.

Assets held under finance leases are capitalised and included in plant and machinery.

	31 March	
	2003 £m	**2002 £m**
Cost	11.7	11.7
Aggregate depreciation	(7.1)	(6.7)
Net book amount	4.6	5.0

9. Stocks

	31 March	
	2003 £m	**2002 £m**
Stocks and work in progress		
Raw materials	1.2	1.1
Work in progress	0.6	3.0
	1.8	4.1

10. Debtors

	31 March	
	2003 £m	**2002 £m**
Amounts falling due within one year:		
Trade debtors	56.2	60.8
Unbilled income accrued	34.8	32.5
Amounts owed by group undertakings	—	14.0
Amounts owed by Scottish Power plc	—	0.2
Prepayments	0.1	0.1
Other debtors	6.7	4.2
	97.8	111.8

11. Creditors – Amounts falling due within one year

	31 March	
	2003 £m	2002 £m
Bank overdraft and other borrowings (note 19)	46.7	54.5
Trade creditors	21.6	20.2
Loans from group companies	1,210.6	190.2
Loans from Scottish Power plc	—	475.8
Capital expenditure creditors and accruals	116.4	89.0
Trading balances with other group undertakings	52.6	32.5
Trading balances with Scottish Power plc	—	21.9
Corporation tax	7.3	7.4
Other tax and social security payable	1.4	1.2
Other accruals and deferred income	59.9	46.8
	1,516.5	939.5

Included in trading balances with other group undertakings are payments due for group relief of £8.9m for the year ended 31 March 2003, together with £30.1m from cash sweeping arrangements, £15.5m of group creditors and £8.1m relating to interest on loans.

The loans from Scottish Power plc were unsecured and repayable on demand with interest rates varying between 5 per cent. to 7 per cent. per annum. In April 2002, Scottish Power plc disposed of its interests in the Southern Water group of companies (including the SWSGH Group) and the outstanding balance was repaid in full. Subsequently, loans with various intermediate parent companies were taken out on similar terms to those described above.

12. Creditors – Amounts falling due after more than one year

	31 March	
	2003 £m	2002 £m
Loans from Scottish Power plc	—	382.5
Loan from SWSF	—	99.6
	—	482.1

The rates of interest payable on loans from Scottish Power plc repayable after five years ranged from 6.35 per cent. to 11.1 per cent. per annum. As described above these loans were repaid in full during 2002. The rate of interest on the loan from SWSF was 6.9 per cent. per annum. This loan was repaid in full on 26 March 2003.

13. Financial instruments

The SWSGH Group has financial liabilities that comprise bank overdrafts and borrowings. The main purpose of these financial instruments is to finance the SWSGH Group's operations.

The SWSGH Group has no requirement to, and does not engage in for its own account, complex financial transactions such as those involving derivative financial instruments.

The main risks arising from the SWSGH Group's financial instruments are interest rate risk and liquidity risk.

Interest rate and liquidity risk

The SWSGH Group finances its operations through a mixture of retained profits and borrowings from group companies. The SWSGH Group borrows in sterling at both fixed and floating rates of interest. The proportion of borrowings maintained at fixed rates of interest has varied substantially during the period

covered by Combined Financial Information and was approximately 50 per cent. at 31 March 2002 and 96 per cent. at 31 March 2003.

At 31 March 2003 all borrowings are due for payment within one year. It is intended to refinance these borrowings through the issue of external debt.

Short-term flexibility is achieved by bank overdraft facilities.

Foreign currency risk

The business of the SWSGH Group is based and operated in the United Kingdom, and its customer base is also entirely in the United Kingdom, consequently all cash flows are in sterling.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

Interest rate risk profile of financial liabilities

The interest rate risk profile of the SWSGH Group's financial liabilities at 31 March 2002 and 31 March 2003 was as follows:

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
At 31 March 2002 – Sterling	614.4	588.2	1,202.6
At 31 March 2003 – Sterling	46.7	1,210.6	1,257.3

All the SWSGH Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

Floating rate financial liabilities bear interest at rates, based on LIBOR, which are fixed in advance for periods of between one month and six months.

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
At 31 March 2002	7.16	2.11
At 31 March 2003	6.49	0.29

Maturity of financial liabilities

The maturity profile of the carrying amount of the SWSGH Group's financial liabilities, other than short-term trade creditors and accruals at 31 March 2002, and at 31 March 2003 was as follows:

	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Debt – At 31 March 2002	720.5	285.5	51.8	144.8	1,202.6

	Within 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Debt – At 31 March 2003	1,257.3	—	—	—	1,257.3

Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the SWSGH Group's financial assets and financial liabilities at 31 March 2002 and 31 March 2003. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out in the table below is a summary of the methods and assumptions used for each category of financial instrument.

	31 March			
	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the SWSGH Group's operations:				
Short-term borrowings.....	1,257.3	1,257.3	720.5	720.5
Long-term borrowings	—	—	482.1	485.4

Summary of methods and assumptions

Short-term borrowings	The fair value of short-term loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of the loan with SWSF was estimated using quoted market prices. In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet.

Currency exposures

The SWSGH Group maintains all of its funds in sterling and thus has no foreign currency exposures.

Hedges

The SWSGH Group does not enter into any direct hedging transactions. Hedging arrangements that relate to the SWSGH Group are entered into by an intermediate parent company, Southern Water Services (Finance) Limited (formerly First Aqua (JVCo) Limited)), on behalf of the SWSGH Group.

Financial instruments held for trading purposes

The SWSGH Group does not trade in financial instruments.

14. Provisions for liabilities and charges

	Environmental £m	Deferred tax £m	Total £m
At 1 April 2001	3.1	331.7	334.8
Charged to profit and loss	—	20.4	20.4
At 31 March 2002	3.1	352.1	355.2
Charged to profit and loss	—	17.0	17.0
At 31 March 2003	3.1	369.1	372.2

Environmental provision

This provision relates to costs for the decommissioning of abandoned sites. No reimbursement is expected. As the period over which the provision will be utilised cannot be determined the provision is not discounted.

Deferred tax

	31 March	
	2003 £m	2002 £m
Provision for deferred tax comprises:		
Accelerated capital allowances	378.0	355.6
Short-term timing differences	(8.9)	(3.5)
Deferred tax provision	369.1	352.1
Provision at the beginning of the period	352.1	331.7
Amount charged to profit and loss (note 6)	17.0	20.4
Provision at end of period	369.1	352.1

15. Grants and contributions

	31 March	
	2003 £m	2002 £m
At beginning of the period	37.4	36.1
Receivable in year	5.2	2.9
Released to profit and loss account	(1.9)	(1.6)
At end of the period	40.7	37.4

Grants and contributions relate to non-infrastructure assets.

16. Called up share capital

Number	31 March 2003	31 March 2002
Authorised		
Ordinary shares of £1 each	101,000	101,000
Allotted, called up and fully paid ordinary shares of £1 each		
At 31 March	100,100	100,100

Amount	31 March 2003 £m	31 March 2002 £m
Authorised		
Ordinary shares of £1 each	0.1	0.1
Allotted, called up and fully paid ordinary shares of £1 each		
At 31 March	0.1	0.1

For the year ended 31 March 2002 the directors of the SWSGH Group held beneficial interests in its ultimate parent company, Scottish Power plc. In April 2002, Scottish Power plc sold its investment in the Southern Water group (including the SWSGH Group) to First Aqua Holdings Limited ("**FAHL**"). For the year ended 31 March 2003 the directors of the SWSGH Group did not have any interest in its ultimate parent company, FAHL.

17. Combined reconciliation of movement in shareholder's funds

	Called up share capital £m	Share premium £m	Merger reserve £m	Profit and loss accounts £m	Total £m
At 1 April 2001	0.1	46.2	0.1	667.1	713.5
Profit after tax	—	—	—	93.0	93.0
Dividends paid	—	—	—	—	—
At 31 March 2002	0.1	46.2	0.1	760.1	806.5
Profit after tax	—	—	—	63.6	63.6
Dividends paid	—	—	—	(68.0)	(68.0)
At 31 March 2003	0.1	46.2	0.1	755.7	802.1

On 8 February 2002, SWSGH issued 100,000 ordinary shares in connection with a share for share exchange with SWL for a 100 per cent. interest in SWS. On 14 February 2002, the effective date of the "merger", SWSH issued 100,000 ordinary shares in connection with a share for share exchange with SWSGH for the 100 per cent. interest in SWS. This has been accounted for under the group reconstruction provisions of Financial Reporting Standard 6 "Acquisitions and Mergers" using merger accounting. The application of merger accounting principles gave rise to a difference of £0.1m which falls to be accounted for as a merger difference and included within a merger reserve. The balance on the merger reserve represents the difference between the carrying value of the investment of £46.3m in the accounts of SWSGH and the aggregate nominal value of the share capital and share premium of £46.4m of SWS.

18. Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

	Year ended 31 March	
Continuing operations	**2003 £m**	**2002 £m**
Operating profit	180.6	201.6
Depreciation charge	93.3	75.5
Release of grants and contributions	(1.9)	(1.6)
Decrease/(increase) in stocks	2.3	(0.5)
Decrease/(increase) in debtors	14.0	(18.8)
Increase/(decrease) in creditors	11.6	(39.9)
Total net cash inflow from operating activities	299.9	216.3

19. Reconciliation of movements in net debt

	Overdrafts £m	Total £m	Debt due after 1 year £m	Debt due within 1 year £m	Total £m	Net debt £m
At 1 April 2001	(46.8)	(46.8)	(637.9)	(341.8)	(979.7)	(1,026.5)
Cashflow	(7.7)	(7.7)	155.8	(324.2)	(168.4)	(176.1)
At 31 March 2002	(54.5)	(54.5)	(482.1)	(666.0)	(1,148.1)	(1,202.6)
Cashflow	7.8	7.8	482.1	(544.6)	(62.5)	(54.7)
At 31 March 2003	(46.7)	(46.7)	—	(1,210.6)	(1,210.6)	(1,257.3)

20. Cash flow relating to exceptional items

As set out in note 5, in the year ended 31 March 2002, net exceptional costs of £9.6m were paid which comprised legal and professional fees arising from the aborted refinancing of the Southern Water group in March 2002.

As set out in note 5, in the year ended 31 March 2003, a net exceptional finance cost of £14.0m was incurred with respect to the early redemption of the £100m bonds issued by SWSF, and charged to the SWSGH Group.

21. Employees and directors

	Year ended 31 March	
Staff costs for the SWSGH Group during the period	**2003 £m**	**2002 £m**
Wages and salaries	50.4	49.4
Social security costs	3.6	3.6
Other pension costs	8.0	4.7
Total employee costs	62.0	57.7
Less charged as capital expenditure	(16.5)	(13.9)
Charged to profit and loss account	45.5	43.8

Average monthly number of people (including executive directors) employed	Year ended 31 March 2003 Number	2002 Number
Operations	1,289	1,399
Project delivery	115	119
Customer services	294	271
Corporate centre	317	244
Total	2,015	2,033

Directors	Year ended 31 March 2003 £'000	2002 £'000
Aggregate emoluments	922	611

For the years ended 31 March 2002 and 31 March 2003 retirement benefits accrued to five directors under a Southern Water defined benefit scheme.

Highest paid director	Year ended 31 March 2003 £'000	2002 £'000
Total emoluments	234	147
Defined benefit scheme: Accrued annual pension at 31 March	90	71

22. Pension commitments

During the period of the Combined Financial Information the SWSGH Group accounted for pension costs under SSAP 24, but has also made the detailed disclosures required in the second year of the transitional arrangements under FRS 17. These disclosures show at 31 March 2003 a net FRS 17 deficit (after deferred tax) of £99.5 million. The deficit has arisen mainly as a result of turbulence in the stock market and low interest rates.

Pension schemes operated

The SWSGH Group pension arrangements are operated principally through three schemes, which are described below.

The first scheme is the Southern Water Pension Scheme (''SWPS''), a funded defined benefit scheme which has been closed to new members since 31 December 1998. This scheme has eight trustee directors.

The second scheme is the Southern Water Executive Pension Scheme (''SWEPS''), which is a funded defined benefit scheme. This scheme has five trustee directors.

Both of the above schemes are operated by SWL, the immediate holding company of the SWSGH Group, and the power of appointment is vested in SWL.

The assets of the schemes are managed by external fund managers and take the form of unitised insurance policy investments and (for SWPS only) segregated funds, for which State Street Bank and Trust Company acts as custodian.

The third scheme is the Scottish Power plc pension scheme, which is also a defined benefit scheme. This is administered by Scottish Power plc, however, the SWSGH Group makes contributions on behalf of certain of its employees.

Members of all three schemes receive an annual statement of their accrued benefits.

Regular pension costs under SSAP 24

Aggregate pension costs relating to the SWPS and SWEPS during the years ended 31 March 2002 and 31 March 2003 were £4.0m and £7.1m respectively. The pension costs for the year ended 31 March 2003 were greater than the actual contribution paid of £4.1m resulting in an accrual in the combined balance sheet at 31 March 2003 of £3.0m. There was no accrual at 31 March 2002. The increased cost is in relation to the fund deficit.

For the years ended 31 March 2002 and 31 March 2003 the pension costs for the Scottish Power plc scheme were £0.7m and £0.9m respectively. The actual contributions for the year ended 31 March 2002 and 31 March 2003 were also £0.7m and £0.9m, resulting in no accruals or prepayments being held on the balance sheet at 31 March 2002 and 31 March 2003.

FRS 17 - disclosures

In November 2000 the Accounting Standards Board (''ASB'') issued FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. In July 2002 the ASB published for comment an Exposure Draft which would, if implemented, allow an extension to the transitional arrangements of FRS 17. The probability of implementation is uncertain and partly dependent upon proposals from the International Accounting Standards Board (IASB). The SWSGH Group will take advice to ensure that it continues to adopt best practice in respect of accounting for retirement benefits. The SWSGH Group is in the second year of the transitional arrangements under FRS 17 and the required disclosures are made below.

FRS 17 - assumptions, asset, liability and reserves disclosures

Full actuarial valuations of the two principal defined benefit schemes in the UK were carried out at 1 April 2001 and updated to 31 March 2003 by a qualified independent actuary. The following disclosures are completed for the SWPS and SWEPS. The major assumptions used by the actuary are set out in the table below.

	Year ended 31 March	
	2003 %	**2002 %**
Rate of increase in salaries (plus an age-related promotional scale)	4.0	4.3
Rate of increase in deferred pensions	2.5	2.8
Rate of increase in pensions in payment	2.5	2.8
Discount rate	5.6	6.0
Inflation assumption	2.5	2.8
Expected return on assets – SWPS	7.5	7.3
Expected return on assets – SWEPS	5.6	6.0

The assets and liabilities in the schemes and the expected rate of return at 31 March 2002 and 31 March 2003 were:

	Year ended 31 March			
	2003	2003	2002	2002
	Long-term rate of return expected %	Value at £m	Long-term rate of return expected %	Value at £m
Equities	8.7	156.4	8.0	210.3
Bonds	4.7	78.6	5.3	84.2
Cash	4.0	1.9	3.8	5.1
Total market value of assets		236.9		299.60
Present value of schemes liabilities		(379.1)		(338.6)
Accrued deficit in the schemes		(142.2)		(39.0)
Related deferred tax liability		42.7		11.7
Net pension liability		(99.5)		(27.3)

If FRS17 had been adopted and therefore the pension liability as discussed above were to be recognised in the Combined Financial Information, the combined net assets and profit and loss account after taking account of the effect of both pension schemes would be as follows:

	Year ended 31 March	
Combined shareholders' funds	2003 £m	2002 £m
As reported (note 17)	802.1	806.5
SSAP 24 accrual in relation to SWPS and SWEPS, net of related deferred tax	2.1	—
FRS 17 net pension liability as above	(99.5)	(27.3)
As adjusted for FRS 17	704.7	779.2
Combined profit and loss account		
As reported (note 17)	755.7	760.1
SSAP 24 accrual, as above	2.1	—
FRS 17 net pension liability as above	(99.5)	(27.3)
As adjusted for FRS 17	658.3	732.8

FRS17 – profit and loss account disclosures

The following amounts would have been recognised in the combined profit and loss account for the year to 31 March 2003 under the requirements of FRS17.

Analysis of amount charged to operating profit in respect of defined benefit schemes

	Year ended 31 March 2003 £m
Current service costs	6.4
Past service costs	2.0
Total operating charge	8.4

Analysis of the amount credited to other finance income

	Year ended 31 March 2003 £m
Expected return on pension schemes assets	(21.4)
Interest on pension schemes liabilities	20.3
Net return	(1.1)

Analysis of amount recognised in combined statement of total recognised gains and losses

	Year ended 31 March 2003 £m
Actual return less expected return on pension schemes assets	(77.6)
Experience losses arising on the schemes liabilities	(3.0)
Changes in the assumptions underlying the present value of the schemes liabilities	(19.4)
Actuarial loss recognised in statement of total recognised gains and losses before adjustment for tax	(100.0)

Analysis of movement in schemes deficits during the year

	Year ended 31 March 2003 £m
Deficit in the schemes at 1 April 2002	(39.0)
Employers' contributions	4.1
Employers' current service costs	(6.4)
Employers' past service costs	(2.0)
Other finance income	1.1
Actuarial loss	(100.0)
Deficit in the schemes at end of year	(142.2)

History of experience gains and losses

	Year ended 31 March 2003
Difference between the actual and expected return on schemes assets:	
Amount (£m)	77.6
Percentage of schemes assets	32.8%
Experience losses on schemes liabilities:	
Amount (£m)	3.0
Percentage of schemes liabilities	0.8%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£m)	100.0
Percentage of the present value of the schemes liabilities	26.4%

Future profile of the pension schemes

The SWPS was closed to new members with effect from 31 December 1998. This will result in the age profile of the active membership rising over time and hence, under the method required to calculate FRS 17 liabilities, the future cost in relation to this scheme will reduce in the long-term.

Other pension arrangements

As previously discussed above, there is also a third scheme operated by Scottish Power plc which is also a defined benefit scheme. Details are given below.

The SWSGH Group continues to operate a defined benefit scheme with Scottish Power plc. Under the provisions of FRS17 the contributions paid by the SWSGH Group to this scheme will be accounted for as if the scheme were a defined contribution scheme, since the SWSGH Group is unable to identify its share of the underlying assets and liabilities in the scheme. For the years ended 31 March 2002 and 31 March 2003 the cost of contributions to this scheme amounted to £0.7m and £0.9m respectively.

23. Operating lease commitments

As at 31 March 2002 and 31 March 2003 the SWSGH Group had annual commitments under non-cancellable operating lease agreements in respect of vehicles, for which the payment extend over a number of years, as follows:

	31 March	
	2003 £m	2002 £m
Lease expiry:		
Within one year	1.6	0.9
Within two to five years	2.0	1.9
After five years	—	0.1
	3.6	2.9

24. Contingent liabilities

	Year ended 31 March	
	2003 £'000	2002 £'000
Contractors' claims	22.5	15.7

Contractors' claims consist of the contractors' estimate of the cost of undertaking works for the SWSGH Group. The claim is reviewed by the SWSGH Group, who assess where the liability for the costs rests and the amount that will actually be settled. This amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and SWSGH Group valuation.

SWSGH and SWSH have given security over their assets (primarily the investment in the shares of SWS) to secure and guarantee the borrowings of the Issuer and SWS.

25. Capital and other financial commitments

	Year ended 31 March	
	2003 £m	2002 £m
Contracts placed for future capital expenditure not provided in the financial statements	151.3	179.2

26. Ultimate controlling party

At 31 March 2002 and 31 March 2003 the SWSGH Group was a wholly owned subsidiary of SWL. At 31 March 2002 the ultimate parent company of the SWSGH Group was Scottish Power plc. In April 2002, Scottish Power plc disposed of its investment in the Southern Water Group companies to FAHL, which at 31 March 2003 was the ultimate parent company.

27. Related party transactions

Set out below are amounts due to or from the SWSGH Group and other group companies as well as Scottish Power plc.

	31 March	
Debtors	2003 £m	2002 £m
SWL	—	14.0
Scottish Power plc	—	0.2
	—	14.2

	31 March	
Creditors	2003 £m	2002 £m
SWL	31.6	29.8
Southern Water Industries Limited	1.1	1.1
Bowsprit Property Limited	2.5	1.1
Taylor Plant & Haulage Limited	0.5	0.5
Southern Water Services (Finance) Limited (formerly First Aqua (JVCo) Limited)	0.8	—
Southern Water Services Group Limited (formerly First Aqua Limited)	8.8	—
Southern Water (NR) Limited (formerly Aspen 4 Limited)	7.3	—
Scottish Power plc	—	21.9
	52.6	54.4

Loans less than one year	31 March 2003 £m	2002 £m
SWL	495.6	190.2
Southern Water Services Group Limited (formerly First Aqua Limited)	594.4	—
Southern Water Services (Finance) Limited (formerly First Aqua (JVCo) Limited)	120.6	—
Scottish Power plc	—	475.8
	1,210.6	666.0

Loans greater than one year	31 March 2003 £m	2002 £m
Scottish Power plc	—	382.5
SWSF	—	99.6
	—	482.1

The following trading transactions between the SWSGH Group and group companies, as well as Scottish Power plc, are included in the combined profit and loss accounts for the years ended 31 March 2002 and 31 March 2003.

Sales	Year ended 31 March 2003 £m	2002 £m
Thus plc	—	0.1

Purchases	31 March 2003 £m	2002 £m
Thus plc	—	5.9
Scottish Power plc	0.4	6.5
	0.4	12.4

Other transactions	31 March 2003 £m	2002 £m
Pension contributions to Scottish Power plc and Manweb schemes	0.1	0.7
Group charges paid to Scottish Power plc	—	5.8
	0.1	6.5

Interest paid on loans	31 March 2003 £m	2002 £m
SWSF	7.0	6.9
SWL	29.1	29.7
Scottish Power plc	2.1	33.3
Southern Water Services (Finance) Limited (formerly First Aqua (JVCo) Limited)	0.5	—
Southern Water Services Group Limited (formerly First Aqua Limited)	36.4	—
	75.1	69.9

28. Post balance sheet events

On 7 May 2003, resulting from a sale agreement originally entered into on 23 April 2002, the SWSGH Group's ultimate parent company FAHL, sold its entire interest in the ordinary shares of an intermediate parent company Southern Water Services (Finance) Limited (formerly First Aqua (JVCo) Limited) ("SWSFL"), to Southern Water Investments Limited ("SWI"), a company incorporated in the United Kingdom. On the Initial Issue Date (as defined in the Listing Particulars) SWI will transfer its entire interest in SWSFL to SWS, which forms part of the SWSGH Group.

The majority interest in SWI is currently held by Southern Water Capital Limited, the largest shareholder of which is Royal Bank Investments Limited, a subsidiary of The Royal Bank of Scotland plc.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

APPENDIX E

Accountants' Report on the SWS Financing Group Illustrative Financial Projections

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Southern Water Services (Finance) Limited
P.O. Box 309 GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

17 July 2003

Dear Sirs

SWS Financing Group

Introduction

We refer to the illustrative financial projections of the SWS Financing Group (as defined in the Listing Particulars) for each of the two years ending 31 March 2005 (the "**Illustrative Financial Projections**"), as set out on pages 40 to 44 of Chapter 4 of the listing particulars dated 17 July 2003 (the "**Listing Particulars**"), relating to the issue of up to £3,000,000,000 Guaranteed Wrapped Bonds and £3,000,000,000 Guaranteed Unwrapped Bonds (together, the "**Bonds**") by Southern Water Services (Finance) Limited (the "**Issuer**").

The Illustrative Financial Projections have been prepared to illustrate the possible results of the SWS Financing Group if the proposed issue of the Bonds and associated transactions proceed. The Illustrative Financial Projections are based upon assumptions made by the directors of SWS Group Holdings Limited ("**SWSGH**"), the most important of which are summarised on pages 41 to 44 of Chapter 4 of the Listing Particulars.

It should be appreciated that the Illustrative Financial Projections have been prepared for purposes of illustration and do not constitute a forecast. They depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Events and circumstances frequently do not occur as originally expected. Because the Illustrative Financial Projections cover a period of two years, the assumptions are more subjective than they would have been if the Illustrative Financial Projections had been for a shorter period. Consequently, we express no opinion on the validity of the assumptions on which the Illustrative Financial Projections are based or on the possibility of the Illustrative Financial Projections being achieved.

Responsibilities

The directors of SWSGH are solely responsible for the Illustrative Financial Projections. The directors of each of the Issuer, Southern Water Services Limited, SWS Holdings Limited and SWSGH are solely responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to form an opinion on the Illustrative Financial Projections and to report our opinion to the directors of the Issuer.

Basis of opinion

We have reviewed the accounting policies and calculations for the Illustrative Financial Projections.

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the United Kingdom Auditing Practices Board.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Illustrative Financial Projections, so far as the accounting policies and calculations are concerned, have been properly compiled on the basis stated.

Opinion

In our opinion, the Illustrative Financial Projections, so far as the accounting policies and calculations are concerned, have been properly compiled on the basis of the assumptions made by the directors of SWSGH and have been prepared on a basis consistent with the accounting policies normally adopted by the SWS Financing Group.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

Southern Water Services (Finance) Limited

Financial information
for the period ended 31 March 2003

SOUTHERN WATER SERVICES (FINANCE) LIMITED
FINANCIAL INFORMATION FOR THE PERIOD ENDED 31 MARCH 2003

The following is the text of the report on the business of Southern Water Services (Finance) Limited by PricewaterhouseCoopers LLP, Reporting Accountants:

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

The Directors
Southern Water Services (Finance) Limited
P.O. Box 309 GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

17 July 2003

Dear Sirs

Southern Water Services (Finance) Limited

Introduction

We report on the financial information (the "**Financial Information**") set out below. This Financial Information has been prepared for inclusion in the listing particulars dated 17 July 2003 ("the Listing Particulars") relating to the issue of up to £3,000,000,000 Guaranteed Wrapped Bonds and £3,000,000,000 Guaranteed Unwrapped Bonds (the "**Bonds**") by Southern Water Services (Finance) Limited (the "**Company**" or the "**Issuer**"). The payment of all amounts owing in respect of the Bonds will be unconditionally and irrevocably guaranteed by SWS Group Holdings Limited ("**SWSGH**"), and its wholly owned subsidiaries SWS Holdings Limited ("**SWSH**") and Southern Water Services Limited ("**SWS**"), together the "**SWSGH Group**".

The Company was incorporated in the Cayman Islands as London 70 Limited on 17 August 2001, changed its name to First Aqua (JVCo) Limited with effect from 4 March 2002 and changed its name again to Southern Water Services (Finance) Limited with effect from 9 June 2003. The Company did not trade prior to 8 March 2002.

At 31 March 2003, the Company was an intermediate holding company in the First Aqua Holdings Limited group and was used to finance the acquisition by First Aqua Holdings Limited of the Southern Water group of companies from Scottish Power plc. Subsequent to 31 March 2003 as part of a group reorganisation, the Company is expected to transfer its investments to Southern Water Investments Limited ("**SWI**") and become a wholly owned subsidiary of SWS. The financial information of the SWSGH Group is presented in a separate accountants' report set out at Appendix D of the Listing Particulars. Accordingly we have presented the Financial Information solely on the Issuer on an unconsolidated basis for purposes of this report.

Basis of preparation

The Financial Information set out below, is based on the audited financial statements of the Company for the period since its incorporation (17 August 2001) to 31 March 2003 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of the Company, who approved their issue.

The directors of each of the Company, SWS, SWSH and SWSGH are responsible for the contents of the Listing Particulars in which this report is included.

It is our responsibility to compile the Financial Information set out in our report from the financial statements, to form an opinion on the Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the Financial Information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Financial Information and whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Financial Information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of the Company as at the date stated and of its profit and cash flow for the period then ended.

PROFIT AND LOSS ACCOUNT

	Notes	Period ended 31 March 2003 £m
Administrative expenses		(1.2)
Total operating loss		(1.2)
Income from shares in group undertakings	3	30.4
Net interest and similar charges	4	(19.4)
Profit on ordinary activities before taxation	5	9.8
Tax on profit on ordinary activities	6	3.4
Profit on ordinary activities after taxation		13.2
Non-equity dividends	7	(28.2)
Retained loss for the financial year	15	(15.0)

All amounts included in the profit and loss account relate to continuing operations.

A statement of total recognised gains and losses and a reconciliation to historical cost profits and losses are not shown as all gains and losses for the period ended 31 March 2003 are recognised in the profit and loss account under the historical cost convention.

BALANCE SHEET

	Notes	31 March 2003 £m
Fixed assets		
Investments	8	1,941.1
Current assets		
Debtors	9	149.4
Restricted cash	10	72.1
Cash at bank and in hand		1.1
		222.6
Creditors – Amounts falling due within one year	11	(1,796.4)
Net current liabilities		(1,573.8)
Total assets less current liabilities		367.3
Provision for liabilities and charges	13	(3.9)
Net assets		363.4
Capital and reserves		
Equity called-up share capital	14	—
Non-equity called-up share capital	14	—
Non-equity share premium account	14,15	370.0
Profit and loss account	15	(6.6)
Total shareholders' funds	15	363.4
Analysis of shareholders' funds		
Equity	15	(15.0)
Non-equity	15	378.4
		363.4

CASH FLOW

	Notes	Period ended 31 March 2003 £m
Net cash inflow from operating activities	16	0.2
Returns on investments and servicing of finance		
Interest received		98.3
Interest paid		(86.8)
Income from shares in group undertakings		30.4
Preference share dividends paid		(19.8)
Issue costs of preference shares		(4.0)
Issue costs of Deep Discount Bonds		(6.5)
Issue costs of short term borrowings		(24.5)
Net cash outflow for returns on investments and servicing of finance		(12.9)
Capital expenditure and financial investment		
Loans to subsidiaries		(2,055.2)
Restricted cash in respect of Deep Discount Bonds (note 10)		(72.1)
Net cash outflow for capital expenditure and financial investment		(2,127.3)
Acquisitions		
Purchase of subsidiary undertaking		(6.6)
Cash outflow for acquisitions		(6.6)
Financing		
Issue of equity share capital		—
Issue of preference share capital		374.0
Issue of Deep Discount Bonds		65.0
Increase in short term borrowings		1,713.4
Decrease in short term borrowings		(4.7)
Net cash inflow from financing		2,147.7
Increase in cash		1.1
Reconciliation to net debt		
Net cash at beginning of period		—
Increase in net cash		1.1
Cash inflow from debt financing		(1,742.7)
Cash outflow from increase in fixed deposits		72.1
Other non-cash changes		(30.7)
Net debt at end of period	17	(1,700.2)

NOTES TO THE FINANCIAL INFORMATION

1. Accounting policies

Basis of preparation

This Financial Information has been prepared under the historical cost convention, and is in accordance with applicable accounting standards in the United Kingdom which have been applied on a consistent basis.

Income and expenditure

Dividends receivable are recognised once they have been declared payable, on the due date, by subsidiary companies. Preference dividends payable are accrued and paid when due. Other income and

expenditure is recognised on an accruals basis, other than where such expenditure is deferred and carried forward as set out in the Financial Information.

Incurred expenses are allocated to the Company or have been shared with its wholly owned subsidiary, Southern Water Services Group Limited (formerly First Aqua Limited) (''SWSG''), where certain administrative expenses are common to both companies.

Related party transactions

FRS8 – Related party transactions, requires the disclosure of details of material transactions between the reporting entity and related parties. These disclosures have been made where applicable.

Taxation

Corporation tax payable is provided on taxable profits at the current rate where taxable profits arise.

Losses claimed or surrendered by the Company as group relief are accrued for as a charge or credit respectively, at the current tax rate.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with Financial Reporting Standard 19 ''Deferred Tax''. Deferred taxation balances are not discounted.

Financial Instruments

Derivative transactions include interest rate swaps, gilt locks and spread locks that are only used for non trading purposes. These derivatives are entered into for the purpose of matching or eliminating risk from potential movements in interest rates, credit spreads and inflation associated with the long term borrowing requirements of the Company (see note 12). All non trading derivatives are accounted for on an accruals basis.

Provisions are made for losses, if appropriate, in the event that it is expected that any portion of a financial instrument will not be a hedge of the long term borrowing requirements of the Company.

The Company has adopted the provisions of Financial Reporting Standard 4 'Capital instruments' (''FRS 4'') which requires the amount of shareholders' funds attributable to equity and non-equity interests to be separately disclosed. Dividends for the year on the Company's cumulative redeemable preference shares have been appropriated through the profit and loss account on the due dates. In addition an accrual has been made for the amount of preference share dividends accrued to the year-end. As the Company does not have sufficient distributable reserves in order to pay such preference share dividends, these dividends have been credited back within the profit and loss account reserve.

Interest rate swap payments on the hedging of the bridge loan are paid and expensed through the profit and loss account in the period in which they are incurred.

The issue costs of capital instruments are amortised over the life of the financial instrument to which they relate.

Loan interest issue costs and hedging swap costs are borne by the Company in full.

2. Segmental analysis

The Company earns investment and interest income through its holding in group undertakings, all of which are resident and carry on their business in the United Kingdom.

The directors believe that the activities of the Company constitute a single class of business.

3. Income from shares in group undertakings

	Period ended 31 March 2003 £m
Dividend income received from SWSG	30.4

4. Net interest and similar charges

	Period ended 31 March 2003 £m
Loan interest and facility fee charges	(85.8)
Interest rate swap payments	(22.7)
Amortisation of issue costs	(24.1)
Finance charge of Deep Discount Bonds	(6.6)
Provision for losses on ineffective pre-hedges	(3.9)
Total interest payable and similar charges	(143.1)
Interest receivable on loans to group undertakings	121.7
Bank deposit interest	2.0
Total interest receivable	123.7
Net interest and similar charges	(19.4)

5. Profit on ordinary activities before taxation

Profit before taxation is stated after charging:

	Period ended 31 March 2003 £'000
Directors' remuneration (shared 50% with SWSG)	96

Other than the directors, the Company had no employees during the period ended 31 March 2003. No pension costs were accrued for any directors at 31 March 2003.

Audit fees and fees paid to the auditors for non-audit services in the United Kingdom were as follows:

	Period ended 31 March 2003 £'000
Auditors' fees for statutory audit	40
Auditors' fees for non-audit work	288
	328

6. Tax on profit on ordinary activities

Analysis of charge in period United Kingdom	Period ended 31 March 2003 £m
Group relief credit at 30%	(2.2)
Total current tax	(2.2)
Deferred tax	
Origination of timing differences	(1.2)
Total deferred tax	(1.2)
Tax on profits on ordinary activities	(3.4)

The tax for the period presented varied from the standard rate of corporation tax in the United Kingdom (30 per cent. for the period ended 31 March 2003) as explained below:

	Period ended 31 March 2003 £m
Profit on ordinary activities before tax	9.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	2.9
Effects of:	
Provisions for loss on ineffective pre-hedges	1.2
Income from shares in group undertakings not taxable	(9.1)
Expenses not deductible for tax purposes	2.8
Current tax credit for period	(2.2)

Factors that may affect future tax charges

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

7. Non-equity dividends

The Company declared and paid quarterly interim preference share dividends on 24 July, 24 October and 24 December 2002. Preference share dividends have been accrued at the rate of 7% of the subscription price to 31 March 2003 and the next dividend was paid on 24 April 2003.

	Period ended 31 March	
	2003	
7% cumulative preference shares	**£ per preference share**	**£m**
Interim paid		
– 24 July 2002	88.22	6.6
– 24 October 2002	88.22	6.6
– 24 January 2003	88.22	6.6
Sub-total of interim dividends paid	264.66	19.8
Dividend appropriated but not yet declared	64.25	4.8
Total interim dividends	328.91	24.6
Amortisation of preference share issue costs	—	3.6
	328.91	28.2

In accordance with the provisions of FRS 4, the Company has appropriated through the profit and loss account preference share dividends for the year on the Company's 7% cumulative preference shares of £19.8m. A further £4.8m is due on these shares. However, as the Company does not have sufficient distributable reserves at 31 March 2003 to pay such preference share dividends, these dividends have been credited back within profit and loss account reserve (note 15).

Issue costs of £4.0m have been written off against share premium. In accordance with FRS 4 these costs are being amortised in the profit and loss account over the life of the preference shares, in order to show the full costs of the preference shares in the profit and loss account, and then credited back to the profit and loss account reserve (note 15).

The dividends accrued and the amortised issue costs have both been added to non-equity shareholders' funds in the analysis of shareholders' funds to reflect the expected return to the non-equity shareholders.

Preference dividends are paid on the quarter days 24 April, 24 July, 24 October and 24 January. In accordance with article 2.4 of the Company's Articles of Association, on those dates the Company ensured that it had sufficient distributable profits to declare and pay a dividend. These dividends were funded by interest and dividend income.

Losses occur in the profit and loss account as a result of the timing difference between dividend receipts from SWSG and external financing commitments.

8. Investment

	31 March 2003 £m
Fixed asset investment	
Shares in group undertaking	
At 17 August 2001	—
Additions in period	6.6
At 31 March 2003	6.6
Loan to group undertaking	
At 17 August 2001	—
Loan advanced in period – 23 April 2002	1,939.2
Repayment received in period – 23 October 2002	(4.7)
At 31 March 2003	1,934.5
Total fixed asset investment	1,941.1

As previously discussed, the shares in group undertaking comprises of the investment in SWSG, a company incorporated in the United Kingdom, and are stated at cost. The Company owns 100 per cent. of the issued capital of SWSG which comprises 5 million ordinary shares of £1 each. SWSG itself owns, via a subsidiary, the entire issued capital of the Southern Water group of companies.

During the period to 31 March 2003, the Company received from its subsidiary SWSG, interim dividends of £30.4m and on 23 April 2003 received a further interim dividend of £10.8m as well as a further dividend of £6.8m on 7 May 2003.

The loan to group undertaking represents a loan to SWSG secured over the assets of SWSG. From 23 April 2002 to 22 July 2002 interest was charged at a rate of LIBOR plus a margin of 1.5 per cent., after which the interest was fixed by agreement at 7.012 per cent. per annum. The loan revolves quarterly from 23 April 2002 with interest being payable upon each maturity.

The initial loan amount raised on 23 April 2002 was £1,939.2m of which £4.7m was partially repaid on 23 October 2002.

Loan interest receivable on the above loans is shown separately in note 9 below.

9. Debtors

	31 March 2003 £m
Amounts falling due within one year	
Amounts owed by group undertakings	120.6
Accrued interest on amounts owed by group undertakings	25.2
Group relief	2.2
Bank interest accrued	0.2
Deferred tax asset	1.2
	149.4

Amounts owed by group undertakings includes a loan made to an indirect subsidiary, SWS, which arose from payments made to SWS, from available working capital partly arising from dividends received from SWSG on a quarterly basis commencing from 22 July 2002, save for one loan payment of £107m made on 26 March 2003 and financed by additional external loan funding as detailed in note 11 below. The loan to SWS is repayable on demand and carries interest at a fixed rate of 7.012%.

On 23 April 2003, an additional amount of £10.4m was on lent by the Company to SWS.

Loan interest receivable also includes interest on the loan to SWSG. This is charged at a rate of 7.012% and the interest receivable is due on a quarterly basis from 23 January 2003.

The deferred tax asset represents the origination of a short term timing difference arising on the provision for the expected loss on the derivative financial instruments as detailed in note 13.

10. Restricted cash

Restricted cash of £72.1m is held in a designated bank account in order to meet the cash requirements on redemption of the deep discounted bonds (note 11). Following redemption, any surplus cash will be available for the use of the Company.

11. Creditors – Amounts falling due within one year

	31 March 2003 £m
Administration and transaction costs	1.4
Loan finance net of issue costs	1,702.7
Loan interest and finance charges	21.6
Deep discount bonds net of issue costs	70.7
	1,796.4

Loan finance of £1,702.7m relates to a Royal Bank of Scotland plc (''RBS'') loan facility. The loan from RBS is secured on the assets of the Company and incurs interest at a rate of LIBOR plus a margin of 1.5%. The loan revolves quarterly from 23 April 2002 with interest payable upon each maturity. The interest payable on the loan has been fixed at a rate of 7.012% per annum by way of a floating rate / fixed rate swap agreement.

The initial loan was drawn on 23 April 2002 for an amount of £1,606.4m. A partial repayment of £4.7m was made on 23 October 2002 and a further draw-down of £107.0m took place on 26 March 2003, resulting in a gross balance at 31 March 2003 of £1,708.7.

The amount of £1,702.7 comprises the closing balance stated net of outstanding amortisation of issue costs in respect of the loan, which are being amortised over the life of the facility. Issue costs totalled £24.5m of which £5.9m remained unamortised at 31 March 2003.

As at 31 March 2003, a £2,002.3m borrowing facility was provided by RBS to the Company. At 31 March 2003 £255.5m of this amount remained undrawn. The expiry date of this facility is 23 October 2003.

The Comany has also guaranteed the obligations of its subsidiary, SWS, under its loan facility arrangements with RBS. Outstanding drawings by SWS under this facility totalled £38.0m at 31 March 2003.

The deep discount bonds (''Deep Discount Bonds'') were issued in favour of the Company's former parent, First Aqua Holdings Limited (''FAHL''). The Company issued the first Deep Discount Bond on 7 March 2002 of £20.0m. This Deep Discount Bond carries a face value of £23.3m and matures on 30 September 2003. The Company issued the second Deep Discount Bond on 23 April 2002 of £45.0m. The second Deep Discount Bond carries a face value of £51.9m and matures on 30 September 2003.

The Deep Discount Bonds are stated net of the unamortised portion of the original issue cost of £6.5m which at 31 March 2003 was £0.9m.

On 7 May 2003, the Company redeemed both deep discount bonds for total value of £72.3m.

12. Financial instruments

Apart from the derivative transactions described below, the Company's business consists of lending to other group companies and raising external finance. In the opinion of the Company Directors, the fair values of the financial assets and liabilities of the Company (apart from the derivative transactions) are not materially different from the book values and are not separately disclosed.

All fair values are based on arms length transactions in normal market conditions, and are verified by independent third party confirmations.

The Company has no foreign exchange exposure arising or any credit exposure arising from third parties.

Derivative activity is undertaken by the Company, as determined by the board of directors, which considers the overall risk profile of the Company and enters into derivatives to mitigate or hedge any risks identified, as appropriate. No derivatives are undertaken for trading purposes, or to benefit from price fluctuations.

The table below describes the main activities and risks which lead to the use of derivatives.

Activity	Risk	Type of hedge in place
Floating rate borrowing/ financing	Increased interest expense due to increases in interest rates	Interest rate swaps which fix the amount of interest payable. The Company has also prehedged the benchmark index linked gilt rate in respect of the planned index linked debt issuance
Liquidity risk/long term financing	Increase in credit spreads	Spread locks to fix the size of any spread payable above a market rate of interest

In line with this policy, between 23 April 2002 and 3 May 2002, the Company entered into a series of derivative transactions the purpose of which was to eliminate the risk associated with the long term borrowing requirements of the Company and the First Aqua Holdings Limited group.

For the purposes of the notes below, short term debtors and creditors have been excluded.

Interest rate risk

Currency	Fixed rate financial liabilities £m	Non equity fixed rate preference share £m	Total £m
Sterling	1,773.4	378.4	2,151.8

The balance above includes the loan from RBS (described in note 11), the interest which has been fixed using an interest rate swap. The balance also comprises the Deep Discount Bonds (discussed in note 11).

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	8.2	0.5	—

Financial assets

The Company held the following financial assets, as part of its financing arrangements during the year ended 31 March 2003.

	31 March	
	Gains £m	2003 £m
Sterling – Cash	—	1.1
Sterling – Restricted cash	—	72.1
	—	73.2

The above financial assets attract interest at floating rates linked to LIBOR minus 1 per cent. in respect of cash balances and LIBID minus 50bps in respected of restricted cash.

Maturity profile of financial liabilities

At 31 March 2003 the notional principal amounts, by maturity, of the Company's non-trading derivatives were as follows:

	One year or less £m	Over one year but not more than five years £m	Over five years £m	Total £m
Interest rate related contracts				
– Interest rate swaps	200.0	300.0	1,200.0	1,700.0
– Index linked gilts	270.6	—	—	270.6
– Spread locks	327.0	—	—	327.0
At 31 March 2003	797.6	300.0	1,200.0	2,297.6

Unrecognised gains and losses on hedges

	Gains £m	Losses £m
Unrecognised losses on hedges at 17 August 2001	—	—
Losses arising during the period that were not recognised	—	197.9
Unrecognised losses on hedges at 31 March 2003	—	197.9
Of which:		
Gains and losses expected to be recognised within one year	—	3.8

The losses expected to be recognised within one year relate to the proportion of the balance above which is either expected to be closed out realised over the life of the long term financing of the Company or which will continue to hedge the Company's exposure to movements in interest rates.

Derivatives held for non-trading purposes

	Contract or underlying principal amount £m	Fair value asset £m	Fair value liability £m	Book value £m
Interest rate related contracts:				
– Interest rate swap	1,700.0	—	151.4	—
– Index linked gilts	270.6	—	41.5	—
– Spread locks	327.0	—	8.9	—
	2,297.6	—	201.8	—

13. Provision for liabilities and charges

	Other Provisions £m
At 17 August 2001	—
Charged to profit and loss	3.9
At 31 March 2003	3.9

Other provisions represent a provision for the expected loss on derivative financial instruments which are expected to be ineffective pre-hedges of the expected refinancing. It is expected that the provision will be utilised on refinancing.

14. Share capital

	31 March	
	2003 Number	2003 £m
Authorised		
Ordinary Shares of £1 each	400,000,000	400.0
First Preference Shares of 1p each	25,000	—
Second Preference Shares of 1p each	35,000	—
Third Preference Shares of 1p each	30,000	—
	400,090,000	400.0

	31 March	
	2003 Number	2003 US$m
Deferred shares of US$1 each	50,000	—

	31 March	
	2003 Number	2003 £m
Allotted, issued and fully paid:		
Ordinary shares of £1 each	1,000	—
First Preference Shares of 1p each	20,000	—
Second Preference Shares of 1p each	30,000	—
Third Preference Shares of 1p each	24,800	—
Called up share capital	75,800	—
Share Premium		
The following share premium arose on allotment on 23 April 2002		
First Preference Shares at a premium of £4,999.99 each	20,000	100.0
Second Preference Shares at a premium of £4,999.99 each	30,000	150.0
Third Preference Shares at a premium of £4,999.99 each	24,800	124.0
	74,800	374.0
Less:		
Share issue costs		(4.0)
		370.0

Under certain circumstances, indexation was payable on the redemption of these preference shares. These circumstances had not yet occurred when the preference shares were redeemed after the year-end.

15. Reconciliation of movements in shareholders' funds

	Called up ordinary share capital £m	Preference share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 17 August 2001	—	—	—	—	—
Loss for the period	—	—	—	(15.0)	(15.0)
Net proceeds on issue of ordinary share capital (note 13)	—	—	—	—	—
Net proceeds of issue of preference share capital (note 13)	—	—	370.0	—	370.0
Preference shares appropriation not paid (note 7)	—	—	—	4.8	4.8
Amortisation of preference share issue costs (note 7)	—	—	—	3.6	3.6
At 31 March 2003	—	—	370.0	(6.6)	363.4

Analysis of shareholders' funds

	Called up ordinary share capital £m	Preference share capital £m	Share premium £m	Profit and loss account £m	Total £m
Equity	—	—	—	(15.0)	(15.0)
Non-Equity	—	—	370.0	8.4	378.4
Total	—	—	370.0	(6.6)	363.4

16. Cash flow from operating activities

Reconciliation of operating loss to net cash inflow from operating activities:

Continuing operations	**Period ended 31 March 2003 £m**
Operating loss	(1.2)
Increase in creditors	1.4
Total net cash inflow from operating activities	0.2

17. Reconciliation of movements in net debt

Analysis of net debt	**Opening £m**	**Cash flow £m**	**Non-cash £m**	**Closing £m**
Cash at bank	—	73.2	—	73.2
Less restricted cash (note 10)	—	(72.1)	—	(72.1)
Available Cash	—	1.1	—	1.1
Restricted cash deposit	—	72.1	—	72.1
Debt				
Deep Discounted Bonds	—	(58.5)	(12.2)	(70.7)
Short term facility	—	(1,684.2)	(18.5)	(1,702.7)
Total debt	—	(1,742.7)	(30.7)	(1,773.4)
Net debt	—	(1,669.5)	(30.7)	(1,700.2)

Non-cash movements comprise amortisation of issue costs relating to debt issues and the unwind of the discount on the Deep Discount Bonds.

18. Related party transactions and ultimate controlling party

The immediate and ultimate parent company at 31 March 2003 was First Aqua Holdings Limited ("**FAHL**"), a Company incorporated in the Cayman Islands. FAHL subscribed for the entire ordinary capital of £1,000 in the Company at par.

On 8 March 2002 the Company undertook to pay £10.25m to FAHL as commission in accordance with a subscription agreement entered into on that date in respect of the subscription by FAHL in the ordinary shares and Deep Discount Bonds of the Company. As set out in Note 11 above, the Company issued Deep Discount Bonds from 8 March 2002 to FAHL totalling £65.0m.

On 23 April 2002 the Company loaned £1,939.2m to its direct subsidiary SWSG which subsequently made a partial repayment on 23 October 2002 of £4.7m resulting in a balance at 31 March 2003 of

£1,934.5m as set out in note 8 above. This loan is in addition to the cost of investment in SWSG of £6.6m also as set out in note 8 above. Dividends and loan interest received and receivable from SWSG at 31 March 2003 were £30.4m and £121.7m respectively as detailed in the profit and loss account. The amount of loan interest of £121.7m includes interest receivable of £0.5m on the loan to SWS of £120.6m as set out in note 9 above.

19. Post balance sheet events – ultimate controlling party & financing

a) Change in Ultimate Controlling Party

On 7 May 2003, resulting from a sale agreement originally entered into on 23 April 2002, the Company's parent FAHL sold its entire interest in the ordinary shares of the Company to SWI, a company incorporated in the United Kingdom. On the Initial Issue Date (as defined in the Listing Particulars) SWI will transfer the Company to an indirect subsidiary SWS.

The majority interest in SWI is currently held by Southern Water Capital Limited, the largest shareholder of which is Royal Bank Investments Limited, a subsidiary of RBS.

b) Change in Financing Arrangements

1) Deep Discount Bonds redemption

As set out in note 11 above, the Company redeemed the Deep Discount Bonds on 7 May 2003 for £72.3m from existing bank balances.

2) Preference Share capital redemption

On 7 May 2003, the Company redeemed the issued Preference Share Capital at £5,000 per share, including the premium thereon, together with the entitlement of preference shareholders to dividends of 7% of the subscription price for the period since the last payment of dividends on 24 April 2003, resulting in a total repayment amount of £374.9m funded as set out below.

3) Partial prepayment of bridge loan

On 7 May 2003 the Company resolved to repay, on 14 May 2003, a partial prepayment of £140m of principal and accrued interest in respect of part of the bridge loan.

4) Loan Facility from SWI

On 7 May 2003, the Company entered into a facility agreement with SWI whereby SWI will provide to the Company a loan facility of £550m. The Company resolved on 7 May to call thereon £411.3m, the majority of the funding being to effect the above redemption of the Preference Share Capital.

The Company also resolved on 7 May to call thereon a further £127.2m if required on 14 May 2003, in order to fund the partial bridge loan prepayment.

5) Loan Facility to, and partial repayment from, SWS

The Company further resolved on 7 May 2003 to provide a loan facility to SWS of £50m. On that date, the Company was advised that SWS was to repay approximately £4m of its existing loan from the Company to assist the Company in the above partial repayment of the bridge loan.

6) Dividend received

A dividend of £10.8m was received from SWSG on 23 April 2003. A further dividend of £6.8m was received on 7 May 2003.

7) Dividend Payment post 31 March 2003

A dividend of £6.5m was paid by the Company on 24 April 2003.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

APPENDIX G

Unaudited Pro Forma Net Asset Statement of the SWSGH Group and the Issuer as at 31 March 2003

Set out below is an unaudited pro forma net asset statement as at 31 March 2003 illustrating the effect of the financing arrangements and restructuring described in this Offering Circular on the combined balance sheets of the SWSGH Group and the Issuer. It is extracted without material adjustment from the combined balance sheet of the SWSGH Group as at 31 March 2003 (as set out in Appendix D of this Offering Circular) and the unconsolidated balance sheet of the Issuer as at 31 March 2003 (as set out in Appendix F of this Offering Circular), adjusted as described in notes 1 to 8 below and is based on the assumption that the financing arrangements and restructuring took effect on 31 March 2003, raising £2.3 billion of new debt net of issuance costs and swap termination payments, issuing SWS Preference Shares and that the repayment of all the amounts outstanding under the Bridge Facility Agreement and the loan from SWI to the Issuer occurred on 31 March 2003. This information is prepared for illustrative purposes only. Due to the nature of pro forma net asset statements, it may not give a true picture of what the combined financial position of the SWSGH Group or the financial position of the Issuer would have been had the financing arrangements and restructuring occurred on that date. No account has been taken of trading or other transactions since 31 March 2003, of any fair value adjustments arising on the acquisition of the Issuer by SWSGH or of any tax allowances associated with the transaction costs.

	SWSGH Group Net Assets at 31 March 2003 £m	Issuer Net Assets at 31 March 2003 £m	Adjustments £m (9)	Notes	Pro forma Net Assets At 31 March 2003 Unaudited £m
Fixed assets					
Tangible assets	2,631.9	—	—		2,631.9
Investments	—	1,941.1	(1,941.1)	1,2,3	—
	2,631.9	1,941.1	(1,941.1)		2,631.9
Current assets					
Stock	1.8	—	—		1.8
Debtors	97.8	1.4	—		99.2
Amounts due from Group companies including £807.6 million (Issuer: nil, SWSGH Group: nil) due after more than one year	—	148.0	659.6	3,4,8	807.6
Cash at bank	—	73.2	128.0	5,6,7	201.2
	99.6	222.6	787.6		1,109.8
Creditors – Amounts falling due within one year					
Short term borrowings	(46.7)	(1,773.4)	1,820.1	5,6,7	—
Amounts due to Group companies	(1,263.2)	—	1,263.2	1,2,3,6,7	—
Other creditors	(206.6)	(23.0)	—		(229.6)
	(1,516.5)	(1,796.4)	3,083.3		(229.6)
Net current (liabilities)/assets	(1,416.9)	(1,573.8)	3,870.9		880.2
Total assets less current liabilities	1,215.0	367.3	1,929.8		3,512.1
Creditors – Amounts falling due after more than one year					
Loans and other borrowings	—	—	(2,320.3)	7	(2,320.3)
Grants and contributions	(40.7)	—	—		(40.7)
	(40.7)	—	(2,320.3)		(2,361.0)
Provisions for liabilities and charges	(372.2)	(3.9)	3.9	7	(372.2)
Net assets	802.1	363.4	(386.6)		778.9

Notes to the unaudited pro forma net asset statement:

(1) As part of the Reorganisation Plan, this adjustment relates to the disposal of the Issuer's investment in SWSG to SWI for £35.5 million. This results in a reduction in Investments of £6.5 million, a reduction in Amounts due to Group companies of £35.5 million and a profit on disposal of £29.0 million.

(2) As part of the Reorganisation Plan, this adjustment relates to the acquisition of the Issuer from SWI by SWS for £30.0 million resulting in an increase in Investments of £30.0 million and an increase in Amounts due to Group companies of £30.0 million.

This Investment of £30.0 million is eliminated on aggregation resulting in a reduction of £30.0 million in both Investments and in reserves.

(3) Following the disposal of its investment in SWSG, the loan from the Issuer to SWSG (held within Investments by the Issuer) is novated together with other intercompany balances to other Group companies such that there is a reduction in investments of £1,934.6 million, increase in Amounts due from Group companies of £782.7 million and a reduction in Amounts payable to Group companies of £1,151.9 million.

(4) This adjustment relates to the elimination on aggregation of intercompany balances following the Reorganisation Plan of £123.1 million resulting in a reduction in Amounts due to and from Group companies.

(5) Redemption of the Deep Discount Bonds of the Issuer took place on 7 May 2003 at a cash cost of £72.3 million. The redemption is illustrated at 31 March 2003 values resulting in a reduction in Cash at bank of £71.6 million, and a decrease in Short term borrowings of £70.7 million, including the write off of unamortised costs of £0.9 million previously offset against Short term borrowings.

(6) Redemption of the Issuer's preference shares took place on 7 May 2003, when it redeemed its issued preference share capital at £5,000 per share, including the premium thereon, together with the entitlement of preference shareholders to dividends of 7% of the subscription price for the period since the last payment of dividends on 24 April 2003, resulting in a total repayment amount of £374.9 million. At 31 March 2003 the redemption is illustrated at £378.8 million (consisting of £374 million face value of the shares plus accrued interest of £4.8 million (actually paid on 24 April 2003) redeemed out of capital (£370 million) and out of profit and loss account reserve (£8.8 million)). A loan to the Issuer from SWI is used to finance this redemption (resulting in an increase in Amounts due to Group companies of £538.5 million) and to part repay the term facility under the Bridge Facility Agreement (resulting in a decrease in Short term borrowings of £140.0 million and an increase in Cash at bank of £19.7 million).

(7) This adjustment relates to the raising of new finance and use of proceeds as detailed below and the write off of the unamortised issue costs of £5.9 million[(a)] in relation to the term facility under the Bridge Facility Agreement.

	£'m
Finance raised[(b)]:	
Issue of Bonds on the Initial Issue Date – nominal value	1,705.0
Issue of Bonds on the Initial Issue Date – premium	162.9
Borrowing of Mezzanine Facilities	233.2
Drawings under other Authorised Credit Facilities on the Initial Issue Date – nominal value	165.0
Drawings under other Authorised Credit Facilities on the Initial Issue Date – premium	24.6
Issue of SWS Preference Shares	260.0
	2,550.7
Use of proceeds:	
Repayment of term facility under the Bridge Facility Agreement[(c)]	1,568.6
Repayment of revolving facility and capex facility under the Bridge Facility Agreement[(c)]	46.7
Payment of swap break costs[(d)] – £183.9m;[(g)] – £3.9m	187.8
Transfer to Capex Reserve Account[(e)]	115.0
Transfer to SWS O&M Reserve Account[(e)]	35.0
Repayment of SWI loan by the Issuer[(f)]	493.2
Repayment of SWI intercompany balance by SWS[(f)]	28.0
Transfer to Debt Service Payment Account[(e)]	10.0
Transfer to Operating Accounts[(e)]	19.9
Transaction costs[(d)]	46.5
	2,550.7

Note 7 — key:

(a) Increase in Short term borrowings

(b) Increase in Loans and other borrowings

(c) Reduction in Short term borrowings

(d) Reduction in Loans and other borrowings

(e) Increase in Cash at bank

(f) Reduction in Amounts due to Group companies

(g) Reduction in Provisions

(8) Amounts from Group companies falling due after more than one year of £807.6 million relates to the amount due from SWSG under the SWS/SWSG Loan Agreement. The recoverability of this loan is wholly dependent on the ability of SWSG to dispose of its interest in the SWSGH Group for at least the outstanding amount of the loan.

(9) **Adjustments by line item**

Investments

Note	Movement £m
1 – Disposal of SWSG by the Issuer	(6.5)
2 – Acquisition of the Issuer by SWS	30.0
2 – Elimination on aggregation of Investments	(30.0)
3 – Novation of intercompany loans	(1,934.6)
	1,941.1

Amounts due from Group companies

Note	Movement £m
3 – Novation of intercompany loans	782.7
4 – Elimination of intercompany loans on aggregation	(123.1)
	659.6

Cash at bank

Note	Movement £m
5 – Payment to redeem Deep Discount Bonds	(71.6)
6 – Net increase in Cash following redemption of the Issuer's preference shares and part repayment of term facility	19.7
7 – Transfer to Capex Reserve Account	115.0
7 – Transfer to SWS O&M Reserve Account	35.0
7 – Transfer to Debt Service Payment Account	10.0
7 – Transfer to Operating Accounts	19.9
	128.0

Short term borrowings

Note	Movement £m
5 – Redemption of Deep Discount Bonds	70.7
6 – Part repayment of term facility	140.0
7 – Write off of unamortised issue costs	(5.9)
7 – Repayment of term facility	1,568.6
7 – Repayment of revolving facility and capex facility	46.7
	1,820.1

Amounts due to Group companies

Note	Movement £m
1 – Disposal of SWSG by Issuer	35.5
2 – Acquisition of Issuer by SWS	(30.0)
3 – Novation of intercompany loans	1,151.9
4 – Elimination of intercompany loans on aggregation	123.1
6 – Loan from SWI	(538.5)
7 – Repayment of loan from SWI	493.2
7 – Repayment of SWI intercompany balance	28.0
	1,263.2

Loans and other borrowings

Note	Movement £m
7 – Finance raised	(2,550.7)
7 – Payment of swap break costs	183.9
7 – Payment of transaction costs	46.5
	2,320.3

Provisions for liabilities and charges

Note	Movement £m
7 – Payment of swap break costs	3.9

INDEX OF DEFINED TERMS

The following terms are used throughout this Offering Circular:

"**A Category**"	means a credit rating of at least A- from S&P, A3 from Moody's or A- from Fitch.
"**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 SWS terminating the leasing of Equipment under a Finance Lease; (b) the delivery of a notice by SWS 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, "**acceleration**" and "**accelerate**" will be construed accordingly.
"**Accession Memorandum**"	means (a) with respect to the STID, each memorandum to be entered into pursuant to Clause 2 (*Accession*) or Clause 19 (*Benefit of Deed*) (as applicable) of the STID and (b), with respect to the Bond Trust Deed, a memorandum in substantially the form set out in Schedule 5 to the Bond Trust Deed pursuant to which a Financial Guarantor accedes to the Bond Trust Deed.
"**Account**"	means any bank account of any Obligor.
"**Account Bank**"	means National Westminster Bank plc 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 Initial Issue Date between, among others, the Obligors, the Standstill Cash Manager, the Account Bank and the Security Trustee.
"**Additional Secured Creditor**"	means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the provisions of the STID.
"**Adjusted Lease Reserve Amount**"	means, in respect of any Finance Lease and from the commencement of a Standstill in any 12 month period commencing on 1 April in any year, the relevant portion of the Annual Finance Charge for such 12 month period or, as the case may be, the Pre-Test Period relating to such Finance Lease as calculated pursuant to Paragraph 5.10 of Schedule 12 (*Cash Management*) of the CTA.
"**Administrative Party**"	means the Security Trustee, the Account Bank, the Bond Trustee, the Standstill Cash Manager, any Agent or any Facility Agent.
"**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 a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (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).
"**Agency Agreement**"	means the agreement dated on or about the Initial Issue Date between the Issuer, SWS and the Agents referred to therein under which, among other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme.
"**Agent**"	means the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement or Calculation Agency Agreement.
"**Agent Bank**"	means Deutsche Bank AG London (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.
"**Ancillary Documents**"	means the valuations, reports, legal opinions, tax opinions, accountants' reports and the like addressed to or given for the benefit of the Security Trustee, any Obligor or any Secured Creditor in respect of the Security Assets.
"**Annual Finance Charge**"	means, in respect of the Pre-Test Period and thereafter in respect of each 12 month period commencing 1 April in any subsequent year, the aggregate of all interest due or to become due (after taking account of the impact on interest rates of any Hedging Agreements then in place) during that Pre-Test Period or 12 month period on the Class A Debt and the Class B Debt (including, for the avoidance of doubt, all interest due on Class B Debt but not yet payable as a result of the restrictions imposed upon the payment of that indebtedness contained in the Finance Documents), any Financial Guarantee Fee payable to any Financial Guarantor within that Pre-Test Period or 12 month period, all fees and commissions payable to each Finance Party within that Pre-Test 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, excluding all indexation of principal, all costs incurred in raising such debt, amortisation of the costs of issue of such debt in that Pre-Test Period or 12 month period and all other costs incurred in connection with the raising of such debt) less all interest received or, in respect of forward-looking ratios, receivable by any member of the SWS Financing Group from a third party during such period (except any interest received or receivable from SWSG under the SWS/SWSG Loan Agreement).
"**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 Auditors may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.
"**Appointed Business**"	means the appointed business of a "relevant undertaker" (as that term is defined by the WIA).

"**Associate**"	means: (a) any person who has a Controlling interest in any member of the SWS Financing Group; (b) any person who directly or indirectly holds at least 15 per cent. or more of the voting share capital in any member of the SWS Financing Group; (c) any person who is Controlled by a member of the SWS Financing Group; or (d) any person in which a member of the SWS Financing Group holds directly or indirectly at least 15 per cent. or more of the voting share capital, and in each case, any Affiliate of such person.
"**Assumptions**"	means those assumptions which formed the basis for the SWS Business Financial Model.
"**Auditors**"	means PricewaterhouseCoopers LLP or such other firm of accountants of international repute as may be appointed by SWS in accordance with the CTA as the Auditors for the SWS Financing Group.
"**Authorised Adviser**"	means The Royal Bank of Scotland plc which will be the authorised adviser in respect of the Programme.
"**Authorised Credit Facility**"	means any facility or agreement entered into by the Issuer or SWS for Class A Debt or Class B Debt or Subordinated Debt as permitted by the terms of the CTA or for the issue of Financial Guarantees in relation thereto, the providers of which have acceded to the STID and the CTA, and includes the Liquidity Facilities, each Initial Authorised Credit Facility Agreement, the Issuer/SWS Loan Agreements, the Bonds, the Hedging Agreements, the Financial Guarantee Fee Letters, the G&R Deeds, the Mezzanine Facility Agreements and any other document entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities or agreements (excluding, however, the Dealership Agreement and the Common Agreements).
"**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 Financial Guarantee issued by that Financial Guarantor is outstanding, and each Bondholder.
"**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 pounds 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 AAA by S&P or V-1+ by Fitch or Aaa by Moody's.

"**Authorised Signatory**"	means any person who is duly authorised by any Obligor or any Party and in respect of whom a certificate has been provided signed by a director of that Obligor or such Party setting out the name and signature of that person and confirming such person's authority to act.
"**Base Cash Flows**"	means the annual cash flows of the amount 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 (as defined in the Licence).
"**Base Currency**"	means pounds sterling.
"**Bearer Bonds**"	means those of the Bonds which are in bearer form.
"**Bewl/Darwell Scheme**"	means a scheme involving transfer of raw water from the Bewl Water Reservoir (a Kent-based catchment) to the Darwell Reservoir (a Sussex-based catchment serving Hastings).
"**Bond Trust Deed**"	means the bond trust deed dated on or about the date of the CTA between, among others, the Issuer, the Initial Financial Guarantor and the Bond Trustee, under which Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.
"**Bond Trustee**"	means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed for and on behalf of the relevant Bondholders.
"**Bond Trustee Reserved Matters**"	means those matters set out in Part B (*Bond Trustee Reserved Matters*) of Schedule 3 of the STID and Chapter 7 ("*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*") of this Offering Circular.
"**Bondholders**"	means the holders from time to time of the Bonds.
"**Bonds**"	means the Class A Bonds and/or the Class B Bonds, as the context may require, and "**Bond**" shall be construed accordingly.
"**Bridge Facility Agreement**"	means the £1,900,000,000 credit agreement dated 8th March 2002, as amended from time to time, between, among others, the Issuer as original borrower and original guarantor and The Royal Bank of Scotland plc as arranger, agent and security trustee.
"**BSI**"	means the British Standards Institution.
"**Business**"	means Appointed Business and Permitted Non-Appointed Business 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 TARGET 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 relevant Pricing Supplement; (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 US dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Pricing Supplement; 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 Agency Agreement**"	means, in relation to the Bonds of any Tranche, an agreement in or substantially in the form of Schedule 1 of the Agency Agreement.
"**Calculation Agent**"	means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.
"**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 30 September 2003 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.
"**Capex Contract**"	means any agreement pursuant to which SWS outsources any investment, construction works and other Capital Expenditure.
"**Capex Reserve Account**"	means the account of SWS 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 Expenditure**"	means Capital Maintenance Expenditure and any investment expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the SWS Business Financial Model) relating to increases in capacity or enhancement of service levels, quality or security of supply.
"**Capital Maintenance Expenditure**"	means investment expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the SWS Business Financial Model) on maintaining base service levels in the Appointed Business 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 including capital expenditure incurred by SWS in any period (excluding depreciation, IRC and interest on Financial Indebtedness).
"**Cash Manager**"	means The Royal Bank of Scotland plc during a Standstill Period in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager, and at all other times SWS.
"**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 SWS in the Director General's most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation provided that for the purposes of calculating any financial ratio for any Test Period for which there is no Final Determination, "**CCD**" shall be SWS' good faith, honestly held present estimate of such expenditure for such Test Period.
"**CCW**"	means the Consumer Council for Water.
"**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 Adjusted ICR**"	means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.
"**Class A Average Adjusted ICR**"	means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.
"**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 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 Initial Issue Date; (b) each Initial Authorised Credit Facility Agreement; (c) all Interest Rate Hedging Agreements and the Currency Hedging Agreements in relation to Class A Debt; (d) the DSR Liquidity Facility and any O&M Reserve Facility entered into after the Initial Issue Date; (e) the MBIA Financial Guarantee Fee Letter; and (f) each G&R Deed in respect of Class A Wrapped Debt.
"**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 Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds or other Class A Wrapped Debt; (b) in respect of each Sub-Class 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 Sub-Class of Class A Unwrapped Bonds, the Bond Trustee; (c) in respect of revolving credit facilities to be provided under the Initial Authorised Credit Facilities, the Initial Authorised Credit Facility Agent; and (d) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (c) above (excluding liabilities under all Interest Rate Hedging Agreements and under Currency Hedging Agreements in respect of the Class A Debt and under the Liquidity Facilities) 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 the STID 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:

(a) all interest paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or SWS' obligations under or in connection with all Class A Debt and any Financial Indebtedness which falls under paragraph (e) of Permitted Financial Indebtedness;

(b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Class A Debt; and

(c) 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 SWS' 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, amortisation of the costs of issue of any Class A Debt and/or Class B Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt and/or Class B Debt) less all interest received or in respect of forward-looking ratios receivable by any member of the SWS Financing Group from a third party during such period (excluding any interest received or receivable by SWS under the SWS/SWSG Loan Agreement).

"**Class A Debt Provider**" means a provider of, or Financial Guarantor of, Class A Debt.

"**Class A ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow for such Test Period to Class A Debt Interest for such Test Period.

"**Class A Net Indebtedness**" means, as at any date, all the Issuer's and SWS' nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Class A Debt on such date and the nominal amount of any Financial Indebtedness falling within paragraph (e) of Permitted Financial Indebtedness which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date including all indexation accrued on any such liabilities which are indexed together with any interest due but unpaid up to and including such date (after taking account of the effect of any relevant 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 an amount equal to the Excluded Insurance Proceeds Amount and an amount equal to the aggregate of any amounts which represent Customer Rebates or Distributions which have been declared but not paid on such date); where such debt is denominated other than in pounds 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 specified in the relevant Currency Hedging Agreements; (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).

"**Class A RAR**" means, on any Calculation Date, the ratio of Class A Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Class A Required Balance**" means, on any Payment Date, the following 12 months' interest forecast to be due on the Class A Debt.

"**Class A Unwrapped Bonds**" means the Class A Bonds that do not have the benefit of a guarantee from a Financial Guarantor.

"**Class A Unwrapped Debt**"	means Class A Debt that does not have the benefit of a guarantee from a Financial Guarantor.
"**Class A Wrapped Bonds**"	means the Class A Bonds that have the benefit of a guarantee from a Financial Guarantor.
"**Class A Wrapped Debt**"	means Class A Debt that has the benefit of a guarantee from a Financial Guarantor.
"**Class A1 Preference Shares**"	means the fixed dividend (£40 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS.
"**Class A2 Preference Shares**"	means the cumulative participating redeemable preference shares 2038 of 1p each in the capital of SWS.
"**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 Initial Issue Date all debt outstanding under the Class B Bonds and all Currency Hedging Agreements in relation to Class B Debt.
"**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: (a) in respect of each Sub-Class of Class B Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Bonds), the Financial Guarantor of such Sub-Class of Class B Wrapped Bonds; (b) in respect of each Sub-Class 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 Sub-Class of Class B Unwrapped Bonds, the Bond Trustee; (c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (b) above (excluding liabilities under the Currency Hedging Agreements in relation to Class B Debt) 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 Provider**"	means any provider of, or Financial Guarantor of, Class B Debt.
"**Class B Preference Shares**"	means the fixed dividend (£70 per share net) cumulative redeemable preference shares 2038 of £1 each in the capital of SWS.
"**Class B Required Balance**"	means, on any Payment Date, the next 12 months' interest forecast to be due on the 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 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, *société anonyme*.
"**Co-Arrangers**"	means The Royal Bank of Scotland plc and Citigroup Global Markets Limited, the co-arrangers of the Programme.
"**Common Agreements**"	means the Security Documents, the Bond Trust Deed, the Common Terms Agreement, the Master Definitions Agreement, the Account Bank Agreement, the CP Agreement, the Tax Deeds of Covenants, the SWS/SWSG Loan Agreement, the SWSG Security Agreement, the SWS Preference Share Deed, the Calculation Agency Agreement and any Finance Document to which no Secured Creditor other than the Security Trustee and/or the Issuer and/or any Agent is a party.
"**Common Terms Agreement**" or "**CTA**"	means the common terms agreement entered into on or about the Initial Issue Date between, among others, the Obligors, the Initial Financial Guarantor and the Security Trustee, and which contains certain representations and covenants of the Obligors and Events of Default.
"**Companies Act**"	means the United Kingdom Companies Act 1985.
"**Company**"	means SWS.
"**Competition Act**"	means the United Kingdom Competition Act 1998.
"**Competition Commission**" or "**CC**"	means the United Kingdom Competition Commission.
"**Compliance Certificate**"	means a certificate, substantially in the form of Schedule 10 (*Form of Compliance Certificate*) of the CTA in which each of the Issuer and SWS, periodically, provides certain financial statements to the Security Trustee and each Rating Agency as required by the CTA.
"**Conditions**"	means the terms and conditions of the Bonds set out in the Bond Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.
"**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.
"**Contractor**"	means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement or Capex 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).
"**Coupon**"	means an interest coupon appertaining to a Definitive Bond (other than a Zero Coupon Bond) and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**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.
"**CP Agreement**"	means the conditions precedent agreement dated on or around the date of this Offering Circular between, among others, the Bond Trustee, the Security Trustee and the Obligors.
"**Currency Hedging Agreement**"	means any Hedging Agreement with a Hedge Counterparty in respect of a currency exchange transaction.
"**Customer Rebates**"	means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by SWS to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if SWS 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 The Royal Bank of Scotland plc, Citigroup Global Markets Limited, Credit Suisse First Boston (Europe) Limited and Morgan Stanley & Co. International Limited and any other entity which the Issuer and the other 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 Dealership Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Dealership 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 Dealership Agreement and references to a "**relevant Dealer**" or the "**relevant Dealer(s)**" mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranche and "**Dealer**" means any one of them.
"**Dealership Agreement**"	means the agreement dated on or about the date of this Offering Circular 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.
"**Debt Instructing Group**" or "**DIG**"	means the Class A DIG or, following the repayment in full of the Class A Debt, the Class B DIG.
"**Debt Service Payment Account**"	means the account of the Issuer titled "Debt Service Payment Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.
"**Debt Service Reserve Account**"	means the account of the Issuer titled "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.
"**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 Bond**"	means a Bearer Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Pricing Supplement), such Bearer Bond in definitive form being in the form or substantially in the form set out in Schedule 2, Part C to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Pricing Supplement endorsed thereon or attached thereto and (except in the case of a Zero Coupon Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.
"**DEFRA**"	means the United Kingdom Department for the Environment, Food and Rural Affairs.
"**Determination Date**"	means the date which is seven Business Days prior to each Payment Date.
"**DETR**"	means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to DEFRA.
"**DGWS**" or "**Director General**"	means the Director General of Water Services appointed under Section 1 of the WIA.
"**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 in relation to the resignation of the Security Trustee or any vote to terminate or extend Standstill in accordance with the STID.
"**DIG Representatives**"	means the Class A DIG Representative, or the Class B DIG Representative, or the Senior Mezzanine Facility Agent or the Junior Mezzanine Facility Agent as the context requires, and "**DIG Representative**" means any 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 and SWS under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents.
"**Distribution**"	means, other than in respect of payments under the SWS Preference Shares or Subordinated Debt, any payments (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any Associate other than: (a) payments made to such persons pursuant to arrangements entered into for the provision of management and know-how services and which are 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 £10,000,000 (indexed) in any consecutive twelve month period; or

(b) any payments made to such persons pursuant to any Outsourcing Agreements and/or Capex Contracts which were entered into and remain in compliance with the Outsourcing Policy save that if any Outsourcing Agreement and/or Capex Contract should cease to comply with the Outsourcing Policy, all payments thereunder made by SWS shall only be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which SWS became aware of such non-compliance; or

(c) 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 twelve month period; or

(d) payments to The Royal Bank of Scotland plc under or in relation to any Authorised Credit Facility, the Account Bank Agreement or the CTA or in relation to the making by SWS or the Issuer of any Authorised Investments.

"**DSR Liquidity Facility**"	means a debt service reserve liquidity facility made available under a Liquidity Facility Agreement.
"**DSR Liquidity Facility Agreement**"	means any agreement establishing a DSR Liquidity Facility.
"**DSR Liquidity Facility Provider**"	means The Royal Bank of Scotland plc, or any other lender under a DSR Liquidity Facility Agreement.
"**DWI**"	means the United Kingdom Drinking Water Inspectorate.
"**Dual Currency Bonds**"	means a Bond in respect of which the amount payable (whether in respect of principal or interest and whether at maturity or otherwise) will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
"**EA**"	means the United Kingdom Environment Agency.
"**Early Redemption Amount**"	has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.
"**EIN Signatories**"	means the DIG Representatives representing $66^{2}/_{3}$ 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 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.
"**Emergency**"	means the disruption of the normal service of the provision of water or wastewater services which is treated as an emergency under SWS' policies, standards and procedures for emergency planning manual (EMPROC) (as amended from time to time).
"**Emergency Instruction Notice**"	means a notice, setting out the written instructions of the EIN Signatories given to the Security Trustee after (in the case of a STID Proposal) the date specified in the STID Directions Request, being not less than 10 Business Days or (in the case of a DIG Proposal) the date specified in the DIG Directions Request being not less than five Business Days after the date that the STID Directions Request or DIG Directions Request (as applicable) is deemed to be given in accordance with Clause 17.3 (*Effectiveness*) of the Common Terms Agreement.

"**Emergency Instruction Procedure**"	means an emergency instruction procedure provided for in the Intercreditor Arrangements, subject to Entrenched Rights and Reserved Matters, to cater for circumstances when a Default Situation is subsisting, and certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings.
"**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, the declaration of an Event of Default, 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 or a Permitted Hedge Termination) by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents.
"**Enforcement Order**"	means an enforcement order, a final enforcement order or a provisional enforcement order, each as referred to and defined in the WIA.
"**Enterprise Act**"	means the Enterprise Act 2002.
"**Entrenched Rights**"	means the rights of the Secured Creditors provided by the terms of Clauses 8.3 to 8.9 (inclusive) of the STID and reproduced in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Offering Circular.
"**Entrenched Rights or Reserved Matters Notice**"	means a notice sent by a Secured Creditor (or, where applicable, its Secured Creditor Representative) in response to a STID Directions Request certifying that the consent of such Secured Creditor (or, where applicable, its Secured Creditor Representative) to implementation of the STID Proposal, in relation to which the STID Directions Request is given, is required.
"**Environmental Claim**"	means any claim, proceeding, formal notice or investigation by any person pursuant to any Environmental Law.
"**Environmental Law**"	means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which SWS or any of its Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.
"**Environmental Permits**" or "**Environmental Approvals**"	shall in either case where used mean any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Business conducted on or from the properties owned or used by SWS.
"**EPA**"	means the United Kingdom 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 the Base Currency, calculated on the basis of the Exchange Rate.
"**EU**"	means the European Union.

"**Euro**"	means the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.
"**Euroclear**"	means Euroclear Bank S.A./N.V. as operator of the Euroclear System.
"**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 CTA (*Events of Default*) as more particularly described in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Offering Circular.
"**Exchange Rate**"	means the spot rate at which the Non-Base Currency is converted to the Base Currency 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.
"**Excluded Accounts**"	means the Issuer's O&M Reserve Account and Debt Service Reserve Account to the extent the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant Liquidity Facility.
"**Excluded Agreement**"	has the meaning set out in the MDA.
"**Excluded Insurance Proceeds Amount**"	means, at any date, the aggregate of all proceeds of insurance received by SWS to cover the capital cost of re-instatement of assets which have not been applied by SWS in accordance with paragraph 6.5 of Schedule 12 (*Cash Management*) to the CTA; provided that if such aggregate is an amount less than £5,000,000 (indexed) then the "**Excluded Insurance Proceeds Amount**" on such date shall be zero;
"**Existing Hedging Agreements**"	means the interest rate transactions entered into by the Issuer with the Initial Hedge Counterparties prior to the Initial Issue Date which were not terminated and are to be amended on or prior to the Initial Issue Date to comply with the Hedging Policy.
"**Extraordinary Resolution**"	means a resolution passed by a meeting of 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 at such meeting.
"**Facility Agent**"	means any facility agent under any Authorised Credit Facility.
"**Fee Letter**"	means (for so long as any amounts remain payable thereunder) any letter entered into in connection with an Authorised Credit Facility setting out the amount of certain fees referred to in an Authorised Credit Facility and payable by a member of the SWS Financing Group.

"**FG Excepted Amounts**" means any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Coupon Amounts.

"**FG Event of Default**" means (A) in relation to the Initial Financial Guarantor:

(a) any Guaranteed Amount which is Due for Payment (each as defined under the relevant Financial Guarantee) 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 Financial Guarantee;

(b) such Financial Guarantor disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the relevant Financial Guarantee 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; and

(B) in relation to any other Financial Guarantor, such events as are specified in that Financial Guarantor's G&R Deed or equivalent document and, in relation to Wrapped Bonds, set out in the relevant Pricing Supplement.

For the purpose of this definition, "**Bankruptcy Law**" means articles L260-1 et seq. and L611-1 et seq. of the French Commercial Code, 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.

"**Final Determination**" means the final price determination made by the Director General on a five-yearly basis.

"**Finance Documents**" means:

(a) the Security Documents;

(b) the Bond Trust Deed;

(c) the Bonds (including the applicable Pricing Supplement);

(d) the Financial Guarantees;

(e) the G&R Deeds;

(f) the Financial Guarantee Fee Letters;

(g) the Finance Lease Documents;

(h) the Hedging Agreements;

(i) the Common Terms Agreement;

(j) the Issuer/SWS Loan Agreements;

(k) each Initial Authorised Credit Facility Agreement;

(l) the Liquidity Facility Agreements;

(m) the Agency Agreement;

(n) the Mezzanine Facility Agreements;

(o) the Master Definitions Agreement;

(p) the Account Bank Agreement;

(q) the CP Agreement;

(r) any other Authorised Credit Facilities;

(s) the Tax Deeds of Covenant;

(t) the Indemnification Deed;

(u) the SWS/SWSG Loan Agreement and any related security document;

(v) SWS Preference Share Deed; and

(w) each agreement or other instrument between SWS or the Issuer (as applicable) and an Additional Secured Creditor designated as a Finance Document by SWS or the Issuer (as applicable), the Security Trustee 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 any finance lease entered into by SWS 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) permitted to be entered into under the terms of the CTA, each a "**Finance Lease**".

"**Finance Lessors**" means any person entering into a Finance Lease with SWS, 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 Facility.

"**Financial Guarantee Fee**" means any fees payable to the Financial Guarantor under a Financial Guarantee Fee Letter.

"**Financial Guarantee Fee Letter**" means any 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 Financial Guarantees issued or to be issued by that Financial Guarantor and includes the MBIA Financial Guarantee Fee Letter.

"**Financial Guarantees**"	means any financial guarantee issued by a Financial Guarantor in respect of any Wrapped Debt and includes the Initial Financial Guarantees and "**Financial Guarantee**" shall be construed accordingly.
"**Financial Guarantor**"	means any person, including the Initial Financial Guarantor, which provides a financial guarantee, including the Financial Guarantees, 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 (without double-counting) any indebtedness for or in respect of: (a) moneys 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 or 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 (other than on a non-recourse basis to any member of the SWS Financing Group); (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 SWS 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 (other than any trade credit or indemnity granted in the ordinary course of SWS' trading and upon terms usual for such trade); (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; and (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 (other than any guarantee or indemnity in respect of obligations owed by one member of the SWS Financing Group to another).
"**Financial Statements**"	means, at any time, the financial statements of an Obligor, consolidated where applicable, most recently delivered to the Security Trustee.
"**Financial Year**"	means the twelve months ending on the 31 March in each year or such other period as may be approved by the Security Trustee.
"**First Aqua Acquisition**"	means the Issuer's acquisition of Southern Water (NR) Limited and its subsidiaries (including SWS) from Scottish Power UK plc in April 2002.

"**Fitch**"	means Fitch Ratings Limited and any successor to the rating agency business of Fitch Ratings Limited.
"**Fixed Rate Bond**"	means a Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement).
"**Floating Rate Bond**"	means a Bond on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Pricing Supplement).
"**Form of Transfer**"	means the form of transfer endorsed on an Individual Bond Certificate in the form or substantially in the form set out in Schedule 3, Part B to the Bond Trust Deed.
"**FSMA**"	means the Financial Services and Markets Act 2000, as amended.
"**G&R Deed**"	means a guarantee and reimbursement deed (or agreement of similar name and effect) between, among others, the Issuer and a Financial Guarantor in connection with a particular Sub-Class of Class A Wrapped Bonds and/or Class B Wrapped Bonds or any other Class A Wrapped Debt.
"**GAAP**"	means Generally Accepted Accounting Principles.
"**Global Bond**"	means a Temporary Global Bond and/or a Permanent Global Bond, as the context may require.
"**Global Bond Certificate**"	means a Registered Bond in global form in the form or substantially in the form set out in Part A of the Third Schedule to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Pricing Supplement annexed thereto, comprising some or all of the Registered Bonds of the same Sub-Class sold outside the United States or to non-U.S. persons in reliance on Regulation S under the Securities Act, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealers(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.
"**Good Industry Practice**"	means the standards, practices, methods and procedures as practised in the United Kingdom conforming to all applicable laws and the 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 sewerage industry at the relevant time.
"**Group**"	means Southern Water Investments Limited and its Subsidiaries.
"**Guarantee**"	means, in relation to each Obligor, the guarantee of such Obligor given by it pursuant to the Security Document to which it is a party.
"**Guarantors**"	means SWSH, SWSGH, SWS and the Issuer, each a "**Guarantor**".
"**Hedge Counterparties**"	means (i) the Initial Hedge Counterparties and (ii) any counterparty to a Hedging Agreement which is or becomes party to the STID in accordance with the STID and "**Hedge Counterparty**" means any of such parties.

"**Hedging Agreement**"	means: (a) 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 certain provisions of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA); and (b) 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 certain provisions of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) to the CTA) designated a Hedging Agreement by the Security Trustee and the Issuer, (and references to "**Hedging Agreements**" shall be construed accordingly).
"**Hedging Policy**"	means the initial hedging policy applicable to SWS 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, the Issuer and, in certain circumstances, the Hedge Counterparties in accordance with the STID.
"**Holding Company**"	means a holding company within the meaning of section 736 of the Companies Act 1985.
"**HRA**"	means the Human Rights Act 1998.
"**IDOK**"	means an interim determination of K as provided for in Part IV of Condition B of the Licence.
"**Income**"	means any interest, dividends or other income arising from or in respect of an Authorised Investment.
"**Indemnification Deed**"	means the deed so named and entered into on or about the date of this Offering Circular between the Obligors, the Initial Financial Guarantor and the Dealers.
"**Independent Review**"	means an independent review resulting from a Trigger Event as set out in Paragraph 3, Part 2 (*Trigger Event Consequences*) of Schedule 6 to the CTA and set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement*".
"**Indexed Bond**"	means a bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the relevant Pricing Supplement).
"**Individual Bond Certificate**"	means a Registered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed, such Registered Bond in definitive form being in the form or substantially in the form set out in Schedule 3, Part B of the Bond Trust Deed having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Pricing Supplement endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon.
"**Information Memorandum**" or "**Offering Circular**"	means any information memorandum or offering circular prepared by or on behalf of, and approved by, the Issuer in connection with the establishment of the Programme and/or the issue of the Bonds

	or any information memorandum or offering circular prepared by or on behalf of and approved by the Issuer in connection with the general syndication in the interbank market of any Authorised Credit Facility.
"**Initial Authorised Credit Facilities**"	means the revolving credit facilities of an aggregate facility amount of £150,000,000, to be made available to SWS by the Initial Authorised Credit Provider and the index-linked term facilities to be made available to the Issuer by the Initial Authorised Credit Provider on or following the Initial Issue Date.
"**Initial Authorised Credit Facility Agent**"	means The Royal Bank of Scotland plc, or any successor thereto.
"**Initial Authorised Credit Facility Agreement**"	means a facility agreement under which any of the Initial Authorised Credit Facilities are made available to SWS or, as the case may be, the Issuer.
"**Initial Authorised Credit Facility Arranger**"	means The Royal Bank of Scotland plc, or any successor thereto.
"**Initial Authorised Credit Provider**"	means The Royal Bank of Scotland plc or any successor thereto.
"**Initial DSR Liquidity Facility Provider**"	means The Royal Bank of Scotland plc or any successor thereto.
"**Initial Financial Guarantees**"	means the financial guarantees to be issued by the Initial Financial Guarantor (subject to the satisfaction of certain conditions set out in the CP Agreement) in connection with the Sub-Classes of Class A Wrapped Bonds to be issued on the Initial Issue Date.
"**Initial Financial Guarantor**"	means MBIA Assurance S.A.
"**Initial Hedge Counterparties**"	means The Royal Bank of Scotland plc and Citibank, N.A., London Branch with whom the Issuer has entered or will enter into the Initial Hedging Agreements.
"**Initial Hedging Agreements**"	means the Existing Hedging Agreements and each other Hedging Agreement entered into with the Initial Hedge Counterparties on or before the Initial Issue Date.
"**Initial Issue Date**"	means the date upon which all conditions precedent to the Initial Issue Date, as set out in the CP Agreement, have been fulfilled or waived to the satisfaction of the persons specified in the CP Agreement.
"**Initial Issuer/SWS Loan Agreement**"	means the loan agreement entered into between the Issuer and SWS on the Initial Issue Date.
"**Initial Mezzanine Facility Provider**"	means Royal Bank Investments Limited.
"**Insolvency Act**"	means the Insolvency Act 1986.
"**Insolvency Event**"	means, in respect of any company: (a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order (other than in the case of the Issuer) and, in the opinion of the Security Trustee, such proceedings are not being disputed in good faith with a reasonable prospect of success; (b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in relation to such company;

(c) an encumbrancer (excluding, in relation to the Issuer, the Security 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 substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer, by 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, scheme of arrangement, 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) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding up, liquidation 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 connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver, 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, in respect of any company, the winding-up, liquidation, dissolution, administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

"**Instalment Bonds**" means any Bonds specified as being instalment bonds in the relevant Pricing Supplement.

"**Instructing Group**" means the Class A DIG or, following repayment in full of the Class A Debt, the Class B DIG or, following repayment of the Class A Debt and the Class B Debt in full, the "Majority Lenders" under the Senior Mezzanine Facility Agreement (as defined therein) and or, following repayment of the Senior Mezzanine Debt in full, the "Majority Lenders" under the Junior Mezzanine Facility Agreement (as defined therein).

"**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 September 1989) under which the Secretary of State for the Environment appointed SWS as a water and sewerage undertaker under that Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.
"**Insurances**"	means, as the context may require, any or all of the insurances described in or taken out pursuant to Schedule 16 (*Insurances*) of the CTA and any other contract or policy of insurance taken out by an Obligor from time to time, including in each case any future renewal or replacement of any such insurance whether with the same or different insurers and whether on the same or different terms as further defined in Schedule 16 (*Insurances*) of the CTA.
"**Intellectual Property Right**"	means all right, title and interest in: (a) any trade mark, service mark, trade name, logo, patent, invention, design or similar right; (b) any designs, copyright, semi-conductor topography, database and know-how or intellectual property right; and (c) all such similar rights which may subsist in any part of the world, in each case whether registered or not, whether in existence now or in the future, and includes any related application.
"**Intercompany Loan**"	means the principal amount of all advances from time to time outstanding under an Issuer/SWS Loan Agreement.
"**Intercreditor Arrangements**"	means the arrangements between the Secured Creditors of the SWS Financing Group in the STID summarised in Chapter 7 "*Summary of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
"**Interest Commencement Date**"	means, in the case of interest-bearing Bonds, the date specified in the applicable Pricing Supplement from (and including) which such Bonds bear interest, which may or may not be the Issue Date.
"**Interest Payment Date**"	means any date upon which interest or payments equivalent to interest become payable under the terms of any Authorised Credit Facility.
"**Interest Rate Hedging Agreement**"	means a Treasury Transaction to swap interest rates.
"**Investment Grade**"	means a rating of at least BBB- by Fitch, Baa3 by Moody's or BBB- by S&P.
"**Investment Proceeds**"	means: (a) any net proceeds received upon disposal or realisation; or (b) any sum received upon maturity of an Authorised Investment, but excluding all Income.
"**Investors Report**"	means each report produced by SWS and the Issuer to be delivered within 120 days from 31 March or 60 days from 30 September in each year substantially in the form set out in the CTA.
"**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 SWS in the Director General's most recent Final Determination adjusted as appropriate for any subsequent IDOK and for Out-turn Inflation, provided that for the purposes of

	calculating any financial ratio for any Test Period for which there is no Final Determination, "**IRC**" shall be SWS' good faith, honestly held present estimate of such infrastructure renewals charge for such Test Period.
"**ISDA Master Agreement**"	means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.
"**Issuer**"	means Southern Water Services (Finance) Limited a company incorporated in the Cayman Islands with limited liability under 112331.
"**Issue Date**"	means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and the Issuer makes a utilisation of that facility.
"**Issue Price**"	means the price as stated on the relevant Pricing Supplement, generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.
"**Issuer/SWS Loan Agreement**"	means any loan agreement entered into between the Issuer and SWS, including the Initial Issuer/SWS Loan Agreement.
"**Joint Venture**"	means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to, required for or conducive to the operation of the Business by SWS but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.
"**Junior Mezzanine Debt**"	means the principal amount outstanding of the loan made by the Junior Mezzanine Facility Providers under the Junior Mezzanine Facility Agreement.
"**Junior Mezzanine Facility**"	means a credit facility in the amount of £106,000,000 provided by Junior Mezzanine Facility Providers to the Issuer pursuant to the Junior Mezzanine Facility Agreement.
"**Junior Mezzanine Facility Agent**"	means The Royal Bank of Scotland plc or any successor thereto as agent under the Junior Mezzanine Facility Agreement.
"**Junior Mezzanine Facility Agreement**"	means the £106,000,000 junior mezzanine facility agreement dated on or about the date hereof between the Issuer, the Junior Mezzanine Facility Agent, the Junior Mezzanine Facility Arranger, the Original Junior Mezzanine Facility Provider and the Security Trustee.
"**Junior Mezzanine Facility Arranger**"	means RBEF Limited.
"**Junior Mezzanine Facility Provider**"	means the 'Lenders' (as defined in the Junior Mezzanine Facility Agreement).
"**Junior Mezzanine Finance Parties**"	means (a) the Junior Mezzanine Facility Agent; (b) the Junior Mezzanine Facility Arranger; and (c) the Junior Mezzanine Facility Providers.
"**K**"	means the adjustment factor set for each year by the DGWS by which charges made by Regulated Companies for water supply and sewerage services may be increased, decreased or kept constant.
"**K2 Period**"	means the Periodic Review Period ending 31 March 2000.
"**K3 Period**"	means the Periodic Review Period starting on 1 April 2000.
"**K4 Period**"	means the Periodic Review Period starting on 1 April 2005.

"**Lead Manager**"	means in relation to any Tranche of Bonds, the person named as the lead manager in the relevant Subscription Agreement.
"**Lease Calculation Cashflow**"	means, in respect of any 12 month period commencing on 1 April in any year 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 12 month period and in accordance with its terms and 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 relevant 12 month 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 certain reference banks 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 12 month period and as agreed between SWS 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 12 month period commencing on 1 April in any year or the Pre-Test Period, as the case may be, the Lease Calculation Cashflow applicable to that Finance Lease for such 12 month 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 and in accordance with its terms, and the terms of the relevant 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 12 month period or the Pre-Test Period, as the case may be.
"**Lease Calculation Date**"	means in respect of any Finance Lease: (a) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease; and (b) the date falling 10 days before the Rental Payment Date immediately preceding the commencement date of the first 12 month period to commence on 1 April immediately after the date referred to in (a) above; and (c) each yearly anniversary of the date referred to in (b) above, save that where any date referred to in (a), (b) or (c) 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 12 month period commencing on 1 April in any year or the Pre-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 during such 12 month period or, as the case may be, the Pre-Test Period (inclusive of VAT) (after adding back any additional rentals (inclusive of VAT) payable and deducting any estimated rental rebates (inclusive of any credit for VAT), in each case as determined in accordance with the provisions of the relevant Finance Lease).
"**Liability**"	means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and legal fees and expenses on an irrevocable full indemnity basis.
"**LIBOR**"	has the meaning given to that term in the relevant Finance Document.
"**Licence**"	means the instrument of appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed SWS as a water and sewerage undertaker under that Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.
"**Liquidity Facility**"	means a DSR 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 Initial DSR Liquidity Facility Agreement, The Royal Bank of Scotland plc and, in respect of any other Liquidity Facility Agreement, the Facility Agent under such Liquidity Facility Agreement.
"**Liquidity Facility Agreement**"	means each liquidity facility agreement which has the characteristics set out in Schedule 15 (*DSR Liquidity Facility/O&M Reserve Facility Terms*) of the CTA, as established in connection with each Sub-Class of Bonds issued by or other Authorised Credit Facility provided to the Issuer or SWS or shortfalls in funding for Projected Operating Expenditure or projected Capital Maintenance Expenditure, each counterparty to which has acceded to the terms of the STID and the CTA.
"**Liquidity Facility Provider**"	means any lender from time to time under a Liquidity Facility Agreement that has agreed to be bound by the terms of the STID and the CTA, including the DSR Liquidity Facility Provider(s) and any O&M Reserve Facility Provider(s).
"**Liquidity Facility Requisite Ratings**"	means together the Minimum Short-term Rating from at least two Rating Agencies.
"**Listing Particulars**"	means a copy of this Offering Circular (including the Appendices), which comprises the listing particulars approved by the UK Listing Authority as required by the FSMA, excluding all information incorporated by reference, in relation to Bonds admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities and issued during the period of 12 months from the date of this Offering Circular, that has been delivered for registration to the Registrar of Companies in England and Wales as required by Section 83 of the FSMA.
"**London Stock Exchange**"	means The London Stock Exchange plc.
"**Majority Creditors**"	means the 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, the 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 Amount of Qualifying Debt*) of the STID as set out in Chapter 7 "*Summary of the Financing Agreements*".

"**Make-Whole Amount**" means any amount above par payable on redemption of any Class A Debt or Class B Debt except where such amount is limited to accrued interest.

"**Mandatory Cost Rate**" means, in relation to any Authorised Credit Facility, the addition to the interest rate payable to compensate that Authorised Credit Provider for the cost of compliance with the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) in accordance with the formula(e) set out in the relevant Authorised Credit Facility.

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement entered into on or about the date hereof and between, among others, the Obligors, the Bond Trustee, the Initial Financial Guarantor and the Security Trustee.

"**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 SWS, the Issuer or of the SWS Financing Group as a whole;

(b) the ability of any member of the SWS Financing Group to perform its material 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 SWS to perform or comply with any of its obligations under the Instrument of Appointment or the WIA;

"**Material Agreement**" means:

(a) for the purpose of Schedule 2 (*Material Entity Events*) to the CTA and paragraph 11 (*Material Entity Event*) of Part 1 and Part 3 of Schedule 6 (*Trigger Events*) only:

(i) any Capex Contract (or series of Capex Contracts) with the same Contractor (or its Affiliates) entered into by SWS for the purposes of, or in connection with, SWS carrying out its Regulated Business, where the NPV at the later of (a) the Initial Issue Date and (b) the date at which it is entered into or amended, supplemented or novated, of the agreed target cost payable by SWS under that Capex 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 £25 million (indexed); and/or

(ii) any Outsourcing Agreement (or series of Outsourcing Agreements) entered into with the same Contractor (or its Affiliates) where the annual value of the contracts entered into between SWS and such Contractor (or its Affiliates) (which in each case has not been terminated or expired in accordance with its terms) exceeds (or would exceed if entered into on arms' length terms) 10 per cent. of the

	Projected Operating Expenditure for the Test Periods in which such contracts are entered into.
	(b) except as provided for in (i) above, any Material Capex Agreement and Material O&M Agreement.
"**Material Capex Agreement**"	has the meaning given to that term in the Outsourcing Policy
"**Material Entity Event**"	means the events or circumstances set out in Schedule 2 (*Material Entity Events*) to the CTA and described in Chapter 7 "*Summary of the Financing Agreements*" under "*Common Terms Agreement – Material Entity Events*" of this Offering Circular.
"**Material O&M Contract**"	has the meaning given to that term in the Outsourcing Policy.
"**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.
"**MBIA**"	means MBIA Assurance S.A.
"**MBIA Financial Guarantee Fee Letter**"	means the Financial Guarantee Fee Letter between the Initial Financial Guarantor and the Issuer relating to the Initial Financial Guarantees.
"**MBIA Information**"	means the information contained in Chapter 10 "*MBIA and its Financial Guarantees*" on pages 166 to 181 and in the paragraphs relating to MBIA under the headings "*Significant or Material Change*", "*Litigation*", "*Availability of Financial Statements*" and "*Auditors*", in Chapter 13 "*General Information*" on pages 189 and 190 and in the financial statements of MBIA appended to this Offering Circular as set out in Appendix C on pages 198 to 212.
"**Member State**"	means a member state of the European Union.
"**Meter Optants**"	means domestic customers who have opted to be charged on the basis of a meter reading rather than by rateable value.
"**Mezzanine Debt**"	means the Senior Mezzanine Debt and the Junior Mezzanine Debt.
"**Mezzanine Facilities**"	means the Senior Mezzanine Facility and the Junior Mezzanine Facility.
"**Mezzanine Facility Agreements**"	means the Senior Mezzanine Facility Agreement and the Junior Mezzanine Facility Agreement.
"**Mezzanine Facility Provider**"	means a Senior Mezzanine Facility Provider and/or a Junior Mezzanine Facility Provider.
"**Mezzanine Finance Parties**"	means the Senior Mezzanine Finance Parties and the Junior Mezzanine Finance Parties.
"**Minimum Short-term Rating**"	means, in respect of any person, such person's short-term unsecured debt obligations being rated, in the case of Moody's, "Prime-1"; in the case of S&P, "A-1"; and in the case of Fitch, "F-1".
"**Month**"	means a calendar month.
"**Monthly Payment Amount**"	has the meaning set out in Paragraph 5.9 of Schedule 12 (*Cash Management*) to the Common Terms Agreement, approximately (and subject to adjustment) equal to $1/12^{th}$ of SWS' Annual Finance Charge for the relevant twelve month period (or, in the case of the Pre-Test Period, the PTP Amount).
"**Moody's**"	means Moody's Investors Service, Limited, or any successor to the rating agency business of Moody's Investors Service, Limited.
"**Moody's Minimum Long-term Rating**"	means in respect of any person, such person's long-term unsecured debt obligations being rated A2 by Moody's.

"**Movables**"	means any item of Equipment which does not constitute a fixture and either legal title to which is not vested in SWS but in the relevant Finance Lessor, or in respect of which the relevant Finance Lessor has a purchase right at the termination of the relevant Finance Lease.
"**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 SWS 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 (other than non-cash exceptional items), any recoverable VAT, any Capital Expenditure and any movement in debtors and/or creditors relating to Capital Expenditure) minus corporation tax paid which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any SWS/SWSG Debt Service Distribution, during such Test Period; and (b) in respect of any forward-looking element of a Test Period, the aggregate of anticipated net cash flow from operating activities (after adding back, without double counting and to the extent that such items are included in the anticipated net cash flow from operating activities, any exceptional items (other than non-cash exceptional items), any recoverable VAT, any Capital Expenditure and any movement in debtors and/or creditors relating to Capital Expenditure in each case anticipated to occur during such Test Period) minus corporation tax which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any SWS/SWSG Debt Service Distributions anticipated to be paid during such Test Period less any anticipated net cash flow from operating activities of its business other than its Appointed Business and after adding back corporation tax anticipated to be paid as a result of such businesses during such Test Period.
"**New Money Advance**"	means any drawing during a Standstill under any Authorised Credit Facility which is not made (or to the extent not made) for the purpose of refinancing a drawing under such Authorised Credit Facility.
"**Non-Appointed Expense**"	means any expense incurred in connection with activities other than Appointed Business.
"**Non-Base Currency**"	means a currency other than pounds sterling.
"**Notice**" or "**notice**"	means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 (*Notices*).
"**Notified Item**"	has the meaning given to such term in Chapter 6 "*Water Regulation*" under "*Interim Determinations of K*".
"**Notional Amount**"	means, in respect of any Finance Lease, a sum, certified by any 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 12 month period commencing on 1 April, the amount shown for each Rental Payment Date falling in that relevant 12 month period or, as the case may be, the Pre-Test Period under the headings "interest" and "margin" (or any equivalents thereof (howsoever worded)) in such Lease Calculation Cashflow, together with an amount equal to the 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 a discount rate of 7.5%.
"**O&M Reserve**"	means the amounts standing to the credit of the O&M Reserve Accounts.
"**O&M Reserve Accounts**"	means the accounts of SWS and/or the Issuer 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 any 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.
"**O&M Reserve Facility Provider**"	means any provider from time to time of an O&M Reserve Facility.
"**O&M Reserve Required Amount**"	means not less than 10 per cent. of Projected Operating Expenditure and Capital Maintenance Expenditure required for the next succeeding 12 month period as forecast in the SWS Business Financial Model.
"**Obligors**"	means the Issuer, SWS, SWSH and SWSGH and "**Obligor**" means any of them.
"**Official List**"	means the official list of the UKLA.
"**OFT**"	means the Office of Fair Trading in the United Kingdom
"**Ofwat**"	means The Office of Water Services in England and Wales including its successor office or body.
"**Operating Accounts**"	means each account of SWS with the following titles: SWS Ltd CAO Income, SWS Ltd Misc Income, SWS Collections, SWS Ltd No.2 Refunds, General Payments No.3, SWS General Payments, SWS Staff Cash Account, SWS Ltd Central Account and SWS Euro Account held at the Account Bank and includes any sub-account or sub-accounts relating to that account and any replacement account or accounts from time to time.
"**Order**"	means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.
"**Original Junior Mezzanine Facility Provider**"	means Royal Bank Investments Limited.
"**Original Senior Mezzanine Facility Provider**"	means Royal Bank Investments Limited.
"**Other Parties**"	means the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Mezzanine Facility Providers, the Agents, the Account Bank, the Standstill Cash Manager and members of the Group (other than the Obligors).
"**Outsourcing Agreement**"	means any agreement pursuant to which SWS sub-contracts, tenders or outsources either the day to day operation of its assets, business services and service delivery (including any maintenance expenditure) or acquires technical know-how and access to other intellectual property rights in relation to water and sewerage services that, in the case of any outsourcing SWS could, if not outsourced, perform itself.
"**Outsourcing Policy**"	means the outsourcing policy set out in Schedule 9 (*Outsourcing Policy*) to the CTA (as amended or replaced from time to time).

"**Outstanding**" means, in relation to the Bonds of all or any Sub-Class, all the Bonds of such Sub-Class issued other than:

(a) those Bonds which have been redeemed pursuant to the Bond Trust Deed;

(b) those Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons;

(c) those Bonds which have been purchased and cancelled in accordance with Condition 8(f) and (h) (*Redemption, Purchase and Cancellation — Cancellation*);

(d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*);

(e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);

(f) (for the purpose only of ascertaining the nominal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and

(g) in the case of Bearer Bonds, any Global Bond to the extent that it shall have been exchanged for Definitive Bonds or another Global Bond and, in the case of Registered Bonds, any Global Bond Certificate to the extent that it shall have been exchanged for Individual Bond Certificates, and, in each case, pursuant to its provisions, the provisions of the Bond Trust Deed and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the holders of the Bonds of any Sub-Class;

(ii) the determination of how many and which Bonds of any Sub-Class are for the time being outstanding for the purposes of Clause 8 of the Bond Trust Deed, Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*), Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID and Paragraphs 2, 5, 6 and 13 of Schedule 4 to the Bond Trust Deed;

(iii) any discretion, power or authority (whether contained in the Bond Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Bonds of any Sub-Class; and

(iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Bonds of any Sub-Class,

those Bonds of the relevant Sub-Class (if any) which are for the time being held by or on behalf of the Issuer, the other Obligors, or any Associate of the Issuer or the other Obligors (other than any Associate which is a licensed or regulated financial institution which holds Bonds in the ordinary course of its business), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

"**Outstanding Principal Amount**" means, as at any date that the same falls to be determined:

(a) in respect of Wrapped Debt (unless an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the aggregate of any unpaid amounts owing to a Financial Guarantor under a G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Debt and the principal amount outstanding (or the Equivalent Amount) under such Wrapped Debt (including, in the case of Wrapped Bonds, any premium);

(b) in respect of Wrapped Debt (if an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Debt), the principal amount outstanding (or the Equivalent Amount) of such Wrapped Debt (including, in the case of Wrapped Bonds, any premium);

(c) in respect of Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt (including, in the case of Wrapped Debt, any premium);

(d) in respect of any Authorised Credit Facilities that are loans (but do not constitute Wrapped Debt), the principal amount (or the Equivalent Amount) of any drawn amounts that are outstanding under such Authorised Credit Facility;

(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) under such Finance Lease 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 cashflow report which is current on such date) or (ii) following any Acceleration of Liabilities (other than a Permitted Lease Termination) under such Finance Lease, 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);

(f) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or

transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA; and

(g) 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 Retail Price Index 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 the Director General may specify for the purposes of Condition B, of the Instrument of Appointment or otherwise)) relative to the Retail Price Index from their base levels as used in the most recent Final Determination or IDOK and their relative movement as projected by the Director General 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.

"**Partly Paid Bond**" means a bond issued in the amount as specified in the relevant Pricing Supplement and in respect of which further instalments will be payable in the amounts and on the dates as specified in the relevant Pricing Supplement.

"**Party**" means in relation to a Finance Document a party to such Finance Document.

"**Paying Agents**" means, in relation to all or any Sub-Classes of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) 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 Sub-Classes of the Bonds.

"**Payment Date**" means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.

"**Payment Priorities**" means the order of priority of the Permitted Payments to be made by the Issuer on each Payment Date as set out in Chapter 7 "*Summary of the Financing Agreements*" under "*Cash Management*" as adjusted following the taking of any Enforcement Action and following termination of a Standstill (other than pursuant to a waiver or revocation by the Majority Creditors) in accordance with paragraph 8.12 of Schedule 12 to the CTA.

"**Pension Companies**"	means SWEPST and SWPT.
"**Periodic Information**"	means: (a) SWS' annual charges scheme with details of tariffs; (b) a summary of SWS' strategic business plan at each Periodic Review; (c) SWS' current Procurement Plan (if any); (d) SWS' annual drinking water quality report; (e) SWS' annual environmental report; (f) SWS' annual conservation and access report; and (g) such other periodic information compiled by SWS for Ofwat.
"**Periodic Review**"	means the periodic review of K (as that term is defined in the Instrument of Appointment) as provided for in Condition B of the Instrument of Appointment.
"**Periodic Review Effective Date**"	means the date with effect from which the new K (as that term is defined in the Instrument of Appointment) will take effect, following a Periodic Review.
"**Periodic Review Period**"	means the period commencing on a Periodic Review Effective Date and ending on the next Date Prior.
"**Permanent Global Bond**"	means in relation to any Sub-Class of Bearer Bonds a global bond in the form or substantially in the form set out in Schedule 2, Part B to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealers, together with the copy of each applicable Pricing Supplement annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.
"**Permitted Acquisition**"	means any of the following carried out by SWS: (a) an acquisition (including Authorised Investments), but not of any company or shares therein, partnership or Joint Venture, made on arm's length terms and in the ordinary course of trade; (b) an acquisition of assets required to replace surplus, obsolete, worn-out, damaged or destroyed assets which in the reasonable opinion of SWS are required for the efficient operation of its Business or in accordance with the Finance Leases; (c) an acquisition of assets (but not of any company or shares therein, partnership or Joint Venture) made on arm's length terms entered into for *bona fide* commercial purposes in furtherance of SWS' statutory and regulatory obligations; (d) an inset business in the United Kingdom which is or will be included in RCV and which breaches neither the Instrument of Appointment nor the WIA; and (e) any acquisition made or Joint Venture entered into with the consent of the Security Trustee and each Financial Guarantor.

"**Permitted Book Debt Disposal**"	means the disposal of book debts in each financial year with a nominal value of up to £5,000,000 (indexed) (or a greater amount with the prior written consent of the Security Trustee and each Financial Guarantor) by SWS on arm's length terms to any person other than an Affiliate, where: (a) such book debts are sold to a person or persons whose business is the recovery of debts; (b) SWS has made a prudent provision in its accounts against the non-recoverability of such debts; (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 SWS has expired; and (d) the SWS Business Financial Model is updated to ensure that the transaction is taken into account in calculating all relevant financial ratios under the CTA.
"**Permitted Disposal**"	means any disposal made by SWS 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 more than or equal to 0.900:1; (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 SWS, are not required for the efficient operation of its Business and which does not cause a Trigger Event under Paragraph 1, Part 1 (*Trigger Events*) of Schedule 6 to the CTA; (f) is made pursuant to the Outsourcing Policy; (g) is a Permitted Book Debt Disposal; (h) is a disposal of Protected Land (as that term is defined in the WIA) in accordance with the terms of the Instrument of Appointment; (i) is a disposal or surrender of tax losses which is a Permitted Tax Loss Transaction; (j) is the disposal of assets owned by SWS which form part of its Permitted Non-Appointed Business; (k) is any other disposal which is in accordance with the Instrument of Appointment provided that the consideration (both cash and non-cash) received by SWS (or which would be received by SWS 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 (i) the immediately preceding twelve month period does not exceed 2.5 per cent. of RCV (or its equivalent) and (ii) in the immediately preceding five-year

period does not exceed 10 per cent. of RCV (or its equivalent); or

(l) is a disposal of assets to a partnership or a Joint Venture made on arm's lengths terms entered into for *bona fide* commercial purposes in furtherance of SWS' statutory and regulatory obligations,

provided that in each case such disposal does not cause any of the Trigger Event Ratio Levels to be breached.

"**Permitted Emergency Action**" means any remedial action taken by SWS during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of SWS (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which SWS 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 SWS, the Security Trustee and each Financial Guarantor.

"**Permitted Existing Non-Appointed Business**" means any business other than the Appointed Business which is carried on by SWS at the Initial Issue Date and (a) which falls within the Permitted Non-Appointed Business Limits applicable to Permitted Existing Non-Appointed Business, and (b) in respect of which all material risks related thereto are insured in accordance with Good Industry Practice, and (c) which does not give rise to any material actual or contingent liabilities for SWS that are not properly provided for in its financial statements.

"**Permitted Existing Pension Schemes**" means (i) the Southern Water Pensions Scheme (ii) the Southern Water Executive Pension Scheme, (iii) the ScottishPower group Final Salary Scheme, (iv) the ScottishPower group Money Purchase LifePlan, (v) the Manweb Group of the Electricity Supply Pension Scheme and (vi) the ScottishPower group Pension Scheme.

"**Permitted Financial Indebtedness**" means:

(a) Financial Indebtedness incurred under the Issuer/SWS Loan Agreements;

(b) Financial Indebtedness incurred by one member of the SWS Financing Group to another member if the recipient of that Financial Indebtedness is an Obligor;

(c) Financial Indebtedness incurred under any Finance Document as at the Initial Issue Date;

(d) Financial Indebtedness incurred under a Treasury Transaction provided it is in compliance with the Hedging Policy;

(e) any unsecured indebtedness provided that the aggregate amount of such Financial Indebtedness does not exceed £25,000,000 (indexed);

(f) any Subordinated Debt entered into after the Initial Issue Date and the SWS Preference Shares;

(g) such further Financial Indebtedness incurred by the Issuer or SWS 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 Credit Facility Agreement the provider of which is a party to, or has acceded to, the CTA and STID;

(iii) as a result of the incurrence of the Financial Indebtedness:

(A) SWS and the Issuer will not be in breach of Paragraph 4 (*DSR Liquidity Facility*) of Part 2 of Schedule 5 (*Financial Covenants*) and Paragraph 38 (*Control of Repayment Schedules*) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) to the CTA; and

(B) no Authorised Credit Provider will have substantially better or additional Entrenched Rights under the STID than those Authorised Credit Providers providing similar Financial Indebtedness 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 (save for, if applicable, any Financial Guarantee) *pari passu* in all respects with all other Class A Debt and the Financial Indebtedness that is Class B Debt ranks (save for, if applicable, any Financial Guarantee) *pari passu* in all respects with all other 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 0.900:1 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 proposed incurrence of such debt) the Class A RAR must be less than or equal to 0.75:1 and the Class A Adjusted ICR 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; and

(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 15 per cent. of RCV or its equivalent.

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 provisions of Schedule 8 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA.

"**Permitted Lease Termination**" means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

(a) *Total Loss*: Pursuant to any 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 SWS 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 other than Permitted Hedge Terminations and Permitted Lease Terminations in respect of other Finance Leases 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 SWS 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 other than Permitted Hedge Terminations and Permitted Lease Terminations in respect of other Finance Leases 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 any provision of a Finance Lease whereby SWS 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 other than Permitted Hedge Terminations and Permitted Lease Terminations in respect of other Finance Leases has occurred or (ii) no Default Situation is subsisting or would occur as a result of such prepayment or termination.

"**Permitted New Non-Appointed Business**" means any business other than the Appointed Business and Permitted Existing Non-Appointed Business **provided that** (a) such business: (i) is prudent in the context of the overall business of SWS and continues to be prudent for the duration of that Permitted New Non-Appointed Business; and (ii) is not reasonably likely to be objected to by the Director General; and (iii) falls within the Permitted Non-Appointed Business Limits applicable to Permitted Non-Appointed Business; (b) all material risks related thereto are insured in accordance with Good Industry Practice; and (c) such business does not give rise to any material actual or contingent liabilities for SWS that are not properly provided for in its financial statements.

"**Permitted Non-Appointed Business**" means Permitted Existing Non-Appointed Business and Permitted New Non-Appointed Business.

"**Permitted Non-Appointed Business Income**" means income received by SWS pursuant to its Permitted Non-Appointed Business.

"**Permitted Non-Appointed Business Limits**" means, in respect of Permitted Non-Appointed Business, that the average of the Non-Appointed Expenses during the current Test Period and the immediately two preceding Test Periods does not exceed 2.5 per cent. of Cash Expenses of SWS during such Test Periods.

"**Permitted Payments**" means the application of monies credited to the Debt Service Payment Account in accordance with the Payment Priorities.

"**Permitted Post Closing Events**" means:

(a) payment of transaction fees and expenses, to the extent not paid on the Initial Issue Date; or

(b) payments of all amounts outstanding under the Bridge Facility Agreement and related documentation and the discharge of the security created under such documents; or

(c) any other payments listed in writing by SWS as at the Initial Issue Date and signed by way of approval by the Security Trustee.

"**Permitted Security Interest**" means any security interest falling under paragraphs (a) to (g) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (h) to (k) (inclusive) below which is created by SWS or the Issuer and any security interest falling under paragraphs (l) to (s) (inclusive) below which is created by SWS:

(a) a Security Interest created under the Security Documents or contemplated by the Finance Documents;

(b) any Security Interest specified in Schedule 12 (*Cash Management*) to the CTA, 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 SWS Financing Group in the ordinary course of its banking arrangements;

(d) a right of set-off, banker's liens or the like arising by operation of law 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;

(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 SWS Financing Group in good faith and with a reasonable prospect of success;

(f) any Security Interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the SWS Financing Group by appropriate procedures and with a reasonable prospect of success;

(g) 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);

(h) 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;

(i) 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;

(j) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;

(k) 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 SWS Financing Group; and

(iii) unless such Security Interest falls within any of Paragraphs (m) to (r) below (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes party to the STID;

(l) 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;

(m) 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 where the counterparty becomes party to the STID;

(n) a right of set-off existing in the ordinary course of trading activities between SWS and its suppliers or customers;

(o) 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 SWS Financing Group becoming aware that the amount owing in respect of such lien has become due;

(p) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business; or

(q) any retention of title arrangements entered into by SWS in the ordinary course of business; or

(r) 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 Share Pledge Acceleration**"	means the acceleration by the Secured Creditors (subject to the availability of funds) of their respective claims to the extent necessary to apply proceeds of enforcement of the share pledges provided by SWSGH and SWSH pursuant to the Security Agreement.
"**Permitted Subsidiaries**"	means the Pension Companies and the Issuer and any other Subsidiary of SWS from time to time which is acquired by SWS pursuant to a Permitted Acquisition and is notified in writing to the Security Trustee on or as soon as practicable after the date of such acquisition.
"**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 any other agreement relating to tax between: (a) an Obligor and any other member of the SWS Financing Group; or (b) an Obligor and any other member of the Group (not being a member of the SWS Financing Group) in the following circumstances: (i) where the company receiving the benefit, tax loss or relief (the "**Recipient Company**") is an Obligor, the Obligor either makes no payment for the benefit, tax loss or relief or makes a payment which does not exceed the tax saved and is made only in circumstances in which (if SWS is the Recipient Company and SWSG is the surrendering company) it will be applied in immediate payment to SWS of interest due and payable under the SWS/SWSG Loan Agreement or in which it has been demonstrated to the satisfaction of the Security Trustee (acting in accordance with STID) that the utilisation of the benefit, tax loss or relief by the Recipient Company would not be subject to challenge by the Inland Revenue (save in the event of fraud or negligence); (ii) where the Recipient Company is a member of the Group (other than an Obligor), a payment is made to the Obligor of an amount equal to the tax saved 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 Inland Revenue, provided that to the extent that it is subsequently demonstrated to the satisfaction of the Security Trustee (acting in accordance with the STID) that there is no such utilisation of such benefit, tax loss or relief by the Recipient Company, then amounts paid to the Obligor by the Recipient Company for such benefit, tax loss or relief should be refunded within 30 days of such fact being so demonstrated.
"**Permitted Volume Trading Arrangements**"	means contracts entered into by any member of the Group or any Associate thereof with suppliers for the supply of goods and services to the SWS 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 relevant member of the Group or Associate for any Financial Indebtedness by way of amounts payable by such member of the Group or Associate to such supplier as a result of such Obligor making use of such arrangements.

"**Portsmouth Scheme**"	means a bulk supply arrangement with Portsmouth Water for SWS to be supplied with treated water to the Sussex North area.
"**Potential Event of Default**"	means (other than in any Hedging Agreement, where "**Potential Event of Default**" has the meaning given to it in that Hedging Agreement) an event 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 any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event.
"**Pre-Test Period**"	means the period from the Initial Issue Date up to 31 March 2004.
"**Pricing Supplement**"	means the pricing supplement issued in relation to each Tranche or Sub-Class of Bonds as a supplement to the Conditions and giving details of the Tranche or Sub-Class.
"**Principal Amount Outstanding**"	means, in relation to a Bond, Sub-Class or Class, the original face value thereof less any repayment of principal made to the holder(s) thereof in respect of such Bond, Sub-Class or Class.
"**Principal Paying Agent**"	means Deutsche Bank AG London under the Agency Agreement, or its Successors thereto.
"**Proceeds**"	means the aggregate of all receipts or recoveries by the Security Trustee pursuant to, or upon enforcement of, any of the Rights (including pursuant to Clause 11.6 (*Receipts Held in Trust*) of the STID) after deducting (to the extent not already deducted or retained prior to such receipt or recovery by the Security Trustee) all sums which the Security Trustee is required under the Finance Documents or by applicable law to pay to any other person before distributing any such receipts or recoveries to any of the Secured Creditors.
"**Procurement Plan**"	means the procurement plan (if any) prepared and amended from time to time by SWS in accordance with its obligations under the Instrument of Appointment after notifying the Security Trustee and each Financial Guarantor and consulting with the Security Trustee and each Financial Guarantor who, within reasonable time thereafter, notifies SWS that it wishes to be consulted.
"**Programme**"	means the £6,000,000,000 guaranteed bond programme established by the Issuer admitted to the Official List and to the London Stock Exchange.
"**Projected Operating Expenditure**"	means at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.
"**Projections**"	means the illustrative financial projections of the key components of certain financial ratios of SWS set out in Chapter 4 "*Description of the SWS Financing Group*".
"**Protected Land**"	means, in relation to a Regulated Company any land which, or any interest or right in or over land which: (a) was transferred to that company in accordance with a scheme under Schedule 2 to the Water Act 1989 or, where that company is a statutory water company (as defined in the WIA), 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 purposes connected with the carrying out

of its functions as a water undertaker or sewerage undertaker; or

(c) has been transferred to that company in accordance with a scheme under Schedule 2 to the WIA from another company in relation to which that land was protected when the other company held an instrument of appointment.

"**PTP Amount**"	means £10,000,000.
"**Public Procurement Rules**"	means public procurement rules of the United Kingdom (including the Utilities Contracts Regulations 1996 (SI 1996/ 2911) as amended by the Utilities Contracts (Amendment) Regulations 2001 (SI 2001/2418)) and of the European Communities (including Directive 93/98 as amended by Directive 98/4) affecting the water and sewerage 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 entitled 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 entitled 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, the Qualifying Class B Debt, the Senior Mezzanine Debt or Junior Mezzanine Debt, as the context requires.
"**Rated Secured Creditor Debt**"	means any indebtedness from time to time of SWS or the Issuer owed to a Secured Creditor which carries a debt rating from any Rating Agency.
"**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 and able to provide credit ratings generally (and "**Rating Agency**" means any one of them).
"**Rating Requirement**"	means confirmation from any two Rating Agencies or, where expressly stated, all Rating Agencies then rating the Bonds 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.
"**RBSG**"	means The Royal Bank of Scotland Group plc, a company incorporated in Scotland and ultimate holding company of the RBS Group.
"**RBS Group**"	means RBSG and its Subsidiaries.
"**RCP**"	means SWS' Regionally Controlled Programmes.
"**RCV**"	means, in relation to any date, the regulatory capital value for such date as last determined (excluding any draft determination of the regulatory capital value by the Director General) and notified to SWS

by the Director General at the most recent Periodic Review or IDOK or other procedure through which in future the Director General may make such determination on an equally definitive basis to that of a Periodic Review or IDOK (interpolated as necessary and adjusted as appropriate for Out-turn Inflation), provided that "**RCV**" for the purposes of calculating the Senior RAR and Class A RAR for any Test Period for which there is no Final Determination shall be SWS' good faith, honestly held present estimate of its regulatory capital value on the last day of such Test Period.

"**Receipt**" means a receipt attached on issue to a Definitive Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**Receiptholders**" means the several persons who are for the time being holders of the Receipts.

"**Register**" means a register of the Bondholders of a Sub-Class of Registered Bonds.

"**Registered Bonds**" means those of the Bonds which are for the time being in registered form.

"**Registered Office Agreement**" means the registered office agreement dated 1 January 2002 between the Issuer, Maples and Calder and M&C Corporate Services Limited.

"**Registrar**" means Deutsche Bank Luxembourg S.A. as a registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement

"**Regulated Company**" means a company appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA.

"**Regulations**" means the Public Offers of Securities Regulations 1995.

"**Regulation S**" has the meaning given to such term under the Securities Act.

"**Regulatory Information**" means the regulatory accounts SWS is required to submit to Ofwat in June of each year.

"**Relevant Authorisation**" means all consents, licenses, authorisations and approvals (including any such as may be required pursuant to the Instrument of Appointment):

(a) necessary to enable the consummation of the transactions constituted by the Finance Documents to which SWS is a party;

(b) (including the Instrument of Appointment) necessary for the conduct of the business of SWS substantially as conducted at the date hereof and for the leasing of the Equipment; and

(c) any other consent, licence or authorisation required in accordance with the normal course of business or good industry practice,

and in each case, which if not obtained or complied with or which if revoked or terminated would have a Material Adverse Effect.

"**Relevant Date**" has the meaning set out in Condition 6(i) (*Definitions*).

"**Relevant Period**" means the period from, and including, 1 April 2003 to, and including, 31 March 2005.

"**Relevant Persons**"	means persons to whom this Offering Circular is being distributed, and directed at, who (i) are outside the United Kingdom or (ii) are persons who have professional experience in matters relating to investments falling within the Order or (iii) are high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(1) of the Order.
"**Remedial Plan**"	means any remedial plan agreed by SWS and the Security Trustee under Part 2 of Schedule 6 (*Trigger Events*) of the CTA.
"**Rental**"	means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.
"**Rental Payment Date**"	means any date on which Rental is scheduled to be paid under any Finance Lease.
"**Rental Period**"	means, in respect of a Finance Lease, each period falling between two Rental Payment Dates under the Finance Lease.
"**Reorganisation Plan**"	means the plan that SWI will complete, immediately prior to the first issue of Bonds by the Issuer, whereby it will implement the reorganisation of the corporate and intra-group debt structure of the Group, to facilitate the creation of the SWS Financing Group.
"**Repeated Representations**"	means: (a) the representations set out in Paragraphs 1 to 3, 8 to 10, 12 to 14 and 17 to 19 (inclusive) of Schedule 3 (*General Representations*) of the CTA; (b) the representations set out in Paragraphs 1 and 4 of Schedule 4 (*SWS representations*) of the CTA; and which are deemed, pursuant to the CTA to be repeated on: • the date of each Request and the first day of any borrowing; • each Payment Date; • the date of the Initial Financial Guarantees; • in relation to any new Material Agreement, the day on which such agreement is entered into and only in relation to such new Material Agreement; and • each date on which a Restricted Payment is made.
"**Reporting Accountants**"	means PricewaterhouseCoopers LLP or such other firm of independent accountants of international repute nominated by SWS and agreed by the Security Trustee.
"**Request**"	means a request for utilisation of any Authorised Credit Facility.
"**Required Balance**"	means the sum of the Class A Required Balance and the Class B Required Balance.
"**Requisite Ratings**"	means the Minimum Short-Term Rating.
"**Reservations**"	means the following reservations as to matters of law which qualify certain representations, covenants and events of default contained in the CTA: (a) any appropriate legal reservations including (in the context of the Material Agreements) any such reservations appropriate to commercial contracts; and (b) the qualifications as to law but not as to facts to the legal opinions which shall be delivered on or before the Initial Issue Date.

"**Reserved Matters**"	means matters which, subject to the Intercreditor Arrangements, a Secured Creditor is free to exercise in accordance with its own facility arrangements and not by the direction of the Majority Creditors as more particularly described in the STID.
"**Restricted Chargors**"	means each of the Issuer and SWS and any other entity which accedes to the Security Agreement pursuant to Clause 27.3 (*Assignments and transfers*) thereof that is restricted from providing guarantees by its regulatory or statutory obligations.
"**Restricted Payment**"	means any Distribution, Customer Rebate, or payment under the Subordinated Debt or the SWS Preference Shares 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 SWS under any Issuer/SWS Loan Agreement; or (b) a payment made under a Permitted Tax Loss Transaction; or (c) any Permitted Post-Closing Event; (d) a Subordinated Debt Replacement Event or SWS Preference Share Conversion Event; or (e) an SWS/SWSG Debt Service Distribution.
"**Restricted Payment Condition**"	means each of the conditions which must be satisfied or waived by the Security Trustee before a Restricted Payment may be made by the Issuer or SWS.
"**Restricted Secured Liabilities**"	means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Restricted Chargor to any Secured Creditor under each Finance Document to which such Restricted Chargor is a party, except for any obligation which, if it were secured under the Security Agreement, would result in a contravention of Section 151 of the Companies Act 1985.
"**Retail Price Index**" or "**RPI**"	means the all items retail prices index for the United Kingdom published by the Office for National Statistics or at any future date such other index of retail prices as may have then replaced it for the purposes of the Director General's determination of price limits for water and sewerage services.
"**Rights**"	means all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents or under the Ancillary Documents and all rights to make demands, bring proceedings or take any other action in respect of such rights.
"**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.
"**S&P**"	means Standard & Poor's Ratings Services, a Division of the McGraw Hill Companies Inc., or any successor to the rating agency business of S&P.
"**Scheduled Debt Service**"	means the amounts referred to in sub-paragraphs (i)-(xii) of the Payment Priorities (other than principal repayments on the Class A Debt and Class B Debt) payable on a particular Payment Date.
"**SDRT**"	means stamp duty reserve tax.
"**Secretary of State**"	means one of Her Majesty's principal secretaries of state;

"**Secured Creditor**"	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), the Bondholders, each Financial Guarantor, the Hedge Counterparties, the Issuer, the Liquidity Facility Agents, each Liquidity Facility Provider, the Initial Authorised Credit Facility Arranger, the Initial Authorised Credit Facility Agent, the Initial Authorised Credit Provider and each other Authorised Credit Provider, the Standstill Cash Manager, each Agent, the Mezzanine Finance Parties, and any Additional Secured Creditors.
"**Secured Creditor Representative**"	means: (a) in respect of the Bondholders, the Bond Trustee; (b) in respect of the Initial Authorised Credit Provider, the Initial Authorised Credit Facility Agent; (c) in respect of the Issuer/SWS Loan Agreements, the Security Trustee (on behalf of the Issuer); (d) in respect of any Liquidity Facility Provider, the facility agent under the relevant Liquidity Facility Agreement; (e) in respect of the Senior Mezzanine Finance Parties, the Senior Mezzanine Facility Agent; (f) in respect of the Junior Mezzanine Finance Parties, the Junior Mezzanine Facility Agent; and (g) 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.
"**Secured Liabilities**"	means the Restricted Secured Liabilities and the Unrestricted Secured Liabilities.
"**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 or about the Initial Issue Date.
"**Security Assets**"	means all property, assets, rights and undertakings the subject of the Security created by the Obligors pursuant to any Security Document, together with the Rights.
"**Security Documents**"	means: (a) the Security Agreement; (b) the STID and any deed of accession thereto; 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 Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Senior Debt Interest during such Test Period.

"**Senior Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**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 SWS Financing Group.

"**Senior Debt Interest**" means, in relation to any Test Period and without double counting, an amount equal to the aggregate of:

(a) all interest paid, due but unpaid or, in respect of forward-looking ratios, payable, on the Issuer's and/or SWS' obligations under and in connection with all Class A Debt and Class B Debt;

(b) all interest paid, due but unpaid or, in respect of forward-looking ratios, payable under or in connection with any Permitted Financial Indebtedness falling within paragraph (e) of that definition;

(c) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor; and

(d) 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 SWS' 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 related Hedging Agreements then in force) (excluding all indexation of principal to the extent it has been included in such interest or other amounts, amortisation of the costs of issue of any Class A Debt and Class B Debt within such Test Period and all other costs incurred in connection with the raising of such Class A Debt or Class B Debt) less all interest received or, in respect of forward-looking ratios, receivable by any member of the SWS Financing Group from a third party during such Test Period (excluding any interest received or receivable from SWSG under the SWS/SWSG Loan Agreement).

"**Senior ICR**" means the ratio of Net Cash Flow for each Test Period to Senior Debt Interest for same Test Periods.

"**Senior Mezzanine Debt**" means the principal amount outstanding for the time being under the loan made by the Senior Mezzanine Facility Providers under the Senior Mezzanine Facility Agreement.

"**Senior Mezzanine Facility**" means a credit facility in the amount of £127,200,000 provided by the Senior Mezzanine Facility Providers to the Issuer pursuant to the Senior Mezzanine Facility Agreement.

"**Senior Mezzanine Facility Agent**"	means The Royal Bank of Scotland plc or any successor thereto as agent under the Senior Mezzanine Facility Agreement.
"**Senior Mezzanine Facility Agreement**"	means the £127,200,000 senior mezzanine facility agreement dated on or about the Initial Issue Date between the Issuer, the Senior Mezzanine Facility Agent, the Senior Mezzanine Facility Arranger, the Original Senior Mezzanine Facility Provider and the Security Trustee.
"**Senior Mezzanine Facility Arranger**"	means RBEF Limited.
"**Senior Mezzanine Facility Providers**"	means the 'Lenders' (as defined in the Senior Mezzanine Facility Agreement).
"**Senior Mezzanine Finance Parties**"	means: (a) the Senior Mezzanine Facility Agent; (b) the Senior Mezzanine Facility Arranger; and (c) the Senior Mezzanine Facility Providers.
"**Senior Net Indebtedness**"	means, as at any date, all the Issuer's and SWS' nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) under and in connection with any Class A Debt and Class B Debt on such date and the nominal amount of any Financial Indebtedness falling within Paragraph (e) of the definition of Permitted Financial Indebtedness which is outstanding (or, in respect of a future date, forecast to be outstanding) on such date including, in each case, all indexation accrued but unpaid up to and including such date (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 all other amounts standing to the credit of any Account (other than an amount equal to the Excluded Insurance Proceeds Amount an amount equal to the aggregate of any amounts which represent Customer Rebates or Distributions which have been declared but not paid on such date) (where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated (i) in respect of debt with associated Currency Hedging Agreements, by reference to applicable hedge rates; or (ii) in respect of debt with no associated Currency Hedging Agreements, by reference to the Exchange Rate on such date).
"**Senior RAR**"	means, on any Calculation Date, the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of forward-looking ratios in respect of Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.
"**Series**"	means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub-Class with any Sub-Class issued on such Issue Date.
"**Shipwreck Clause**"	means a clause which may be contained in the licence of a Regulated Company and which is contained in the Licence of SWS at Part IV of Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its licence, request price limits to be reset if the Appointed 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.
"Share Pledges"	means the pledges dated on or about the Initial Issue Date, in favour of the Security Trustee, over the shares in SWSH, SWS and the Issuer respectively and "**Share Pledge**" means any one of them.
"Shareholder Tax Deed of Covenant"	means the deed of covenant to be entered into on or about the date of the CTA by the Security Trustee, RBSG, MBIA and Veolia.
"Shortfall Paragraph"	means to the extent that (after payment of all relevant operating expenditure) there is a shortfall of forecast revenues, the relevant sub-paragraph of the Payment Priorities in relation to which the revenue that is forecast to be available is insufficient to meet all of the payments in such sub-paragraph.
"South East Water Resources Strategy"	means the joint water resources strategy that SWS has developed with the water only companies in the South East of England, for the South East of England as a whole.
"Special Administration"	means the insolvency process specific to Regulated Companies under Sections 23 to 26 of the WIA.
"Special Administration Order"	means an order of the High Court under sections 23 to 25 of the WIA under the insolvency process specific to Regulated Companies.
"Special 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 High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force.
"Standard & Poor's" or "**S&P**"	means Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. or any successor to the rating business of Standard & Poor's Rating Services.
"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 the term of such Liquidity Facility Agreement.
"Standstill"	means, as provided for in Clause 13.1 (*Commencement of Standstill*) of the STID, a standstill of claims of the Secured Creditors against SWS and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default.
"Standstill Cash Manager"	means The Royal Bank of Scotland plc in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager.
"Standstill Event"	means an event giving rise to a Standstill in accordance with the STID.
"Standstill Extension"	means any of the periods for which a Standstill Period is extended under Clause 13.5 (*Extension of Standstill*) of the STID.
"Standstill Period"	means a period during which a standstill arrangement is subsisting, commencing on the date as determined by Clause 13.1 (*Commencement of Standstill*) of the STID and ending on the date as determined by Clause 13.4 (*Termination of Standstill*) of the STID.

''Statutory Accounts''	means the statutory accounts which SWS is required to prepare in compliance with the Companies Act 1985, as amended from time to time.
''STID''	means the security trust and intercreditor deed to be entered into on or about the Initial Issue Date between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Initial Financial Guarantor, together with any deed supplemental to the STID and referred to in the STID as a ''Supplemental Deed''.
''STID Directions Request''	means a written notice of each STID Proposal sent by the Security Trustee to the Secured Creditors or their Secured Creditor Representatives and requesting directions from the relevant Secured Creditors in accordance with the STID.
''STID Proposal''	means a proposal or request made by any Secured Creditor or its Secured Creditor Representative or any Obligor in accordance with the STID proposing or requesting the Security Trustee: to execute a supplemental deed to the STID; to change, modify or waive any term or condition of any Finance Document; to substitute the Issuer; or to take any Enforcement Action or any other action in respect of the transactions contemplated by the Finance Documents; as defined more particularly in the STID.
''Stock Exchange''	means the London Stock Exchange or any other or further stock exchange(s) on which any Bonds may from time to time be listed, and references in these presents (as defined in this Offering Circular) to the ''**relevant Stock Exchange**'' shall, in relation to any Bonds, be references to the Stock Exchange on which such Bonds are, from time to time, or are intended to be, listed.
''Sub-Class''	is a division of a Class.
''Subordinated Authorised Loan Amounts''	means, in relation to any Authorised Credit Facility, the aggregate of any amounts payable by the Issuer or SWS to the relevant Authorised Credit Provider on an accelerated basis as a result of illegality (excluding accrued interest, principal and recurring fees and commissions) 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 the case of Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) by which the Coupon on such Bonds exceeds the initial Coupon as at the date on which such Bonds were issued and, in the case of 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 Financial Indebtedness (other than Financial Indebtedness falling within paragraph (e) of the definition of Permitted 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 or upon an SWS Preference Share Conversion Event, the SWS Preference Share Deed, including, for the avoidance of doubt, the Mezzanine Debt.
''Subordinated Debt Replacement Event''	means any refinancing of any or all of the Senior Mezzanine Debt or Junior Mezzanine Debt at any time so long as (i) no Event of Default is continuing or would result from such refinancing; (ii) no Trigger Event described in Chapter 7 ''*Summary of Financing Agreements*'' under ''*Common Terms Agreement: Trigger Events – Financial*

Ratios''; ''*Common Terms Agreement: Trigger Events – Liquidity for Capital Expenditure and Working Capital*''; ''*Common Terms Agreement: Trigger Events – Debt Service Required Payment Shortfall*'' and ''*Common Terms Agreement: Trigger Events – Drawdown on DSR Liquidity Facilities and O&M Reserve Facility*'' is continuing; and (iii) the Financial Indebtedness incurred in order to raise funds for such refinancing (which may, for the avoidance of doubt, be by way of subordinated bonds) ranks below the Class B Debt and is on substantially the same terms as the Senior Mezzanine Debt or the Junior Mezzanine Debt, as the case may be, being refinanced.

''Subordinated Liquidity Facility Amounts'' means, in relation to any Liquidity Facility:

(a) the amount by which the amount of interest accruing at the Mandatory Cost Rate at any time exceeds the Mandatory Cost Rate on the date of the relevant Liquidity Facility Agreement; and

(b) the aggregate of any amounts payable by the Issuer to the relevant Liquidity Facility Provider in respect of its obligation to gross-up any payments made by it in respect of such Liquidity Facility as a result of such Liquidity Facility Provider ceasing to be a Liquidity Facility Provider or to make any payment of increased costs to such Liquidity Facility Provider (other than any such increased costs in respect of regulatory changes relating to capital adequacy requirements applicable to such Liquidity Facility Provider) or to amounts payable on an accelerated basis as a result of illegality (excluding accrued interest, principal and commitment fees) on the part of such Liquidity Facility Provider, or any other amounts not referred to in any other paragraph of the Payment Priorities.

''Subscription Agreement'' means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in Schedule 6 to the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be).

''Subsidiary'' means:

(a) a subsidiary within the meaning of section 736 of the Companies Act 1985; and

(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

''Successor'' means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agents, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as the office(s) for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and

specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

''Super-Majority Creditor'' means the Class A DIG Representatives in respect of more than $66^{2}/_{3}$ per cent. of the Voted Qualifying Class A Debt or, following the repayment in full of the Class A Debt, the Class B DIG Representatives in respect of more than $66^{2}/_{3}$ 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 as summarised in Chapter 7 ''*Summary of the Financing Agreements*''.

''Supplemental Deed'' means a deed supplemental to the STID entered into by the Security Trustee on its own behalf and on behalf of the Secured Creditors in the circumstances referred to in Clause 2.1 (*Accession of Additional Secured Creditor*) or Clause 3 (*Additional Finance Documents*) of the STID.

''Surveillance Letter'' means a letter issued by the Issuer and/or SWS to a Financial Guarantor from time to time, in which the Issuer and/or SWS undertakes to provide the relevant Financial Guarantor with certain information and to comply with certain reporting requirements as outlined in that letter.

''SW Tax Deed of Covenant'' means the deed of covenant to be entered into on or about the date of the CTA by, among others, the Security Trustee, SWI, MBIA and the Obligors.

''SWC'' means Southern Water Capital Limited.

''SWEPST'' means Southern Water Executive Pension Scheme Trustees Limited.

''SWI'' means Southern Water Investments Limited.

''SWPT'' means Southern Water Pension Trustees Limited.

''SWS'' means Southern Water Services Limited.

''SWS Business Financial Model'' means the business financial model prepared by SWS and delivered to the Security Trustee from time to time.

''SWS Change of Control'' means the occurrence of any of the following events or circumstances:

(a) SWSGH ceasing to hold legally and beneficially all rights in 100 per cent of the issued share capital of, or otherwise ceasing to control, SWSH;

(b) SWSH ceasing to hold legally and beneficially all rights in 100 per cent of the issued ordinary share capital of, or otherwise ceasing to control, SWS; or

(c) SWS 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 and the SWS Pension Companies.

''SWS Event of Default'' means the events of default set out in Part 2 (*Events of Default (SWS)*) of Schedule 7 (*Events of Default*) of the CTA.

''SWS Financing Group'' means SWSGH, SWSH, SWS, the Issuer and any other Permitted Subsidiaries.

''SWS Pension Schemes'' means the Southern Water Pension Scheme and the Southern Water Executive Pension Scheme.

''SWS Preference Share Conversion Event''	means an exercise of a Conversion Option as defined in SWS' articles of association.
''SWS Preference Share Deed''	means the deed entered into by among others, the initial holders of the SWS Preference Shares and the Security Trustee.
''SWS Preference Shares''	means the Class A1 Preference Shares, the Class A2 Preference Shares and the Class B Preference Shares.
''SWS VAT Group''	means the VAT group registration comprising SWI, SWS and SWC of which SWS is the representative member.
''SWS Water Resources Strategy''	means the water resources strategy that SWS has developed for the next 25 years, which was audited and submitted for approval to Ofwat and the EA.
''SWSG''	means Southern Water Services Group Limited, a company incorporated under the laws of England and Wales (registered number 0437 4956), and the holding company of the SWS Financing Group.
''SWSGH''	means SWS Group Holdings Limited.
''SWSGH Group''	means SWSGH and its wholly owned subsidiaries SWSH and SWS.
''SWSH''	means SWS Holdings Limited.
''SWS/SWSG Debt Service Distribution''	means any Distribution or payment in respect of a Permitted Tax Loss Transaction to be made by SWS for the purpose of providing SWSG with the funds required to enable SWSG to meet its scheduled payment obligations under the SWS/SWSG Loan Agreement.
''SWS/SWSG Loan''	means the principal amount outstanding under the SWS/SWSG Loan Agreement from time to time.
''SWS/SWSG Loan Agreement''	means the loan agreement to be entered into between the Security Trustee, SWS and SWSG on the Initial Issue Date evidencing the terms of the SWS/SWSG Loan.
''Talons''	means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Bonds (other than Zero Coupon Bonds) and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).
''Talonholders''	means the several persons who are for the time being holders of the Talons.
''TARGET Settlement Day''	has the meaning given to such term in Condition 6(i) (*Definitions*) as set out in Chapter 8 ''*The Bonds*''.
''Tax''	means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and ''**Taxes**'', ''**taxation**'', ''**taxable**'' and comparable expressions will be construed accordingly.
''Tax Deeds of Covenant''	means the Shareholder Tax Deed of Covenant and the SW Tax Deed of Covenant.
''TDC Breach''	means any breach of any covenant or representation given by, or other obligation imposed upon, any person in either of the Tax Deeds of Covenant which is considered to constitute a TDC Breach, in accordance with the terms of the relevant Tax Deed of Covenant (which, among other things, prevents a breach being a TDC Breach unless it causes, or could reasonably be expected to cause a Material Adverse Effect).

"Temporary Global Bond"	means in relation to any Sub-Class of Bearer Bonds a temporary global bond in the form or substantially in the form set out in Schedule 2, Part A to the Bond Trust Deed together with the copy of the applicable Pricing Supplement annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.
"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) if the Calculation Date falls within the 13 month period immediately prior to the Date Prior, the 12 month period from the Date Prior, provided that for the Calculation Dates on 30 September 2003 and 31 March 2004, the first Test Period shall be from 1 April 2003 to 31 March 2004 and interest shall be annualised on the basis of the interest charge from the Initial Issue Date to 31 March 2004.
"Tranche"	means all Bonds which are identical in all respects (save for the Issue Date, Interest Commencement Date and Issue Price).
"Transaction Documents"	means: (a) a Finance Document; (b) a Material Capex Agreement or a Material O&M Agreement; and (c) any other document designated as such by the Security Trustee and the Issuer.
"Transfer Agent"	means Deutsche Bank AG London under the Agency Agreement, including any Successor thereto.
"Transfer Scheme"	means a transfer scheme under Schedule 2 of the WIA.
"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 opinion contract, foreign exchange or currency purchase or sale agreement, interest rate swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate or price.
"Trigger Credit Rating"	means each credit rating identified as such in Chapter 7 "*Summary of Financing Agreements*" under "*Trigger Events*".
"Trigger Event"	means any of the events or circumstances identified as such in Chapter 7 "*Summary of Financing Agreements*" under "*Trigger Events*".
"Trigger Event Consequences"	means any of the consequences of a Trigger Event identified as such in Chapter 7 "*Summary of Financing Agreements*" under "*Trigger Event Consequences*".

''Trigger Event Ratio Levels''	means the financial ratios set out in Chapter 7 ''*Summary of Financing Agreements*'' under ''*Trigger Events: Financial Ratios*''.
''Trigger Event Remedies''	means any remedy to a Trigger Event as identified in Chapter 7 ''*Summary of Financing Agreements*'' under ''*Trigger Events: Remedies*''.
''Trust Corporation''	means a corporation entitled by rules made under the Public Trustee Act 1906 of Great Britain or entitled pursuant to any other comparable legislation applicable to a trustee in any other jurisdiction to carry out the functions of a custodian trustee.
''Trust Property''	means the Rights and the Proceeds.
''Trustee Acts''	means the Trustee Act 1925 and the Trustee Act 2000 of England and Wales.
''UAM Plan''	means Underground Asset Management Plan.
''U.K.''	means the United Kingdom.
''UK Listing Authority'' or **''UKLA''**	means the Financial Services Authority in its capacity as competent authority under the FSMA.
''Unrestricted Secured Liabilities''	means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of each Chargor to any Secured Creditor under each Finance Document to which such Chargor is a party, except for any obligation which, if it were secured under the Security Agreement, would result in a contravention of Section 151 of the Companies Act 1985.
''Unwrapped Debt'' or **''Unwrapped Bond''**	means any indebtedness or bond (respectively) that does not have the benefit of a guarantee from a Financial Guarantor.
''Unwrapped Bondholders''	means the holders for the time being of the Unwrapped Bonds and **''Unwrapped Bondholder''** shall be construed accordingly.
''Utilisation Date''	means, in relation to each Authorised Credit Facility, each date on which the relevant Authorised Credit Facility is utilised.
''VAT''	(a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means value added tax as imposed by the Value Added Tax Act 1994 and legislation supplemental thereof and other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, VAT) or elsewhere.
''Veolia''	means Veolia Environnement S.A. a company incorporated under the laws of France, being the ultimate holding company of the Veolia Group.
''Veolia Group''	means Veolia and its Subsidiaries.
''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.
''VWIL''	means Veolia Water Investment Limited whose registered office is at 37-41 Old Queen Street, London SW1H 9JA (Registered number 04650320).
''Water Companies Pension Scheme''	means the Water Companies Pension Scheme (formerly the Water Companies Association Pension Scheme), a pension scheme approved under Chapter I of Part XIV of the Income and

	Corporation Taxes Act 1988, which was established under Section 27(2) of the Water Act 1973, and which commenced on 1 April 1974.
"WIA"	means the United Kingdom Water Industry Act 1991 (as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992 and the Water Industry Act 1999).
"WRA"	means the United Kingdom Water Resources Act 1991, as amended by subsequent legislation including the United Kingdom Environment Act 1995.
"Wrapped Debt" or **"Wrapped Bond"**	means any indebtedness or bond (respectively) that has the benefit of a guarantee from a Financial Guarantor.
"Wrapped Bondholders"	means the holders for the time being of the Wrapped Bonds and "**Wrapped Bondholder**" shall be construed accordingly.
"Wrongful Payment"	means any Distributions or payments under the Subordinated Debt or the SWS Preference Shares (otherwise than pursuant to an agreement, contract or other similar arrangement) in breach of Paragraph 37 (*Restricted Payments*) of Part 3 (*General Covenants*) of Schedule 5 (*Covenants*) of the CTA, which are in an aggregate amount of £500,000 (indexed) or less in each Financial Year.
"WSRA"	means the Water Services Regulation Authority.
"Zero Coupon Bond"	means a Bond specified as such in the relevant Pricing Supplement and on which no interest is payable.

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