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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF KELDA FINANCE (NO.3) PLC. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, AND ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the Prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the Prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia, (d) you have not duplicated, distributed, forwarded, transferred or otherwise transmitted the Prospectus or any other presentational or other materials concerning this offering (including electronic copies thereof) to any persons within the United States and agree that such materials shall not be duplicated, distributed, forwarded, transferred or otherwise transmitted by you, (e) you have made your own assessment concerning the relevant tax, legal and other economic considerations relevant to an investment in the securities of Kelda Finance (No.3) plc and (f) if you are a person in the United Kingdom, then you are a person who (i) has professional experience in matters relating to investments or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the Financial Services and Markets Act (Financial Promotion) Order 2005 or a certified high net worth individual within Article 48 of the Financial Services and Markets Act (Financial Promotion) Order 2005.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Kelda Finance (No.3) plc, The Royal Bank of Scotland plc, Barclays Bank PLC, Banco Santander S.A., Commonwealth Bank of Australia, HSBC Bank plc or Lloyds TSB Bank plc, nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from The Royal Bank of Scotland plc, Barclays Bank PLC, Banco Santander S.A., Commonwealth Bank of Australia, HSBC Bank plc or Lloyds TSB Bank plc.

KELDA FINANCE (NO.3) PLC

(incorporated with limited liability in England and Wales with registered number 08270049)

£200,000,000

Guaranteed Secured Medium Term Note Programme

unconditionally and irrevocably guaranteed by

Kelda Finance (No.2) Limited

and

Kelda Finance (No.1) Limited

(incorporated with limited liability in England and Wales with registered numbers 08072102 and 08066326)

Under the Guaranteed Secured Medium Term Note Programme described in this Prospectus (the "Programme"), Kelda Finance (No.3) plc (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time on or after the date of this Prospectus issue Guaranteed Secured Medium Term Notes guaranteed unconditionally and irrevocably by Kelda Finance (No.2) Limited and Kelda Finance (No.1) Limited (the "Guarantee" and the "Guarantors", each a "Guarantor", respectively) (the "Notes"). The aggregate nominal amount of Notes outstanding will not at any time exceed £200,000,000 (or the equivalent in other currencies).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority" and "FSMA" respectively) for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange Plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms (as defined under "Overview of the Programme—Method of Issue") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange).

Each Series (as defined in "Overview of the Programme—Method of Issue") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "temporary Global Note") or a permanent global note in bearer form (each a "permanent Global Note"). If the Global Notes are stated in the applicable Final Terms to be issued in new global note ("NGN") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "Common Safekeeper") for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes in registered form will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates ("Global Certificates"). If a Global Certificate is held under the New Safekeeping Structure (the "NSS") the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date (the "Exchange Date"), upon certification as to non-U.S. beneficial ownership.

Global notes which are not issued in NGN form ("Classic Global Notes" or "CGNs") and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the "Common Depository").

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "Summary of Provisions Relating to the Notes while in Global Form".

The Notes may be issued on a continuing basis to one or more of the Dealers specified under the section entitled "Overview of the Programme" and any additional Dealers 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 Prospectus to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes (as defined in "Overview of the Programme—Method of Issue") will be set out in the Final Terms which, with respect to Notes to be listed on the London Stock Exchange, will be filed with the UK Listing Authority and with respect to Notes to be listed on any other stock exchange or market will be delivered to such other stock exchange or market, on or before the date of issue of the Notes of such Tranche.

Each purchaser of a Note will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Note, as described in this Prospectus, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases (see "Subscription and Sale").

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer, the Guarantors, the Joint Arrangers (as defined below) and the relevant Dealers. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Tranches of Notes to be issued under the Programme will be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Programme and the long term debt of the Issuer has a rating of BB- by Standard & Poor's and BB+ by Fitch. Each Tranche of Notes is expected on issue to have the following credit ratings from the respective credit rating agencies below. The credit ratings will be specified in the applicable Final Terms.

Fitch	Standard & Poor's
BB+	BB-

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on rating agencies (the "CRA Regulation"), unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. The credit ratings included or referred to in this Prospectus will be treated for the purposes of the CRA Regulation as having been issued by Fitch Ratings Ltd ("Fitch"), Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's") and together with Fitch the "Rating Agencies". Each of Fitch and Standard & Poor's is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

Whether or not a rating in relation to any Tranche of Notes will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the relevant Final Terms.

An investment in Notes under the Programme involves certain risks. Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.

Joint Arrangers, Dealers and Bookrunners

The Royal Bank of Scotland

Barclays

Joint Arrangers and Dealers

Commonwealth Bank of Australia

HSBC

Lloyds Bank

Santander Global Banking & Markets

The date of this Prospectus is 22 January 2013.

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/80 to the extent that such amendments have been implemented in a relevant member state of the European Economic Area) (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer, the Guarantors and the Notes which, according to the particular nature of the Issuer, the Guarantors and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantors.

The Issuer and the Guarantors (the “Responsible Person(s)”) accept responsibility for the information contained in this Prospectus (including the Appendices) and each final terms for each tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuer and the Guarantors (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus (including the Appendices) is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*” and the applicable Final Terms). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Copies of the Final Terms will be available from the registered office of the Issuer and the specified office set out below of the Paying Agents and (in the case of Notes listed on the Official List and admitted to trading on the Market) will be published on the website of the London Stock Exchange (<http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>). The contents of this website, other than copies of those documents deemed to be incorporated by reference into this Prospectus, are for information purposes only and do not form part of this Prospectus.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantors or any of the Dealers or any of the Joint Arrangers (as defined in “*Overview of the Programme*”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantors since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantors since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantors, the Dealers and the Joint Arrangers to inform themselves about and to observe any such restriction.

THE NOTES AND THE GUARANTEES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY INCLUDE BEARER NOTES THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE NOTES MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER NOTES, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”)) IN THE CASE OF REGISTERED BONDS, OR AS DEFINED IN THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND REGULATIONS THEREUNDER IN THE CASE OF BEARER BONDS).

THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S. FOR A DESCRIPTION OF THESE AND

CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF NOTES AND DISTRIBUTION OF THIS PROSPECTUS SEE “SUBSCRIPTION AND SALE”.

THE NOTES AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

None of the Issuer, the Guarantors, the Dealers, the Joint Arrangers, the Note Trustee, the Security Trustee or the Issuing and Paying Agent accept responsibility to investors for the regulatory treatment of their investment in the Notes (including (but not limited to) whether any transaction or transactions pursuant to which Notes are issued from time to time is or will be regarded as constituting a “securitisation” for the purpose of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU as amended by Directive 2009/111/EC (the “CRD”)) by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Notes is relevant to any investor’s decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the “*Risk Factors—Legal, Regulatory and Competition Considerations*” section of this Prospectus for further information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantors, the Dealers or the Joint Arrangers to subscribe for, or purchase, any Notes.

No representation, warranty or undertaking, express or implied, is made and to the fullest extent permitted by law, none of the Dealers, the Joint Arrangers, the Security Trustee, the Note Trustee nor the Issuing and Paying Agent accepts any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Dealers, the Joint Arrangers, the Security Trustee, the Note Trustee or the Issuing and Paying Agent or on its behalf in connection with the Issuer, the Guarantors, or the issue and offering of the Notes. Each of the Dealers, the Joint Arrangers, the Security Trustee, the Note Trustee and the Issuing and Paying Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by any of the Dealers, the Joint Arrangers, the Note Trustee, the Security Trustee or the Issuing and Paying Agent to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Dealers, the Joint Arrangers, the Note Trustee, the Security Trustee or the Issuing and Paying Agent.

Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantors, the Dealers, the Joint Arrangers, the Security Trustee, the Note Trustee or the Issuing and Paying Agent that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers, the Joint Arrangers, the Security Trustee, the Note Trustee nor the Issuing and Paying Agent undertakes to review the financial condition or affairs of the Issuer or the Guarantors during the life of the

arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Joint Arrangers, the Security Trustee, the Note Trustee or the Issuing and Paying Agent.

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Dealers, the Joint Arrangers, the Note Trustee, the Security Trustee nor the Issuing and Paying Agent represents that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Dealers, the Joint Arrangers, the Note Trustee, the Security Trustee or the Issuing and Paying Agent which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area and the United Kingdom. See the section entitled “*Subscription and Sale*”.

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantors and the terms of the Notes being offered, including the merits and risks involved. None of the Dealers, the Joint Arrangers, the Note Trustee, the Security Trustee nor the Issuing and Paying Agent makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche (as defined in “*Overview of the Programme—Method of Issue*”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “*Stabilising Manager(s)*”) (or any person acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “£”, “Pounds”, “pounds”, “Sterling” or “sterling” are to the lawful currency of the United Kingdom, references to “\$”, “U.S. Dollars” or “U.S.\$” are to the lawful currency of the United States and to “€”, “euro” and “Euro” are to the currency introduced at the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

DOCUMENTS INCORPORATED BY REFERENCE

1. This Prospectus should be read and construed in conjunction with the following sections of the base prospectus in respect of the Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited £8,000,000,000 Multicurrency programme for the issuance of Guaranteed Bonds dated 26 September 2012 (the “YWS Base Prospectus”) which shall be incorporated in and form part of this Prospectus:

Section Title/Reference	Page(s)
1.1 Chapter 1—The Parties	10-12
1.2 Chapter 4—Risk Factors:	
(i) <i>Legal, Regulatory and Competition Considerations</i> (pages 28-29);	
(ii) <i>Competition in the water industry</i> (page 30);	
(iii) <i>YWS Revenue and Cost Considerations</i> (pages 30-32);	
(iv) <i>Operational Risks</i> (pages 32-33);	
(v) <i>Legal Considerations</i> (pages 34-35); and	
(vi) <i>Financing Considerations</i> (pages 36-37).	
1.3 Chapter 5—Description of the YW Financing Group	43-61
1.4 Chapter 6—Regulation of the Water and Wastewater Industry in England and Wales	62-78
1.5 Chapter 7—Overview of the Financing Agreements	79-132
1.6 Chapter 13—General Information (In particular, but not limited to, the section entitled “ <i>Significant or Material Change</i> ”)	199-202
1.7 Glossary of Defined Terms	203-260

Such incorporated sections are referred to herein as the “YWS Disclosure”.

The YWS Base Prospectus was approved by the Financial Services Authority on 26 September 2012.

2. This Prospectus should also be read and construed in conjunction with the following, which shall be incorporated in and form part of this Prospectus: (i) the audited annual financial statements of Yorkshire Water Services Limited (“YWS”) for the year ended 31 March 2012 and for the year ended 31 March 2011 together with the audit reports thereon, (ii) the audited annual financial statements of Yorkshire Water Services Holdings Limited (“YWH”) for the year ended 31 March 2012 and for the year ended 31 March 2011 together with the audit reports thereon, (iii) the audited annual financial statements of Yorkshire Water Services Finance Limited for the year ended 31 March 2012 and for the year ended 31 March 2011 together with the audit reports thereon, (iv) the audited annual financial statements of Yorkshire Water Services Odsal Finance Holdings Limited for the year ended 31 March 2012 and for the year ended 31 March 2011 together with the audit reports thereon, (v) the audited annual financial statements of Yorkshire Water Services Odsal Finance Limited for the year ended 31 March 2012 and for the year ended 31 March 2011 together with the audit reports thereon, and (vi) the audited annual financial statements of Yorkshire Water Services Bradford Finance Limited for the year ended 31 March 2012 and for the year ended 31 March 2011 together with the audit reports thereon, each of which have been previously published and which have been filed with the Financial Services Authority.
3. The YWS Disclosure and the documents, or sections of documents, referred to above shall be incorporated in and form part of this Prospectus, save that any statement contained in such documents, or sections of a document, which are incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents which are themselves incorporated by reference in the documents incorporated by reference in this Prospectus, shall not form part of this Prospectus. Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Prospectus. Further, any defined term used in the YWS Disclosure shall only be a defined term for the purposes of such YWS Disclosure and any defined terms used in this Prospectus (other than in such YWS Disclosure) shall not be a defined term for the purposes of such YWS Disclosure.

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

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

Each of the Issuer and the Guarantors has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantors, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

The Issuer will also supply to the UK Listing Authority such number of copies of such supplement hereto or amendment prospectus as may be required by the UK Listing Authority and will make copies available, free of charge, upon oral or written request, at the specified offices of the Issuing and Paying Agent.

FINAL TERMS

In the following paragraphs, the expression “necessary information” means, in relation to any Series of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme, the Issuer has endeavoured to include in this Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Series of Notes.

Any information relating to the Notes which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Series of Notes will be contained in the relevant Final Terms. Such information will be contained in the relevant Final Terms unless any such information constitutes a significant new factor relating to the information contained in this Prospectus in which case such information will be contained in a supplement to this Prospectus.

For a Series of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Series only, complete this Prospectus and must be read in conjunction with this Prospectus.

NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

In addition, an investment in Notes linked to other bases of reference may entail significant risks not associated with investments in conventional securities such as debt or equity securities, including, but not limited to, the risks set out below in "*Risks related to the structure of a particular issue of Notes*".

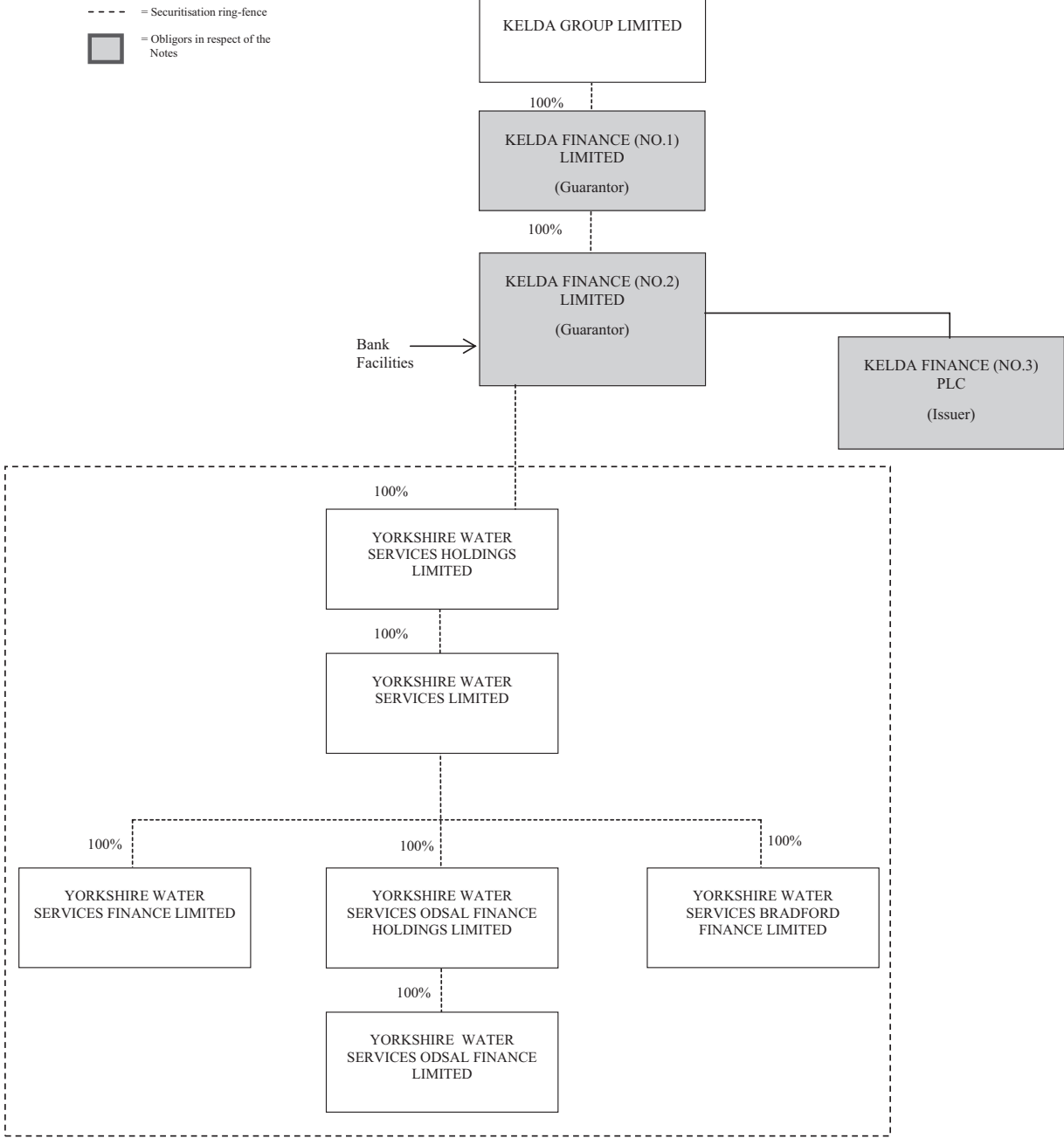
Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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KELDA GROUP STRUCTURE

Group Structure Chart



OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Prospectus.

Issuer	Kelda Finance (No.3) plc
Guarantors	Kelda Finance (No.2) Limited Kelda Finance (No.1) Limited
Description	Guaranteed Secured Medium Term Note Programme pursuant to which the Issuer may issue Notes.
Size	Up to £200,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. From time to time the Issuer and the Guarantors may increase the Programme Limit in accordance with the Dealership Agreement.
Source of Funds for Required Payments by the Issuer and the Guarantors	<p>The payment by KF2 of interest, principal and other amounts to the Issuer under the Issuer/KF2 Loan Agreement and payments under the guarantee by the Guarantors will be the principal sources of funds for the Issuer to make its required payments in respect of the Notes outstanding from time to time.</p> <p>KF2 will be reliant upon the payment by its subsidiaries (including YWS) of dividends and certain other distributions to meet its payment obligations in respect of interest and principal due to the Issuer under the Issuer/KF2 Loan Agreement. The Guarantors (and, in turn, the Issuer) will be substantially reliant on the cashflow of YWS in fulfilling their respective obligations under the Notes. Payment of dividends is at the discretion of the subsidiaries of KF2 and there are no contractual obligations on the subsidiaries of KF2 to make payments to KF2.</p>
Joint Arrangers and Dealers	<p>The Royal Bank of Scotland plc</p> <p>Barclays Bank PLC</p> <p>Banco Santander, S.A.</p> <p>Commonwealth Bank of Australia</p> <p>HSBC Bank plc</p> <p>Lloyds TSB Bank plc</p> <p>The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.</p>
Note Trustee	Deutsche Trustee Company Limited will act as note trustee (the “Note Trustee”) for and on behalf of the holders of the Notes (each a “Noteholder”).

Security Trustee	Deutsche Trustee Company Limited will act as security trustee (the “Security Trustee”), for itself and on behalf of the Secured Creditors, and will hold, and will be entitled to enforce the Transaction Security (as described below) on behalf of the Secured Creditors subject to the terms of the Intercreditor Agreement and the Security Agreements.
Secured Creditors	The Secured Creditors will comprise any person who from time to time is a party to, or has acceded to, the Intercreditor Agreement as a Secured Creditor, and includes, as at the date of this Prospectus, the Security Trustee, the Note Trustee (for itself and on behalf of the Noteholders) and the Noteholders, the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar and the Original Finance Parties. Other parties may become Secured Creditors from time to time by acceding to the Intercreditor Agreement.
Lenders	The lenders under an agreement for £260,000,000 million of secured term and revolving facilities (the “Bank Facilities Agreement”) entered into by KF2 as borrower and KF1 as guarantor, and any other lenders which may, by acceding to the Intercreditor Agreement, from time to time become Secured Creditors in respect of any bank facilities entered into by the Guarantors or the Issuer.
Issuing and Paying Agent and Calculation Agent	Deutsche Bank AG, London Branch
Transfer Agent and Registrar	Deutsche Bank Luxembourg, S.A.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis and, in each case, by way of private or public placement. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the “Final Terms”).
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Notes with a maturity of less than one year	Notes issued on terms that they must be redeemed before their first anniversary will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA, unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See “ <i>Subscription and Sale</i> ”.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the following restrictions applicable at the date of this Prospectus. See “ <i>Subscription and Sale</i> ”.

Form of Notes

The Notes may be issued in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”) only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “*Selling Restrictions*” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “Global Certificates”. The ICSDs will be notified whether or not each Global Note which is an NGN or Global Certificate held under the NSS is intended to be held in a manner which will allow Eurosystem eligibility.

Clearing Systems

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer.

Initial Delivery of Notes

On or before the issue date for each Tranche, if the relevant Global Note is an NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a Common Depositary. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantors and the relevant Dealer.

Maturities

Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantors and the relevant Dealer.

Specified Denomination

Definitive Notes will be in such denominations as may be agreed between the Issuer and the relevant Dealer save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year will have a minimum denomination of £100,000 (or its equivalent in other currencies).

Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes	<p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <p>(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 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc; or</p> <p>(ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.</p> <p>Interest periods will be specified in the relevant Final Terms.</p>
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Optional Redemption	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. See “ <i>Terms and Conditions of the Notes—Redemption, Purchase and Options</i> ”.
Early Redemption	Except as provided in “ <i>Optional Redemption</i> ” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “ <i>Terms and Conditions of the Notes—Redemption, Purchase and Options</i> ”.
Put Option	If the Sponsors cease to control directly or indirectly the Guarantors, the Notes may be redeemed in full. See “ <i>Terms and Conditions of the Notes—Redemption, Purchase and Options</i> ”.
Status of Notes	<p>The Notes will be secured obligations of the Issuer and at all times shall rank <i>pari passu</i> and without any preference among themselves. The Notes are guaranteed by the Guarantors.</p> <p>The Notes represent the rights of the holders of such Notes to receive interest and principal from the Issuer pursuant to the Terms and Conditions of the Notes and the Trust Deed.</p>
Status of Guarantee	The Guarantee by the Guarantors is an unconditional, irrevocable and unsubordinated secured obligation of the Guarantors.
Negative Pledge	See “ <i>Terms and Conditions of the Notes—Negative Pledge and Covenants</i> ”.
Cross Acceleration	See “ <i>Terms and Conditions of the Notes—Events of Default</i> ”.
Financial Covenants	See “ <i>Terms and Conditions of the Notes—Events of Default</i> ”.
Lock-Up	See “ <i>Overview of the Key Documents—Trust Deed—Lock-Up</i> ”.

No Acquisitions	See “ <i>Overview of the Key Documents—Trust Deed—Covenants of the Issuer and the Guarantors</i> ”.
No Merger	See “ <i>Overview of the Key Documents—Trust Deed—Covenants of the Issuer and the Guarantors</i> ”.
No Disposal of YWS	See “ <i>Overview of the Key Documents—Trust Deed—Covenants of the Issuer and the Guarantors</i> ”.
No Loans or Credit	See “ <i>Overview of the Key Documents—Trust Deed—Covenants of the Issuer and the Guarantors</i> ”.
No Guarantees	See “ <i>Overview of the Key Documents—Trust Deed—Covenants of the Issuer and the Guarantors</i> ”.
Ratings	<p>The Programme and the long term debt of the Issuer has a rating of BB– by Standard & Poor’s and BB+ by Fitch. Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p> <p>The credit ratings included or referred to in this Prospectus will be treated for the purposes of the CRA Regulation as having been issued by Fitch and Standard & Poor’s upon registration pursuant to the CRA Regulation. Fitch and Standard & Poor’s are established and operating in the European Union and are registered under the CRA Regulation.</p>
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom unless the withholding is required by law. In such event, the Issuer or the Guarantors shall, subject to customary exceptions (including the ICMA Standard EU Tax Exemption Tax Language), pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in “ <i>Terms and Conditions of the Notes—Taxation</i> ”.
Transaction Security	The security granted to the Security Trustee pursuant to the Security Agreements and any other Transaction Security Document.
Security	<p>Pursuant to the Security Agreements:</p> <p>(a) KF1 will grant, as security for the Guarantee, (i) fixed security over all its shares in KF2 and all its real property, book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets;</p> <p>(b) KF2 will grant, as security for the Guarantee, (i) fixed security over all its shares in the Issuer and YWH and all its book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets; and</p>

(c) the Issuer will grant, as security for the Notes, (i) an assignment of its rights in respect of the Transaction Documents, (ii) a fixed charge over all its book debts, bank accounts and investments, present and future and (iii) a floating charge over all of its property, undertaking and assets.

Note Documents	The Notes, the Trust Deed, the Agency Agreement, the Dealership Agreement and the Issuer/KF2 Loan Agreement.
Finance Documents	The Bank Facilities Agreement, the Hedge Agreements entered into with Hedge Counterparties and any other Finance Documents as may be entered into from time to time pursuant to the Intercreditor Agreement.
Issuer/KF2 Loan Agreement	A loan agreement which will be entered into between the Issuer and KF2 (the “Issuer/KF2 Loan Agreement”), pursuant to which the Issuer will grant intra-group loans to the KF2 in amounts equal to the proceeds of the Notes issued by the Issuer (each an “Issuer/KF2 Loan”). Funds received under the Issuer/KF2 Loans from KF2 to the Issuer will enable the Issuer to make payments on the Notes and fund its costs and expenses.
Intercreditor Agreement	The intercreditor agreement which will be entered into between the Secured Creditors (and, in the case of the Noteholders, the Note Trustee on behalf of the Noteholders), the Issuer and the Guarantors to regulate the claims of the Secured Creditors and the rights of the Issuer and the Guarantors (the “Intercreditor Agreement”). See “ <i>Intercreditor, Enforcement and the Bank Facilities Agreement</i> ”.
Transaction Security Documents	The Security Agreements and any other documents entered into at any time by the Issuer and the Guarantors which grants any Security in favour of the Security Trustee (to be held on trust for the Secured Creditors). The claims of the Secured Creditors in respect of the Transaction Security will be regulated by the Intercreditor Agreement.
Governing Law of the Notes	The Notes will be and all non-contractual obligations arising from or in connection with the Notes will be governed by, and construed in accordance with, English law.
Listing and Admission to Trading	Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market or as otherwise specified in the relevant Final Terms and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted.
Selling Restrictions	The United States, the European Economic Area and the United Kingdom. See “ <i>Subscription and Sale</i> ”.
United States Selling Restrictions	The Issuer is a Category 2 issuer for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Final Terms state that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

Risk Factors

There are certain factors that may affect the Issuer’s and/or the Guarantors’ ability to fulfil its obligations under Notes issued under the Programme. These are set out under “*Risk Factors*”. Certain risk factors set out herein have been incorporated by reference from the YWS Base Prospectus (as supplemented from time to time).

Refinancing

The proceeds of the initial issue of Notes under the Programme will be on-loaned to KF2 who shall apply such funds in prepayment of a portion of the Bank Facilities and payment of fees and thereafter for general corporate purposes.

RISK FACTORS

The Issuer and the Guarantors believe that the following factors may affect their ability to fulfil their obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantors is in a position to express a view on the likelihood of any such contingency occurring. Certain risk factors (as noted below) are incorporated by reference from the YWS Base Prospectus (as supplemented from time to time).

Factors which the Issuer and the Guarantors believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer and the Guarantors believe that the factors described below represent the material risks inherent in investing in Notes issued under the Programme, but the Issuer or the Guarantors may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons that cannot reasonably be considered to be significant, are currently unknown, or the Issuer and Guarantors are unable to anticipate and accordingly neither the Issuer nor the Guarantors represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's and the Guarantors' ability to fulfil their obligations under or in connection with Notes issued under the Programme

The Issuer is a special purpose financing entity

The Issuer is a special purpose financing entity with no business operations other than raising external funding for KF2 through the issuance of the Notes and other debt finance. The only source of funds available to the Issuer will be the repayment of amounts by KF2 to it pursuant to the related Issuer/KF2 Loans made by the Issuer to KF2 under the Issuer/KF2 Loan Agreement. Therefore, the Issuer relies on KF2 for amounts required to meet its financial obligations, including amounts required to make payments of principal and interest in respect of the Notes, and is subject to all the risks relating to revenues and expenses to which KF2 is subject as set out or incorporated by reference herein.

The Guarantors are holding companies with no operations and rely on their operating subsidiaries to provide them with funds necessary to meet their financial obligations

The Guarantors are holding companies with no material, direct business operations. The principal assets of the Guarantors are the equity interests it directly or indirectly holds in its operating subsidiaries (primarily YWS). As a result, the Guarantors are dependent on loans, interest, dividends and other payments from its Subsidiaries to generate the funds necessary to meet its financial obligations, including the repayment of any Issuer/KF2 Loans. The Guarantors' Subsidiaries are separate and distinct legal entities and, except for the Issuer, they will have no contractual or other obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividends, distributions, advances, loans or other payments. The payment of any dividends or distributions by the Guarantors' Subsidiaries is at the discretion of the Guarantors' Subsidiaries. Accordingly, risks that have an impact on the Subsidiaries of the Guarantors (as set out in more detail in the following six paragraphs) and incorporated herein (see further "*Principal risks associated with YWS and its business*" below) could affect the amount of funds available to the Guarantors to enable KF2 to satisfy in full and on a timely basis its obligations under the Issuer/KF2 Loan Agreement and the Guarantors the Guarantee. In addition, YWS is, in certain circumstances, restricted from declaring or paying dividends as part of the Securitisation as defined and further described below, such restrictions being dependent on the financial performance of YWS. See further "*Principal risks associated with YWS and its business*" below.

YWS is subject to certain restrictions in paying dividends as part of its covenant-based ring-fencing

In 2009, the Kelda Group implemented a significant corporate restructuring and financing (the "Securitisation") and created a new "ring-fenced" financing group (being the "Securitisation Group"). The Securitisation Group consists of YWH, YWS, Yorkshire Water Services Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited, Yorkshire Water Services Odsal Finance Limited and Yorkshire Water Services Bradford Finance Limited (see diagram, "*Yorkshire Water Group Structure*" above). A key aspect of this covenant-based ring-fencing is that YWS is only entitled to pay any dividends (albeit indirectly) or make any other payments ("distributions") if certain conditions are satisfied,

including that no potential or actual event of default or trigger event under the Securitisation is continuing or would result from such payment and that certain gearing ratio tests are satisfied. In addition, there are restrictions on the amounts of distributions permitted under the Securitisation which require certain gearing ratios to be retained. Further details on the exact circumstances in which distributions are prohibited in relation to trigger events and events of default, together with the specifics of the applicable gearing ratios can be found in the covenant set out at (v)(b) on pages 104 to 105 of the YWS Base Prospectus. The Issuer and the Guarantors are dependent on the receipt of funds from their operating subsidiaries (primarily YWS) and so any restriction on the payment of dividends by YWS would affect amounts available to the Issuer and the Guarantors and could affect their ability to pay amounts due under the Notes.

YWS is subject to certain restrictions in paying dividends as part of its regulatory ring-fencing

As part of its obligations as a regulated company, YWS is subject to certain ring-fencing restrictions under its current Licence. In addition to the covenant restrictions applicable to distributions under the Securitisation, YWS is required pursuant to its Licence to declare or pay dividends only in accordance with a dividend policy which has been approved by the board of directors of YWS and which complies with the principles: (i) that dividends will not impair the ability of YWS to finance its Regulated Business; and (ii) that under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk. See the section entitled “*Ring-Fencing and the YW Financing Group*” on pages 52 to 53 of the YWS Base Prospectus for further details of the ring-fencing restrictions contained in the current Licence. The Issuer and the Guarantors are dependent on the receipt of funds from their operating subsidiaries (primarily YWS) and so any restriction on the payment of dividends by YWS would affect amounts available to the Issuer and the Guarantors and could affect their ability to pay amounts due under the Notes.

Noteholders are structurally subordinated to claims of creditors of the Guarantors’ subsidiaries, including the secured creditors of YWS under the Securitisation

The ability of the Guarantors’ Subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual restrictions. As an equity investor in its Subsidiaries, the Guarantors’ right to receive assets upon their liquidation or reorganisation will be effectively subordinated to the claims of creditors of its Subsidiaries. To the extent that the Guarantors are recognised as a creditor of such Subsidiaries, the Guarantors’ claims may still be subordinated to any security interest in or other lien on the assets of such subsidiaries and to any of their debt or other obligations.

If share security under the Securitisation is enforced, the Guarantors may no longer be an indirect shareholder of YWS

YWH has granted share security as part of the Securitisation over shares in its direct subsidiary, YWS. If the secured creditors in respect of the Securitisation elect to enforce their rights thereunder, then such security over the shares in YWS may be enforced and such enforcement may result in a sale of YWS, and subsequently, the Guarantors no longer being an indirect shareholder of YWS.

High Leverage of YWS

As of the date of this Prospectus, the Securitisation Group has indebtedness that is substantial in relation to its shareholders’ equity. As at 30 September 2012, the Securitisation Group was leveraged, taking into account cash reserves, to approximately 71.0 per cent. as a percentage of Class A Debt to RCV and approximately 80.1 per cent. as a percentage of Senior Debt to RCV. The leverage of the Securitisation Group, taking into account retained cash reserves, may increase to up to 95 per cent. as a percentage of the aggregate of Senior Debt to RCV following which an Event of Default would occur. The Finance Documents provide for other indirect restrictions on leverage through dividend blocks, trigger events and restrictions on the ability to incur further Financial Indebtedness, in each case by reference to a prescribed percentage of the aggregate of Senior Debt to RCV. The ability of YWS 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 of YWS’s ability to meet its financing requirements and no assurance that YWS’s high degree of leverage will not have a material adverse impact on its ability to pay distributions to its shareholders, and ultimately the Guarantors, to enable the Issuer or

the Guarantors to pay amounts due and owing in respect of the Notes. For relevant definitions see *Glossary of Defined Terms* of the YWS Disclosure.

Principal risks associated with YWS and its business

Risks incorporated by reference

The principal risks to which YWS and its business are subject are set out in the following risk factors, extracted from the YWS Base Prospectus and found on pages 28 to 37 of the YWS Base Prospectus, which are incorporated by reference in this Prospectus (see “*Documents Incorporated by Reference*”):

Chapter 4—Risk Factors:

- (i) *Legal, Regulatory and Competition Considerations* (pages 28-29);
- (ii) *Competition in the water industry* (page 30);
- (iii) *YWS Revenue and Cost Considerations* (pages 30-32);
- (iv) *Operational Risks* (pages 32-33);
- (v) *Legal Considerations* (pages 34-35); and
- (vi) *Financing Considerations* (pages 36-37).

Ofwat’s Recent Section 13 Notices

Ofwat issued a Section 13 Notice in October 2012, which set out proposed modifications to each water company’s licence which would allow Ofwat significantly more flexibility in how it sets price limits in the future (as described in more detail in “*YWS Recent Developments*”).

YWS responded to the October 2012 Section 13 Notice stating that it rejected the proposals made but that it would be happy to engage in further discussions with Ofwat.

Following a period of consultation with YWS and other undertakers, Ofwat issued a further Section 13 Notice on 21 December 2012, which proposed modifications to each water company’s licence but limited the flexibility sought by Ofwat to apply only to (i) “retail” price limits and (ii) in respect of the period from 2015-2020. On 16 January 2013, YWS notified Ofwat that it accepted the licence modification proposed in the December 2012 Section 13 Notice.

Notwithstanding Ofwat’s duty under Section 2 of the WIA to enable water companies to finance their activities, the modifications to YWS’s licence (as set out in the December 2012 Section 13 Notice) could reduce certainty and predictability of YWS’s cash flows and could impact on YWS’s ability to maintain its investment grade rating (although YWS notes that this risk is fairly remote given Moody’s Announcement issued on 21 December 2012 which states that the changes proposed in the December 2012 Section 13 Notice are “credit positive” for the sector). 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 Notes.

Future Financing

The Issuer or the Guarantors may need to raise further debt from time to time in order to, among other things:

- (a) on each date on which principal is required to be repaid and on the maturity date of the relevant Tranche of Notes, refinance the Notes; and
- (b) refinance any other debt (including any Loan Facilities) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Notes.

While the Intercreditor Agreement contemplates the circumstances under which such further debt can be raised, there can be no assurance that the Issuer or the Guarantors 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 Notes or any other maturing indebtedness will be capable of being so paid when due.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

Notes issued under the Programme may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed Rate Notes

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Hedge Counterparty risk

If the Issuer or, if applicable, the Guarantors enter into any hedging agreements in connection with any issue of Notes (for example, in relation to interest rate or currency exposures), it faces the possibility that a Hedge Counterparty will become unable to honour its contractual obligations. Hedge Counterparties may default on their obligations due to insolvency, bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Issuer or the Guarantors or from executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

Risks related to the Notes generally

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

Noteholders' rights subject to the Intercreditor Agreement

The Noteholders' rights against the Issuer and the Guarantors are subject to the Intercreditor Agreement, which is described in detail in the section entitled "*Intercreditor, Enforcement and the Bank Facilities Agreement*". Whilst the Note Trustee's rights to take any action to enforce its rights against the Issuer and/or the Guarantors following an Event of Default are partially restricted under the Intercreditor Agreement, the taking of Permitted Enforcement Action by the Note Trustee is not restricted. The taking of Permitted Enforcement Action by the Note Trustee shall trigger an automatic acceleration of the Secured Liabilities. Following such automatic acceleration, the Security Trustee shall enforce the Transaction Security in accordance with the instructions of the Majority Secured Creditors (which might not include the Noteholders) and the proceeds of such enforcement shall be distributed in accordance with the order of payments set out in the Intercreditor Agreement. As a result, Noteholders can be bound by the process of enforcement that is determined by the Majority Secured Creditors, which may differ from the interests of Noteholders. Noteholders can therefore be bound by the result of a particular matter that they voted against, including, for the avoidance of doubt, in relation to the enforcement of the Transaction Security.

Potential disenfranchisement of Noteholders

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the “decision”) to be made pursuant to the Intercreditor Agreement, the Security Trustee shall notify the Obligors and each Secured Creditor Representative (including the Note Trustee) of the matter in question and shall also inform each Secured Creditor Representative (including the Note Trustee) of the date by which it must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the “Decision Date”). If the Note Trustee has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the Notes shall be excluded from:

- (i) the Total Commitments to be considered as voting in favour of the relevant decision (the numerator); and
- (ii) the Total Commitments to be used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right of the Noteholders is affected. Noteholders can therefore be bound by the result of a particular decision (as defined in this risk factor) in respect of which they have not voted, including, for the avoidance of doubt, a decision (as defined in this risk factor) in relation to the enforcement of the Transaction Security, even where the Note Trustee, representing the Noteholders, would (but for the requirement to provide a vote by the Decision Date as described above), whether by itself or with one or more other Secured Creditor Representatives, constitute the Majority Secured Creditors.

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. As a result, Noteholders can be bound by the result of a particular matter that they voted against.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders, agree to (i) any modification (except as mentioned in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed, the Conditions or any other Transaction Document or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor or guarantor under any Notes in place of the Issuer or the Guarantors respectively, in the circumstances described in Condition 11 (*Meetings of Noteholders, Modification, Waiver and Substitution*) of the Terms and Conditions of the Notes.

Liability under the Notes

The Notes are obligations of the Issuer and will be guaranteed by the Guarantors. For the avoidance of doubt, the Notes will not be the responsibility of, or guaranteed by, any other person. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, the Joint Arrangers, the Dealers, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or any other company in the same group of companies as, or affiliated to, either Obligor.

European Monetary Union

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

published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

EU Savings Directive

The EC Council Directive 2003/48/EC regarding the taxation of savings income (the “Directive”) requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other Member State, except that Luxembourg and Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Directive, which may if implemented amend or broaden the scope of the requirements described above.

A number of third countries (including Switzerland) and certain dependent or associated territories of certain Member States have adopted similar measures to the Directive.

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

English law security and insolvency considerations

The Issuer will enter into the Security Agreements and other Transaction Security Documents pursuant to which it will grant the Transaction Security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Transaction Security may be delayed and/or the value of the Transaction Security impaired.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and granted by way of security to the Security Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent which may lead to the ability to realise the security being delayed and/or the value of the security being impaired.

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Security Agreements or other Transaction Security Document may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Finance Documents are intended to ensure that it has no significant creditors other than the Secured Creditors under the Security Agreements or the documents relating to the Existing Security, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Transaction Security.

While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the applications of insolvency laws (including English insolvency laws).

Fixed charges may take effect under English law as floating charges

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

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

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Integral multiples of less than €100,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination may be illiquid and difficult to trade.

Notes not in physical form

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

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

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit rating risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

There is no assurance that any credit rating assigned to an issue of Notes will continue for any period of time or that it will not be reviewed, revised, suspended or withdrawn entirely by the relevant credit rating agency. If any credit rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced. Future events, including those affecting the Guarantors, its subsidiaries and the water industry generally, could have an adverse impact on the ratings of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

YWS RECENT DEVELOPMENTS

Proposed licence modifications

On 26 October 2012 Ofwat issued a notice under section 13 of the WIA (the “October 2012 Section 13 Notice”), proposing modifications to water company licences which, if implemented, would allow for changes to be made by Ofwat to the way in which price controls are set. The proposed changes to Conditions B and C of the Instrument of Appointment would:

- retain a link between RPI and the price control for capital-intensive wholesale activities;
- remove specific detail on how retail activities will be regulated;
- allow one or more price controls, each of the “appropriate nature, form and level” and each of the appropriate length, for different parts of the regulated business;
- allow the activities that could be moved out of the scope of wholesale activities to amount to up to 20% of total revenues (on an industry wide basis) in any price review period;
- allow the activities that could be moved out of the scope of wholesale activities to amount to up to 40% of total revenues (on an industry wide basis) on a cumulative basis across multiple control periods; and
- allow the duration of price controls to depart from the five year price review system currently in use after the PR 14 price review, permitting shorter or longer periods.

On 12 November 2012, Defra issued a draft Strategic Policy Statement (the “Statement”) to Ofwat for consultation. In the Statement, Defra states: “*it is the Government’s responsibility to set the strategic framework and policy priorities within which economic regulators such as Ofwat operate*”. Defra also highlighted that one of Ofwat’s primary duties under Section 2 of the WIA is to ensure that water only and water and sewerage undertakers are able to “*finance their functions, in particular by securing reasonable returns on their capital*”. Following Defra’s Statement and prior to the closing date of the October 2012 Section 13 Notice, Ofwat issued a further clarification paper on its proposed licence modifications, acknowledging its Section 2 duty to ensure that undertakers are able to properly finance their functions.

YWS responded to the October 2012 Section 13 Notice on 23 November 2012 stating that while it “supports reforms to the sector”, YWS believed that “the proposals provide no certainty as to the nature, form or duration of the controls, they do not make clear whether the controls are to take the form of a revenue cap or a price cap and they provide Ofwat with significant discretion as to how different types of activities are to be categorised, and whether they will remain part of the RCV”. As such, YWS felt unable to consent to the October 2012 Section 13 Notice.

On 21 December 2012, after a further period of consultation with each undertaker, Ofwat issued a third Section 13 notice (the “December 2012 Section 13 Notice”). In response to industry concerns over the level of flexibility, the modifications proposed are restricted to:

- splitting price controls for “wholesale” and “retail” activities;
- retaining the RCV+/-K formula on a five-yearly AMP Period basis for wholesale activities;
- allowing flexibility for Ofwat to determine the number and form of price controls in respect of retail activities;
- allowing price control periods for retail activities to be “up to” five year periods (therefore allowing for periods of shorter than five years); and
- including an “all reasonable endeavours” obligation on the undertaker in the Licence to oblige it to work constructively and co-operatively with Ofwat to develop targeted price controls in future AMP Periods.
- Moody’s issued an announcement following the December 2012 Section 13 Notice stating that in its view the proposed changes were “credit positive for the [English water] sector”.

On 16 January 2013, YWS responded to the December 2012 Section 13 Notice stating that it accepted the proposed licence modifications.

Changes to the Directors of YWS

Graham Dixon, Director of the Production Business Unit and also a Managing Director of Kelda Water Services Limited, will retire on 3 March 2013. Charlie Haysom will be replacing Graham as Director of the Production Business Unit and as a Managing Director of Kelda Water Services Limited. Charlie is currently Director of the Asset Delivery Unit. Recruitment for a new Director of the Asset Delivery Unit will take place over the coming months.

CAPITALISATION

The following table sets out the actual consolidated cash and cash equivalents and debt of KF1 at 30 September 2012 on both an accounting value (as included within KF1's consolidated statement of financial position on that date) and nominal value basis.

	As at 30 September 2012	
	Accounting value	Nominal value
	(£ million)	
Current Borrowings	117.5	117.5
Intercompany Loan	—	—
Total Current Borrowings	117.5	117.5
Non-Current Borrowings	—	—
Bonds & Other Borrowings	4,473.3	4,462.9
Inter-Company Loan	—	—
Total Non-Current Borrowings	4,473.3	4,462.9
Total Debt	4,590.8	4,580.4
Cash and Cash Equivalents	48.0	48.0
Total Net Debt	4,542.8	4,532.4

Notes:

1. The difference between the accounting value and nominal value of Bonds & Other Borrowings (£10.4m) represents a fair value adjustment recognised through hedge accounting for certain cross currency bonds held at Yorkshire Water Services Bradford Finance Limited.
2. For further information please see note 5 "Analysis of net debt" of the consolidated interim financial statements of KF1.
3. At the date of this Prospectus there has been no material change to the financial position of KF1 set out above since 30 September 2012 other than the transactions contemplated under this Prospectus.

LEVERAGE

As at the Calculation Date on 30 September 2012 Group RAR was 84.9 per cent.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes.

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “Issue Date”), the “Trust Deed”) dated on or around the date of this Prospectus between the Issuer, the Guarantors and Deutsche Trustee Company Limited (the “Note Trustee”, which expression shall include all persons for the time being the note trustee or note trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of:

- (i) the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below;
- (ii) the Agency Agreement (as amended or supplemented as at the Issue Date, the “Agency Agreement”) dated on or around the date of this Prospectus, which has been entered into in relation to the Notes between the Issuer, the Guarantors, the Note Trustee, Deutsche Bank AG, London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “Issuing and Paying Agent”, the “Paying Agents” (which expression shall include the Issuing and Paying Agent), the “Registrar”, the “Transfer Agents” (which expression shall include the Registrar) and the “Calculation Agent(s)”;
- (iii) the Security Agreement (the “KF1/KF2 Security Agreement”) dated 25 June 2012 between, the Guarantors, and The Royal Bank of Scotland plc (the “Security Trustee”);
- (iv) the Security Agreement (the “Issuer Security Agreement”) dated on or around the date of this Prospectus between the Issuer and the Security Trustee (together with the KF1/KF2 Security Agreement, the “Security Agreements”); and
- (v) the Intercreditor Agreement dated 14 June 2012 between, amongst others, the Issuer, the Guarantors, the Note Trustee, the Security Trustee and certain banks as lenders to the Guarantors (the “Intercreditor Agreement”).

Copies of the Trust Deed, the Agency Agreement, the Security Agreements and the Intercreditor Agreement are available for inspection during usual business hours at the registered office of the Note Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified offices of the Paying Agents and the Transfer Agents.

The payments of all amounts in respect of the Notes have been secured by the Issuer and the Guarantors pursuant to the Security Agreements and guaranteed by the Guarantors in the Trust Deed.

The Noteholders, the holders of the interest coupons (the “Coupons”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “Talons”) (the “Couponholders”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “Tranche” means Notes which are identical in all respects.

Terms used but not defined in these Conditions have the meaning given to them in the Trust Deed.

1 Form, Denomination and Title

The Notes are issued in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”) in each case in the Specified Denomination(s) shown hereon provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified

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

All Registered Notes shall have the same Specified Denomination

This Note is a Fixed Rate Note or a Floating Rate Note, depending upon the Interest Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached.

Registered Notes are represented by registered certificates (“Certificates”) and, save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “Register”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “Noteholder” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “holder” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) No Exchange of Notes

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be

issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(b) (*Transfer of Registered Notes*) or Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Put Exercise Notice (as defined in Condition 6(e) (*Guarantors Change of Control Put*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) Transfers Free of Charge

Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) (*Redemption at the Option of the Issuer*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. In this Condition 2(f), “Record Date” shall have the meaning given to it in Condition 7(b)(ii).

3 Guarantee and Status

(a) Status of Notes

The Notes and the Coupons are secured, direct and unconditional obligations of the Issuer, secured pursuant to the Issuer Security Agreement and shall at all times rank *pari passu* and without any preference among themselves.

(b) Guarantee

The Guarantors have unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes and the Coupons. Their obligation in that respect (the “Guarantee”) is contained in the Trust Deed and is secured pursuant to the KF1/KF2 Security Agreement.

4 Negative Pledge and Covenants

(a) Issuer and Guarantors Negative Pledge: So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantors will:

(A) other than for Permitted Security or a Permitted Transaction, create or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Financial Indebtedness, or any guarantee or indemnity in respect of any Financial Indebtedness without at the same time or prior thereto according to the Issuer’s obligations

under the Notes and the Coupons or, as the case may be, the Guarantors' obligations under the Guarantee, (a) the same security as is created or subsisting to secure any such Financial Indebtedness, guarantee or indemnity or (b) such other security as either (i) the Note Trustee shall deem not materially less beneficial to the interests of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

- (B) incur any additional Financial Indebtedness unless:
- (a) such additional Financial Indebtedness does not rank senior to the Notes;
 - (b) if such additional Financial Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantors; and
 - (c) no Lock-Up or Event of Default would occur as a result of the incurrence of such Financial Indebtedness.
- (b) **No Financial Indebtedness in respect of Intermediate Subsidiaries:** So long as any Note or Coupon remains outstanding, the Guarantors will procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall incur or allow to remain outstanding any Financial Indebtedness, other than in respect of any Permitted Financial Indebtedness or a Permitted Transaction;
- (c) **Negative Pledge of Intermediate Subsidiaries:** So long as any Note or Coupon remains outstanding, the Guarantors shall procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall create or permit to subsist any Security over any of its respective assets;
- (d) **No Security:** So long as any Note or Coupon remains outstanding, the Issuer and the Guarantors shall not (and the Guarantors shall procure that no Intermediate Subsidiary shall):
- (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Issuer or the Guarantors;
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
 - (iv) enter into any other preferential arrangement having a similar effect,
- in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset, except for any Permitted Security or a Permitted Transaction.
- (e) **Covenants of the Issuer and Guarantors:** The Issuer and Guarantors have provided certain additional covenants pursuant to clauses 7 and 8 of the Trust Deed in relation to, without limitation, the financial position, assets, liabilities and business operations of each of them and, in certain cases, made procuring covenants in respect of the Intermediate Subsidiaries. A summary of these covenants is available to Noteholders in the base prospectus prepared by the Issuer in respect of the Notes under the section "*Overview of the Key Documents—Trust Deed—Covenants of the Issuer and the Guarantors*".

5 Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h) (*Calculations*).

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h) (*Calculations*). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that 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 (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(iv) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (iv), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (iv), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(v) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) If the Relevant Screen Page is not available or if, sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.
- (z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Note Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(c) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8 (*Taxation*)).

(d) Margin, Maximum/Minimum Rates of Interest and Redemption Amounts and Rounding

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(e) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(f) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination.

Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(g) Determination or Calculation by Note Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Note Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects, it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(h) 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 the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET2 System is operating (a “TARGET2 Business Day”); and/or
- (iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“Day Count Fraction” means in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “Calculation Period”):

- (i) if “Actual/Actual” or “Actual/Actual—ISDA” is specified hereon, 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 (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/360” is specified hereon, the actual number of days in the Calculation Period divided by 360;

- (iv) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

- (v) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

- (vi) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30; and

(vii) if “Actual/Actual-ICMA” is specified hereon:

- (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 to but excluding the next Determination Date; and

“Determination Date” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“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 Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“TARGET2 System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(i) **Calculation Agent**

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Note Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) **Final Redemption**

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount).

(b) **Early Redemption**

The Early Redemption Amount payable in respect of any Note, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or at any time (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (*Early Redemption*) above) (together with interest accrued to the date fixed for redemption), if

(i) the Issuer (or, if the Guarantee were called, the Guarantors) satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantors, as the case may be) taking reasonable measures available to it (including, but not limited to, the replacement of the Issuing and Paying Agent), provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantors, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or either Guarantee, as the case may be) then due and provided that any two Directors of the Issuer are able to certify in the notice provided to the Noteholders that it has sufficient funds to pay such Optional Redemption Amount. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Note Trustee a certificate signed by two Directors of the Issuer (or the Guarantors, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantors, as the case may be) taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) Redemption at the Option of the Issuer

If a Call Option is specified hereon and provided that on or prior to the date on which the notice expires, the Note Trustee has not commenced action against the Issuer and/or the Guarantors in accordance with Condition 12 (*Enforcement*), the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) in accordance with Condition 16 (*Notices*) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption, provided that any two Directors of the Issuer certify in writing to the Note Trustee that it has sufficient funds to pay such Optional Redemption Amount. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption of Notes in definitive form, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or, in the case of Registered Notes, shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes to be redeemed, which shall have been drawn at random in such place as the Note Trustee may approve, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) Guarantors Change of Control Put

If at any time there occurs a Guarantor Change of Control, a "Guarantor Change of Control Event" shall be deemed to have occurred.

Promptly upon the Issuer or a Guarantor being aware of a Guarantor Change of Control Event having occurred and in any event within 14 days thereof, the relevant Guarantor or the Issuer shall give notice to the Note Trustee and the Noteholders of the occurrence of such Guarantor Change of Control Event (such notice, a "Guarantor Change of Control Event Notice"), any such notice to the Noteholders to be delivered in accordance with the provisions of Condition 16 (*Notices*). At any time from the date of giving such Guarantor Change of Control Event Notice to the date falling 45 days thereafter (such period, the "Put Exercise Period") upon the Issuer receiving at least five Business Days' notice from any Noteholder (any such notice, a "Put Event Notice"), the Notes of such Noteholder as specified in the Put Event Notice shall become due and repayable and the Issuer will, upon the expiry of such Put Event Notice (such date, the

“Guarantor Change of Control Event Date”), redeem each Note the subject of such Put Event Notice at 101 per cent. of its principal amount together with interest accrued to (but excluding) the Guarantor Change of Control Event Date.

Pursuant to the above provisions, any Noteholder having the right to require early redemption of any Notes held by it pursuant to this Condition 6(e), must in order to exercise the right to require redemption of such Notes, if such Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the Put Exercise Period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Put Exercise Notice”) and in which the Noteholder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6(e) accompanied by such Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Exercise Notice, be held to its order or under its control. If such Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of such Notes the holder of such Note must, within the Put Exercise Period, give notice to the Issuing and Paying Agent of such exercise in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include notice being given on instruction of the relevant Noteholder by Euroclear or Clearstream, Luxembourg, as the case may be, or any common service provider for them to the Issuing and Paying Agent by electronic means) in a form acceptable to Euroclear or, as the case may be, Clearstream, Luxembourg from time to time and, if such Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Issuing and Paying Agent for notation accordingly.

Any Put Exercise Notice or other notice given by a holder of any Note in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg pursuant to this Condition 6(e) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Note Trustee has declared the Notes to be due and repayable pursuant to Condition 10 (*Events of Default*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Event Notice given pursuant to this Condition 6(e).

In this Condition 6(e):

“Guarantor Change of Control” means the Sponsors collectively ceasing to Control either Guarantor. For the purposes of this definition “collectively” means, in respect of the Sponsors, any collection of Sponsors (or any Sponsor individually) from time to time, which may or may not include all or any persons which are Sponsors; and “Control” means, in respect of any person:

- (a) the beneficial ownership, directly or indirectly of:
 - (i) (in the case that person is a company, corporation or a limited liability company) shares or securities of that company or corporation:
 - (A) to which are attached the right to elect a majority of the directors of the company or corporation, or
 - (B) representing more than 50 per cent. of its participating share capital; or
 - (C) which entitle the holder to more than 50 per cent. of the votes which may be cast on a poll at general meetings of that company or corporation; or
 - (ii) (in the case that person is a partnership (other than a limited partnership), limited liability partnership, joint venture or any other unincorporated association or organisation) ownership interests therein representing more than 50 per cent. of the voting interest of that entity by contract or otherwise; or
 - (iii) (in the case that person is a limited partnership) (A) if the general partner of the limited partnership is a company or corporation, sufficient securities of that company or corporation to Control that company or corporation in accordance with paragraph (i) of this definition, or (B) if the general partner of the limited partnership is an entity other

than a corporation, sufficient ownership interests of that entity to Control that entity in accordance with paragraph (ii) of this definition; or

(iv) (in the case that person is a trust, estate, body or any other person (other than a natural person) not falling within paragraph (i), (ii) or (iii) above) more than 50 per cent. of the beneficial interest therein, or

(b) (in the case that person is a Fund) the right to be the sole or predominant manager or sole or predominant investment adviser to that Fund,

and “Controls” and “Controlled” shall be construed accordingly.

When considering whether a person indirectly Controls another person, the definition of “Control” and “Controlled” shall be applied to each person in the intervening chain of control.

(f) Redemption at the Option of Noteholders

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any Note, upon the holder of such Note giving not less than 15 nor more than 30 days’ notice to the Issuer (or such other notice period as may be specified hereon) in accordance with Condition 16 (*Notices*) redeem such Note on an Optional Redemption Date at its Optional Redemption Amount together with interest accrued to the Optional Redemption Date.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (“Exercise Notice”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) Purchases

Each of the Issuer, the Guarantors and any other Subsidiary of the Guarantors (as defined in the Trust Deed) may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantors or any other Subsidiary of the Guarantors, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of Condition 10 (*Events of Default*), Condition 11(a) (*Meetings of Noteholders*) or Condition 12 (*Enforcement*).

(h) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantors or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to, or to the order of, the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantors in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency

with, a Bank. “Bank” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET2 System.

(b) Registered Notes and Record Date

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the 15th day before the due date for payment thereof (the “Record Date”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the 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.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes 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 with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes 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 United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments subject to Laws

All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantors and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantors and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantors reserve the right at any time with the prior written approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents, Transfer Agents, or Calculation Agent(s) provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having its specified office in a major European city, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer and the Guarantors shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. Dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) Unmatured Coupons and Unexchanged Talons

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9 (*Prescription*)).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexpired Talon relating to it, 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 Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9 (*Prescription*)).

(h) Non-Business Days

If any date for payment in respect of any Note 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 and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" hereon and:

- (i) (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 foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET2 Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantors in respect of the Notes and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever

nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantors shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon;
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment;
- (c) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;
- (d) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, “Relevant Date” in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) “interest” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and Other Calculations*) or any amendment or supplement to it and (iii) “principal” and/or “interest” shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer and/or the Guarantors for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (“Events of Default”) occurs and is continuing (subject to any applicable grace periods), the Note Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth in aggregate nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, and, in each case, subject to being indemnified and/or secured and/or

pre-funded to its satisfaction give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) **Non-Payment**

Default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes.

(b) **Financial Covenants**

Subject, in each case, to Equity Cure (as defined below):

(i) **RCV Test**

as at any Calculation Date, Group RAR exceeds 0.95:1; or

(ii) **Interest Cover**

Group PMICR in respect of any Calculation Period is less than 1.05:1,

(the "Financial Ratios").

(c) **Breach of Other Obligations**

The Issuer or a Guarantor does not perform or comply with any one or more of its other obligations under or in connection with these Conditions, the Notes or the Trust Deed or any other Note Document which default is (i) incapable of remedy or, if in the opinion of the Note Trustee capable of remedy, is not in the opinion of the Note Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantors by the Note Trustee and (ii) in the opinion of the Note Trustee materially prejudicial to the interests of the Noteholders.

(d) **Cross-Acceleration**

Any other present or future Financial Indebtedness of the Issuer or the Guarantors for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual event of default (howsoever described) provided that the aggregate amount of the Financial Indebtedness in respect of which the events mentioned above in this paragraph (e) have occurred equals or exceeds £10,000,000 or its equivalent (as reasonably determined by the Note Trustee).

(e) **Failure to pay under a Loan Facility**

Default is made in the payment on the due date of interest or principal in respect of any Loan Facility (as defined in the Trust Deed) (after giving effect to any originally applicable grace period).

(f) **Cross Acceleration in respect of the Securitisation**

(A) The termination of a Standstill Period (as defined in the YWS Base Prospectus) other than by waiver or remedy of default or (B) the occurrence of any other event following which, under the terms of the STID (as defined in the MDA), a Secured Creditor (as defined in the MDA) may exercise any acceleration rights (howsoever described) which may be available to it under the underlying credit documents to which it is a party (other than any Security Documents (as defined in the MDA)) and/or the Security Trustee (as defined in the MDA) may enforce any Security Document in accordance with the terms of the STID.

(g) **Enforcement Proceedings**

A distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or the Guarantors and is not discharged or stayed within 30 days.

(h) **Security Enforced**

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantors becomes enforceable and any step is taken to enforce it

(including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person).

(i) **Insolvency**

The Issuer or a Guarantor is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or a Guarantor.

(j) **Winding-up**

An administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or a Guarantor, or the Issuer or a Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for a solvent winding-up, or for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved in advance in writing by the Note Trustee or by an Extraordinary Resolution of the Noteholders.

(k) **Ownership**

The Issuer ceases to be wholly-owned and controlled by KF2.

(l) **Illegality**

It is or will become unlawful for the Issuer or a Guarantor to perform or comply with any one or more of its material obligations under any of the Note Documents.

(m) **Analogous Events**

Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

(n) **Guarantee**

The Guarantee is not (or is claimed by either Guarantor not to be) in full force and effect.

Equity Cure

(a) No default under Condition 10(b) (*Financial Covenants*) above shall occur if, prior to the date on which the Compliance Certificate setting out the calculations in respect of the relevant covenant determination is required to be delivered:

(i) KF1 procures that a Cure Investment is made;

(ii) the proceeds of such Cure Investment are applied either:

(C) in prepayment of Financial Indebtedness of the Group other than Financial Indebtedness incurred under any revolving credit facility; or

(D) in credit to the Defeasance Account, provided that the terms of any Financial Indebtedness outstanding at the time permit defeasance,

as the Obligors may decide in their discretion; and

(iii) a Compliance Certificate is delivered to the Security Trustee and the Original Facilities Agent evidencing that, after taking into account the Cure Investment, the relevant Financial Ratio is not breached,

(a “Cure Right”).

(b) For the purposes of re-calculating the Financial Ratios, in respect of each £1 of Cure Investment KF1 shall apply such £1:

(i) as reducing Total Net Debt as at the Calculation Date if the Group RAR is the defaulted Financial Ratio; or

- (ii) as an addition to Cash Flow on a historical basis (as at the immediately previous Calculation Date) if the Group PMICR is the defaulted Financial Ratio.

A Cure Right may not be exercised more than 2 times in any 5 year period or in respect of two consecutive Calculation Dates.

- (c) The backward looking Financial Ratios shall be calculated on the basis of the most recently delivered financial statements and the forward looking financial covenants shall be calculated on the basis of internal forecasts prepared, in both cases, on a consistent basis and, so far is practicable, in accordance with Accounting Principles and internal management accounts.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding.

The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

- (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;
- (ii) to reduce or cancel the nominal amount of or any premium payable on redemption of, the Notes;
- (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;
- (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum;
- (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;
- (vi) to vary the currency or currencies of payment or denomination of the Notes;
- (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution; or
- (viii) to modify or cancel the Guarantee,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding.

Any Extraordinary Resolution duly passed shall be binding on the Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) Modification of the Trust Deed

The Note Trustee may agree, without the consent of the Noteholders or Couponholders, to

- (i) any modification of any of the provisions of the Trust Deed, the Conditions or any other

Transaction Document that is of a formal, minor or technical nature or is made to correct a manifest or proven error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Conditions or any other Transaction Document that is in the opinion of the Note Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified by the Issuer to the Noteholders as soon as practicable.

These Conditions may be completed in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(c) Substitution

The Trust Deed contains provisions permitting the Note Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business in place of the Issuer or of a Guarantor's successor in business in place of the relevant Guarantor, or, in each case, in place of any previous substituted company, as principal debtor or, as the case may be, Guarantor under the Trust Deed and the Notes provided that any such substitution would not in the opinion of the Notes Trustee be materially prejudicial to the interests of the Noteholders. In the case of such a substitution, the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.

(d) Entitlement of the Note Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition), the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantors any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

Subject to the terms of the Intercreditor Agreement, at any time after the Notes become due and payable, the Note Trustee may, at its discretion and without further notice, take such action or steps or institute such proceedings against the Issuer and/or the Guarantors as it may think fit to enforce the terms of the Trust Deed, the Notes, these Conditions and the Coupons, and may give instructions to the Security Trustee in relation to the Security Agreements under the Intercreditor Agreement as a Secured Creditor Representative representing 100 per cent. of the principal amount of the Notes outstanding, provided that the provisions of the Intercreditor Agreement shall determine whether or not the Security Trustee is obliged to comply with those instructions; but it shall not be required to take any such action, steps or proceedings or give such instructions unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. For the avoidance of doubt, enforcement of the Transaction Security may only take place in accordance with the terms of the Intercreditor Agreement. No Noteholder or Couponholder may proceed directly against the Issuer or the Guarantors unless the Note Trustee, having become bound so to proceed and permitted so to do by the Intercreditor Agreement, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Note Trustee

Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuer, the Guarantors and any entity related to the Issuer or the Guarantors without accounting for any profit.

The Note Trustee may rely without liability to Noteholders or Couponholders or any other person on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial

institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Note Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may, be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

16 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If in the opinion of the Note Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 (the "Act"), but this does not affect any other right or remedy of a third party which exists or is available apart from the Act.

18 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons or the Guarantee (including any disputes in relation to non-contractual obligations arising out of or in connection with them) and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons or the Guarantee (“Proceedings”) may be brought in such courts. Each of the Issuer and the Guarantors has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is issued in CGN form, upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “Common Depository”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is issued in NGN form, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (“Alternative Clearing System”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Overview of the Programme—Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes. If the relevant Final Terms specify the form of Notes as being “Temporary Global Notes exchangeable for Definitive Notes”,

such Temporary Global Notes and such Definitive Notes may only be issued and traded in denominations equal to the Specified Denomination and integral multiples thereof.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) and integral multiples of €1,000 in excess thereof up to and including €199,000. No Definitive Notes will be issued with a denomination above €199,000. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Permanent Global Certificates

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of a holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly paid Notes.

3.5 Delivery of Notes

If the Global Note is issued in CGN form, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is issued in NGN form, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Prospectus, "Definitive Notes" means in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security-printed in accordance with any applicable legal and stock exchange requirements in or

substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

“Exchange Date” means in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is in CGN form, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) (*Appointment of Agents*) and Condition 8(e) (*Payment by another Paying Agent*) will apply to the Definitive Notes only. If the Global Note is in NGN form or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a Global Note in NGN form will be made to its holder. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 7(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the “Record Date”), where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the

Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantors or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is in CGN form, presenting the permanent Global Note to the Issuing and Paying Agent for notation. Where the Global Note is in NGN form or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 NGN Nominal Amount

Where the Global Note is in NGN form, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.10 Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

BUSINESS DESCRIPTION OF ISSUER

The Issuer was incorporated in England and Wales on 26 October 2012 (registered number 08270049) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ. The telephone number of the Issuer's registered office is +44 (0) 12 7480 4106.

1 Ownership

As at the date of this Prospectus, the issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, all of which are partly paid to £0.25 each and all of which are legally and beneficially owned by KF2 (see "*Business Description of Guarantors*" below).

2 Business Activities

The Issuer is a special purpose financing entity with no business operations other than raising external funding for KF2 through the issuance of the Notes and other debt finance. The Issuer has no Subsidiaries.

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the issues or proposed issues of the Notes and the authorisation of and entry into the other Finance Documents referred to in this Prospectus to which it is a party and other matters which are incidental or ancillary to the foregoing. Save as disclosed in this Prospectus, the Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. The Issuer has no employees.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in the Conditions and the Trust Deed.

3 Financial Statements

The accounting reference date of the Issuer is 31 March and the first statutory accounts of the Issuer will be drawn up to 31 March 2013. The Auditors of the Issuer are PricewaterhouseCoopers LLP, chartered accountants.

4 Corporate Governance

The following table sets out the directors of the Issuer and their respective business addresses and occupations. Each director has served in office since the incorporation of the Issuer.

<u>Name</u>	<u>Position</u>	<u>Position(s) Outside the Issuer</u>	<u>Business Address</u>
Richard Flint	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ
Stuart McFarlane	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ
Elizabeth Barber	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ

The company secretary of the Issuer is Stuart McFarlane whose business address is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ.

5 Conflicts

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

BUSINESS DESCRIPTION OF GUARANTORS

KF1

KF1 was incorporated in England and Wales on 11 May 2012 (registered number 08066326) as a private limited company under the Companies Act 2006 (as amended). The registered office of KF1 is at Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ. The telephone number of KF1's registered office is +44 (0) 12 7480 4106.

1 Ownership

As at the date of this Prospectus, the issued share capital of KF1 comprises 100 ordinary shares of one pound each, all of which are owned by Kelda Group Limited.

2 Business Activities and Subsidiaries

KF1 is a holding company with no material, direct business operations other than raising external funding for the Group through debt finance. It is the beneficial owner of the entire issued share capital of KF2.

KF1 will covenant to observe certain restrictions on its activities which are set out in the Trust Deed and the Conditions.

The Auditors of KF1 are PricewaterhouseCoopers LLP, chartered accountants.

3 Corporate Governance

The following table sets out the directors of KF1 and their respective business addresses and occupations:

<u>Name</u>	<u>Position</u>	<u>Position(s) Outside KF1</u>	<u>Business Address</u>
Richard Flint	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ
Stuart McFarlane,	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ
Elizabeth Barber	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ

The company secretary of KF1 is Stuart McFarlane whose business address is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ.

4 Conflicts

There are no potential conflicts of interest between any duties to KF1 of its directors or the company secretary and their private interests or other duties.

KF2

KF2 was incorporated in England and Wales on 16 May 2012 (registered number 08072102) as a private limited company under the Companies Act 2006 (as amended). The registered office of KF2 is at Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ. The telephone number of KF2's registered office is +44 (0) 12 7480 4106.

1 Ownership

As at the date of this Prospectus, the issued share capital of KF2 comprises 100 ordinary shares of one pound each, all of which are owned by KF1.

2 Business Activities and Subsidiaries

KF2 is a holding company with no material, direct business operations other than raising external funding for the Group through debt finance. It is the beneficial owner of (i) the entire issued share capital of the Issuer; and (ii) the entire issued share capital of YWH.

KF2 will covenant to observe certain restrictions on its activities which are set out in the Trust Deed and the Conditions.

The Auditors of KF2 are PricewaterhouseCoopers LLP, chartered accountants.

3 Corporate Governance

The following table sets out the directors of KF2 and their respective business addresses and occupations:

<u>Name</u>	<u>Position</u>	<u>Position(s) Outside KF2</u>	<u>Business Address</u>
Richard Flint	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ
Stuart McFarlane	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ
Elizabeth Barber	Director	Director	Western House Halifax Road Bradford West Yorkshire BD6 2SZ

The company secretary of KF2 is Stuart McFarlane whose business address is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ.

4 Conflicts

There are no potential conflicts of interest between any duties to KF2 of its directors or the company secretary and their private interests or other duties.

OVERVIEW OF THE KEY DOCUMENTS

The following is a summary of the key documents. The information set out below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the terms of the key documents.

Trust Deed

General

The Trust Deed between the Issuer, the Guarantors and the Note Trustee contains, amongst other things, the following provisions:

- (a) the Issuer's covenant to the Note Trustee (who holds the benefit of the covenant on trust for the Noteholders) to pay the principal and interest on the Notes in accordance with the Conditions;
- (b) the Issuer is at liberty from time to time (but subject always to the provisions of the Trust Deed) without the consent of the Noteholders or the Couponholders to create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest in respect of such Notes) and so that such further issues shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue;
- (c) requirements in relation to Global Notes and Definitive Notes;
- (d) the Guarantee given by the Guarantors as further described below;
- (e) the covenants and undertakings of the Issuer and the Guarantors as further described below;
- (f) the Note Trustee's power to approve, authorise or waive any breach or proposed breach of any of the covenants or provisions of the Trust Deed or the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Deed provided that the Note Trustee shall not exercise any powers conferred upon it by such provision in contravention of any express direction by an Extraordinary Resolution (as defined in the Trust Deed) or of a request pursuant to Condition 10 (*Events of Default*);
- (g) provisions relating to meetings of Noteholders; and
- (h) the appointment, retirement, removal, remuneration, indemnification and liability of the Note Trustee.

Guarantee

The Guarantors unconditionally and irrevocably guarantee that if the Issuer does not pay any sum payable by it under the Trust Deed, the Notes or the Coupons at the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise) the Guarantors will pay or procure the payment of that sum to or to the order of the Note Trustee, according to the terms of the Trust Deed and the Notes and the Coupons. In case of the failure of the Issuer to pay any such sum as and when the same becomes due and payable, the Guarantors agree to cause such payment to be made as and when the same becomes due and payable, as if such payment were made by the Issuer.

The Guarantors unconditionally and irrevocably agree, as an independent primary obligation, that they will pay to the Note Trustee sums sufficient to indemnify the Note Trustee and each Noteholder and Couponholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under the Trust Deed, the Notes or the Coupons not being paid on the date and otherwise in the manner specified in the Trust Deed or any payment obligation of the Issuer under the Trust Deed, the Notes or the Coupons being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Note Trustee, any Noteholder or any Couponholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

The Guarantors' guarantee and indemnity is a continuing guarantee and indemnity and shall remain in full force and effect until all amounts due in respect of the Notes or Coupons or under the Trust Deed have been paid in full. The Guarantors' obligations shall not be discharged by anything other than a complete performance of the obligations under the Trust Deed and the Notes and the Guarantors shall be

subrogated to all rights of the Note Trustee and the Noteholders against the Issuer in respect of any amounts paid by the Guarantors pursuant to the Trust Deed.

The Guarantors have, pursuant to the KF1/KF2 Security Agreement, secured their obligations under the Guarantee. Enforcement of the security created pursuant to the KF1/KF2 Security Agreement is subject to the Intercreditor Agreement. The payment obligations of the Guarantors in respect of the Guarantee constitute direct, secured, irrevocable and unconditional obligations of the Guarantors.

Lock-Up

Subject to Equity Cure, at any time at which:

- (a) Group RAR at the date the payment is made (and taking into account such payment) is more than 0.925:1; or
- (b) any drawing is made and is outstanding under Facility C; or
- (c) any Event of Default is continuing or would occur immediately after the making of the payment; or
- (d) a Trigger Event (as defined in the Master Definitions Agreement) has occurred and is continuing, the Issuer and the Guarantors will not (and shall procure that no member of the Group shall) make any of the payments referred to below to any direct or indirect shareholder of KF1:
 - (i) declare, make or pay any dividend, charge, fee, any amount by way of or, in respect of any, intercompany loan or Subordinated Debt, or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital); or
 - (ii) repay or distribute any dividend or share premium reserve (each of (i) and (ii) constituting a “Lock-Up”),

other than a Permitted Distribution. If the Lock-Up is caused solely by a drawing being made under Facility C, then such Lock-Up shall cease upon the repayment of such drawing.

Covenants of the Issuer and the Guarantors

So long as any Note or any Coupon is outstanding, each of the Issuer and the Guarantors will:

- (a) **No acquisitions:** not (and procure that no Intermediate Subsidiary shall) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to acquire any assets other than an acquisition permitted under paragraph (c) of the definition of Permitted Transaction if such acquisition would negatively impact the rating of the Notes;
- (b) **No disposal of YWS:** not (and procure that no member of the Group shall) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to dispose of any of its (direct or indirect) interests in the Licence Holder where such disposal results in the Group ceasing to hold beneficially all of the issued share capital of the Licence Holder;
- (c) **No merger:** not (and procure that no Intermediate Subsidiary shall) enter into any amalgamation, demerger, merger, consolidation or corporate reconstruction other than a Permitted Transaction;
- (d) **No Loans:** except in respect of Permitted Transactions and/or Permitted Loans, not be (and shall procure that no Intermediate Subsidiary shall be) a creditor in respect of any Financial Indebtedness.
- (e) **No guarantees:** not incur or allow to remain outstanding (and procure that no Intermediate Subsidiary shall incur or allow to remain outstanding) any guarantee in respect of any obligation of any person, other than in relation to a Permitted Transaction or any Permitted Guarantee;
- (f) **Pari passu ranking:** ensure that at all times any secured and unsubordinated claims of a Noteholder against it under the Note Documents rank at least *pari passu* with the claims of all its unsecured and unsubordinated creditors, except those creditors whose claims are mandatorily preferred by laws of general application to companies;
- (g) **Conduct of Business:** at all times carry on and conduct its affairs and procure its Intermediate Subsidiaries to carry on and conduct their respective affairs in a proper and efficient manner;

- (h) **Opinions:** give or procure to be given to the Note Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall reasonably require, for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under the Trust Deed, any other Transaction Document or by operation of law;
- (i) **Accounts:** in respect of KF1 only supply to the Note Trustee:
 - (i) as soon as the same become available, but in any event within 120 days after the end of each of its financial years:
 - (a) its audited consolidated financial statements for that Financial Year; and
 - (b) the audited unconsolidated financial statements of YWS for that Financial Year; and
 - (ii) as soon as the same become available, but in any event within 60 days after the end of the first half of each of its financial years:
 - (a) its unaudited consolidated financial statements for that financial half year; and
 - (b) the unaudited unconsolidated interim financial statements of YWS for that financial half year.
- (j) **Accounts to comply with stock exchange rules:** cause to be prepared and certified by the Auditors, in respect of each of its financial years, accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of the London Stock Exchange or such other stock exchange as the Notes may be listed from time to time;
- (k) **Books of Account:** at all times keep, and procure its Intermediate Subsidiaries to keep, proper books of account, and allow, and procure its Subsidiaries to allow, after an Event of Default or Potential Event of Default, or if the Note Trustee has reasonable grounds for so requiring, the Note Trustee and any person appointed by the Note Trustee to whom the Issuer, the Guarantors or the relevant Intermediate Subsidiary (as the case may be) shall have no reasonable objection, free access to such books of account at all reasonable times during normal business hours and make available its annual audited accounts to the Paying Agents at their specified offices for inspection by Noteholders and Couponholders;
- (l) **Paying Agents:** at all times maintain Paying Agents in accordance with the Conditions;
- (m) **London Stock Exchange:** use all reasonable endeavours to maintain the listing of the Notes on the Official List of the Financial Services Authority in its capacity as competent authority under the FSMA and admission to trading on the Market, or, if it is unable to do so having used its reasonable endeavours or if the Note Trustee agrees with the Issuer that the maintenance of such listing is unduly onerous and the Note Trustee is satisfied that to do so would not be materially prejudicial to the interests of the Noteholders, use its reasonable endeavours to obtain and maintain a quotation or listing of the Notes on an EEA Regulated Market or on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Note Trustee) decide and shall also upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Note Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange(s) or securities market(s);
- (n) **Audited Accounts:** supply to the Note Trustee (x) their respective audited financial statements for each of the financial years within 180 days of the end of the relevant financial period; and (y) their respective interim financial statements for each of the financial years within 120 days of the end of the relevant financial period;
- (o) **Compliance Certificate:** in respect of KF1 only, supply to the Note Trustee a Compliance Certificate (in the form set out in Schedule 4 (*Form of Compliance Certificate*) to the Trust Deed) with each set of financial statements supplied to the Note Trustee under paragraph (i) above commencing in respect of the half year ending 31 March 2013, provided that the Compliance Certificate must be signed by two directors of KF1;
- (p) **No Default:** supply to the Note Trustee (i) within 15 Business Days after demand by the Note Trustee therefore a certificate signed by two directors of the Issuer and each Guarantor, respectively and (ii) (without the necessity for demand) promptly after the publication of its audited financial

statements in respect of each year, commencing with the year ending 31 March 2013 and in any event not later than 180 days after the end of such year, a certificate signed by two directors of each Guarantor, to the effect that there does not exist and had not existed since the certification date of the previous certificate (or in the case of the first such certificate, the date hereof) any Event of Default or any Potential Event of Default (or if such exists or existed specifying the same);

- (q) **Notices:** send to the Note Trustee, not less than three days prior to the date on which any such notice is to be given, the form of every notice to be given to the Noteholders in accordance with Condition 16 (*Notices*) and obtain the prior written approval of the Note Trustee to, and promptly give to the Note Trustee two copies of, the final form of every notice to be given to the Noteholders in accordance with Condition 16 (*Notices*) (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21 of the FSMA);
- (r) **Obligations:** comply with and perform all its obligations under the Note Documents and the Intercreditor Agreement and use all reasonable endeavours to procure that the Paying Agents comply with and perform all their respective obligations under the Agency Agreement and any notice given by the Note Trustee pursuant to the Trust Deed;
- (s) **Further Assurance:** at all times execute and do all such further documents, acts and things as may be necessary at any time or times in the opinion of the Note Trustee to give effect to the Note Documents and the Intercreditor Agreement;
- (t) **Legal Opinions:** prior to making any modification or amendment or supplement to the Trust Deed, if reasonably requested, procure the delivery of legal opinion(s) as to English and any other relevant law, addressed to the Note Trustee, dated the date of such modification or amendment or supplement, as the case may be, and in a form acceptable to the Note Trustee from legal advisers acceptable to the Note Trustee;
- (u) **Notification of Event of Default:** unless the Note Trustee has already been so notified, notify the Note Trustee of the occurrence of any Event of Default or Potential Event of Default relating to it (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence;
- (v) **Change of Paying Agent:** give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of a Paying Agent or of any change by a Paying Agent of its specified office and not make any such appointment or removal without the Note Trustee's written approval;
- (w) **Amendments:** not amend, vary, novate, supplement, supersede, waive, terminate or permit to become invalid or ineffective any term of a Note Document or the Intercreditor Agreement without the prior written consent of the Note Trustee;
- (x) **Set-off:** pay moneys payable by it to the Note Trustee without set-off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law will pay such additional amount as will result in the payment to the Note Trustee of the full amount which would otherwise have been payable by it to the Note Trustee under the Trust Deed;
- (y) **Rating Agencies:** notify the Rating Agencies currently rating the Notes of any such amendment, variation, novation, supplementation, succession, waiver or termination of a Note Document or the Intercreditor Agreement (unless deemed not to be reasonably likely to be materially prejudicial to the interests of Noteholders) made in accordance with sub-paragraph (w) above;
- (z) **Ratings:** furnish, or procure that there is furnished, from time to time, any and all documents, instruments, information and undertakings that may be necessary in order to maintain the current ratings of the Notes by the Rating Agencies (save that when any such document, instrument, information and/or undertaking is not within the possession or control of the Issuer, the Issuer agrees to use all reasonable efforts to furnish, or procure that there is furnished, from time to time any such documents, instruments, information and undertakings as may be necessary in order to maintain the current ratings of the Notes by the Rating Agencies); and
- (aa) **Intercompany Loans:** procure that YWS shall not make any further advances to Kelda Holdco Limited under the Intragroup Funding Agreement dated 24 July 2009 between YWS as lender and Kelda

Holdco Limited as borrower or the Intercompany Loan Agreement dated 6 August 2008 between YWS as lender and (following novation) Kelda Holdco Limited as borrower.

Covenants of the Issuer

The Issuer covenants with the Note Trustee that, so long as any of the Notes or Coupons remain outstanding, it will:

- (a) not incorporate or acquire any Subsidiaries;
- (b) not carry on any business or enter into any documents other than those contemplated by or permitted in the Note Documents and the Intercreditor Agreement;
- (c) not transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) hold itself out as a separate entity, conduct its business in its own name and maintain an arm's length relationship with its Affiliates; and
- (e) observe all formalities required by its Articles of Association.

Covenants of the Guarantors

KF2 covenants with the Note Trustee, so long as any of the Notes or Coupons remain outstanding, that it shall hold all of the issued share capital of the Issuer. KF1 covenants with the Note Trustee, so long as any of the Notes or Coupons remain outstanding, that it shall hold all of the issued share capital of KF2.

Governing Law

The Trust Deed (and any non-contractual obligations arising out of or in connection with it) shall be governed by English Law.

Issuer/KF2 Loan Agreement

All Financial Indebtedness raised by the Issuer from time to time will be matched with an aggregatenominal amount of debt owed by KF2 to the Issuer under a loan agreement (the "Issuer/KF2 Loan Agreement"). Each advance under the Issuer/KF2 Loan Agreement will relate to the principal amount of the relevant Notes issued by the Issuer on an Issue Date. The Issuer's obligations to repay principal and pay interest on the Notes are intended to be met primarily from the repayments of principal and payments of interest received from KF2 under the Issuer/KF2 Loan Agreement and, to the extent that the Issuer has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Issuer under such Hedging Agreement. The business of KF2 demonstrates the capacity to produce funds to service any payments due and payable under the Issuer/KF2 Loan Agreement. KF2 will initially use the funds from the Issuer to refinance a portion of the Bank Facilities, pay certain fees and finance its working capital requirements.

All advances to be made by the Issuer under the Issuer/KF2 Loan Agreement will be in a currency and in amounts and at rates of interest which match those relating to the corresponding Notes. Interest on each advance made under an Issuer/KF2 Loan Agreement will accrue from the date of such advance. In addition, each advance will be repayable on the same date as the related Notes.

The Issuer/KF2 Loan is repayable on demand by the Issuer or may be prepaid by KF2 in each case together with (i) interest accrued thereon and any other amounts due or owing to the Issuer at such time and (ii) if the Issuer has elected to redeem the Notes in accordance with Condition 6(d) (*Redemption at the Option of the Issuer*), an amount equal to the excess of the Redemption Price (as defined in Condition 6(d) (*Redemption at the Option of the Issuer*)) over the principal amount of the Issuer/KF2 Loan (if any).

Governing Law

The Issuer/KF2 Loan Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English Law.

Agency Agreement

The Agency Agreement entered into between the Issuer, the Guarantors, the Issuing and Paying Agent and the Note Trustee, includes, amongst other things the following provisions:

- (a) the duties of the Issuing and Paying Agent and the Paying Agents and the terms on which they are appointed, or on which such appointment may be resigned or terminated or any additional or successor Paying Agents may be appointed;
- (b) indemnity by the Issuer (failing whom, the Guarantors) of each Paying Agent against any claim, demand, action, liability, damages, cost, loss or expense incurred otherwise than by reason of its own gross negligence, or wilful misconduct, default or bad faith, as a result or arising out of or in relation to its acting as the agent of the Issuer and the Guarantors in relation to the Notes;
- (c) payment by the Issuer (failing whom, the Guarantors) of principal and/or interest in respect of the Notes, as the same becomes due and payable, to the Issuing and Paying Agent, before such payment becomes due and the manner and time of such payments;
- (d) payment by each Paying Agent of principal and interest to Noteholders in respect of the Notes in accordance with the Conditions;
- (e) provisions relating to the notification of the Note Trustee in the event that the Issuing and Paying Agent (i) does not receive on the due date for payment in respect of the Notes, the full amount payable, or (ii) receives such amount after the relevant due date for payment in respect of the Notes;
- (f) provisions relating to the authentication of the temporary Global Note, the Global Notes and the Definitive Notes, the exchange of the temporary Global Note for a Global Note, the exchange of the Global Note for Definitive Notes and the issue of replacement Notes and Coupons;
- (g) the keeping of records of the payment, redemption, replacement, cancellation and destruction of Notes; and
- (h) the fees and expenses of the Issuing and Paying Agent and the Paying Agents.

Governing Law

The Agency Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English Law.

Intercreditor Agreement

The Intercreditor Agreement entered into between, amongst others, the Issuer, the Guarantors, the Lenders, the Security Trustee, the Note Trustee (on behalf of the initial Noteholders), the Issuing and Paying Agent and the Subordinated Lenders. For a summary and description of certain terms of the Intercreditor Agreement, see “*Intercreditor, Enforcement and the Credit Agreements*”.

Governing Law

The Intercreditor Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English Law.

Security Agreements

The Guarantors entered into the KF1/KF2 Security Agreement pursuant to which KF1 will grant, as security for the Guarantee, (i) fixed security over all its shares in KF2 and all its real property, book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets; and KF2 will grant, as security for the Guarantee, (i) fixed security over all its shares in the Issuer and YWH and all its book debts and bank accounts, present and future, (ii) an assignment of its rights in respect of the Transaction Documents and (iii) a floating charge over all of its property, undertaking and assets.

The Issuer entered into the Issuer Security Agreement pursuant to which the Issuer will grant, as security for the Notes, (i) an assignment of its rights in respect of the Transaction Documents, (ii) a fixed charge over all its book debts, bank accounts and investments, present and future and (iii) a floating charge over all of its property, undertaking and assets.

In addition, each of the Issuer and the Guarantors will give certain undertakings in relation to dealings with the charged property. Pursuant to the terms of the Security Agreements, the proceeds of enforcement are required to be applied by the Security Trustee in accordance with the terms of the Intercreditor Agreement.

Governing Law

The Security Agreements (and any non-contractual obligations arising out of or in connection with them) shall be governed by English Law.

Hedging Agreements

The Guarantors shall enter into Hedging Agreements from time to time.

The Guarantors 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 and certain rating downgrade events affecting the Hedge Counterparty or any guarantor as the case may be where the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of Fitch and S&P).

A Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

- (a) a failure by the Guarantors to make payment when due under the relevant Hedging Agreement;
- (b) certain insolvency events affecting the Guarantors;
- (c) illegality affecting the relevant Hedging Agreement;
- (d) certain tax events;
- (e) the taking of Enforcement Action;
- (f) any “Additional Termination Event” or “Event of Default” as specified in any Hedging Agreement in respect of which the Obligor counterparty is the sole affected party; or
- (g) any termination required or desirable as a result of the repayment or pre-payment of Secured Liabilities by the Obligors.

Notwithstanding the above, the Guarantors shall not be prevented from terminating or closing out any transactions under a Hedging Agreement in accordance with the terms thereof:

- (a) to the extent funded from the proceeds of any Financial Indebtedness, provided that no Event of Default would occur as a result of the incurrence of such Financial Indebtedness;
- (b) to the extent not funded pursuant to (a) above, provided that the amount of the Secured Liabilities to be discharged would not exceed the amount that the Guarantors would be entitled to pay by way of a Permitted Distribution (or any Permitted Distributions or dividends howsoever described) for the purposes of each applicable Finance Document; or
- (c) if such discharge does not require any actual or contingent present or future payment by the Guarantors,

provided that, such termination or close out does not result in a breach of the terms of the Finance Documents.

If, on termination of any transaction under the Hedging Agreements occurring after the commencement of any Enforcement Action, a settlement amount or other amount falls due from a Hedge Counterparty to the Guarantors then that amount shall be paid by that Hedge Counterparty to, or to the order of, the Security Trustee, treated as the proceeds of enforcement of the Transaction Security and applied in accordance with the terms of the Intercreditor Agreement.

INTERCREDITOR, ENFORCEMENT AND THE BANK FACILITIES AGREEMENT

The following is a summary of certain terms of the Intercreditor Agreement and the Bank Facilities Agreement. The information set out below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the terms of the other Transaction Documents.

Intercreditor Agreement

The Intercreditor Agreement entered into between, amongst others, the Issuer, the Guarantors, the Lenders, the Security Trustee, the Note Trustee (on behalf of the Noteholders) and the Issuing and Paying Agent.

The Intercreditor Agreement does not regulate amendments, waivers or releases in respect of the Note Documents, the Finance Documents or any other underlying credit documents that may be entered into from time to time between a Secured Creditor and the Issuer and/or the Guarantors (the Note Documents, the Finance Documents and any other underlying credit documents from time to time being the “Underlying Credit Documents”). (See “*Enforcement Action—Entrenched Rights and Reserved Matters*” below).

Other future credit providers, including any Additional Hedge Counterparties, may become Secured Creditors from time to time by acceding to the Intercreditor Agreement as Secured Creditors.

Secured Creditors and Secured Creditor Representatives

All Secured Creditors must be party to the Intercreditor Agreement (either directly, or through, in the case of the Noteholders and Couponholders, the Note Trustee). The Intercreditor Agreement allows for the following creditors to accede to the Intercreditor Agreement as Secured Creditors by way of an accession deed:

- (a) transferees or assignees of the Subordinated Lenders or Secured Creditors;
- (b) any person which becomes a Secured Creditor Representative in accordance with the terms of the relevant Transaction Documents;
- (c) lenders under any new bank facilities (including transferees); and
- (d) Hedge Counterparties.

For the purposes of the Intercreditor Agreement, the Secured Creditors will be represented as follows by:

- (a) in respect of any Notes, the Note Trustee;
 - (b) in respect of the Original Finance Documents, the Original Facility Agent;
 - (c) in respect of a Loan Facility (except a Bi-lateral Loan Facility), the agent in respect of that Loan Facility;
 - (d) in respect of a Bi-lateral Loan Facility, the Bi-lateral Loan Facility Lender; and
 - (e) in respect of a Hedging Agreement, the relevant Hedge Counterparty (representing itself),
- (each, a “Secured Creditor Representative”).

Claims of the Secured Creditors

The Intercreditor Agreement regulates the claims of the Secured Creditors. Amounts received or recovered from time to time by the Security Trustee pursuant to the terms of any Transaction Document or in connection with the realisation or enforcement of all or any part of the Transaction Security are applied in the following order:

- (a) **first**, on a pro rata basis:
 - (i) in payment of all fees, costs, charges, expenses and liabilities (including any taxes required to be paid) incurred by or on behalf of the Security Trustee, any receiver or any delegate appointed by the Security Trustee in connection with carrying out its functions under the Intercreditor Agreement and the other Transaction Documents (including in connection with any realisation or enforcement of the Transaction Security); and

- (ii) in payment or satisfaction of the fees, costs, charges, expenses and liabilities (including any taxes required to be paid properly) incurred by the Note Trustee and any other delegate appointed by it or them in carrying out its or their functions under the Intercreditor Agreement and/or the applicable Note Documents;
- (b) **second**, on a pro rata basis, in payment or satisfaction of the fees, costs, charges, expenses and liabilities properly incurred by the Original Facility Agent, the Issuing and Paying Agent, the Transfer Agent, the Registrar, the Paying Agent, the Calculation Agent, any other agent in respect of an issue of Notes and any other agent in carrying out its functions under the Intercreditor Agreement and/or the Note Documents, the Agency Agreement, the applicable Additional Note Documents and/or the Finance Documents applicable to it;
- (c) **third**, on a pro rata basis in payment to:
 - (i) the Note Trustee (on behalf of any Noteholders);
 - (ii) the Original Facility Agent (on behalf of the Original Finance Parties);
 - (iii) any agent (on behalf of the relevant Additional Finance Parties); and
 - (iv) each Hedge Counterparty,
 for application (in accordance with the terms of the relevant Underlying Credit Documents) towards the discharge of the Secured Liabilities;
- (d) **fourth**, if the Security Trustee shall have received written notice from the Issuer and the Guarantors that none of the Issuer and the Guarantors are under any further actual or contingent liability under any Transaction Document, in payment to any person to whom the Security Trustee is obliged to pay in priority to any of the Issuer and the Guarantors, as notified in writing by any of the Issuer and the Guarantors to the Security Trustee; and
- (e) **fifth**, the balance, if any, in payment to the Issuer and the Guarantors (as shall be confirmed in writing to the Security Trustee by either of the Issuer or the Guarantors) for application by the Issuer or, as the case may be, the Guarantors in their discretion, including if applicable and so decided, towards discharge of the Subordinated Liabilities.

“Secured Liabilities” means all the liabilities and all other present and future obligations at any time due, owing or incurred by any of the Issuer or the Guarantors to any Secured Creditor under the Transaction Documents, both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

Enforcement Action

No Secured Creditor Representative or the Security Trustee (either in relation to the Transaction Security or under the Intercreditor Agreement) may take Enforcement Action in relation to either the Issuer or the Guarantors other than:

- (a) Permitted Enforcement Action; or
- (b) following a Special Decision of the Majority Secured Creditors approving such action.

Following any Permitted Enforcement Action being taken, the Security Trustee shall promptly upon receiving instructions from the Secured Creditor Representative who has taken such Permitted Enforcement Action (in accordance with the terms of the relevant Underlying Credit Document), where such Secured Creditor Representative does not represent the Majority Secured Creditors, seek instructions from the other Secured Creditors in relation to taking Enforcement Action (other than Permitted Enforcement Action).

“Permitted Enforcement Action” means:

- (a) the cancellation of any commitments by a Secured Creditor following the occurrence of an event of default (howsoever described) and/or the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a

breach of the relevant Hedging Agreement), in each case, in accordance with the terms of the Underlying Credit Documents; and

- (b) the suing for, commencing or joining of any legal or arbitration proceedings against any of the Issuer and the Guarantors to recover any Liabilities,

in each case, in accordance with the Underlying Credit Documents.

Following any Enforcement Action being taken (other than Permitted Enforcement Action by any Hedge Counterparty), the liabilities of all Secured Creditors will be automatically accelerated and, subject to receiving instructions from the Majority Secured Creditors (following a Special Decision of the Majority Secured Creditors) and such indemnities, pre-funding or security as it may require, the Security Trustee shall enforce the Security without need for further instruction.

None of the Subordinated Lenders shall be entitled to take any Enforcement Action unless all the Secured Liabilities have been repaid or discharged in full.

Amendments/Waivers and Releases under the Intercreditor Agreement or the Transaction Security Documents

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Majority Secured Creditors and subject to the Entrenched Rights of each Secured Creditor.

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Issuer and the Guarantors.

Entrenched Rights and Reserved Matters

The Intercreditor Agreement sets out that the following constitute “Entrenched Rights” of the Secured Creditors:

- (a) any amendment or waiver which would result in an increase in or would adversely modify the obligations or liabilities of a Secured Creditor or materially reduce the rights of a Secured Creditor in each case under the Intercreditor Agreement;
- (b) any amendment or waiver which would result in any release of any of the Transaction Security (unless at least equivalent replacement security is taken at the same time or such release is permitted in accordance with the Intercreditor Agreement or the Security Agreements);
- (c) in respect of the Transaction Security, any amendment or waiver which would adversely alter the rights of priority of or enforcement by a Secured Creditor;
- (d) any amendment or waiver which would change any of the Entrenched Rights; or
- (e) any amendment or waiver which would change the Secured Creditor decision-making process contained in the Intercreditor Agreement.

If an Entrenched Right of a Secured Creditor is affected, the relevant Secured Creditor’s approval must be obtained in accordance with the provisions of the relevant Underlying Credit Document before the proposed change can be made. No Entrenched Right will prevent enforcement or acceleration instructions given in accordance with the Intercreditor Agreement or prevent anything expressly permitted by the relevant Underlying Credit Documents.

The relevant Secured Creditors may agree to amend or waive the terms of the Underlying Credit Documents in accordance with the terms of those Underlying Credit Documents without the consent of any Secured Creditors that are not party to such documents.

Voting

The Intercreditor Agreement specifies that Secured Creditor Representatives may give instructions or directions in respect of:

- (a) the exercise by the Security Trustee of any of its rights, powers and discretions; and
- (b) subject to Entrenched Rights, amendments, waivers and releases under the Intercreditor Agreement and the Transaction Security Documents.

The Security Trustee may request and must act on instructions given by such Secured Creditor Representative or Secured Creditor Representatives representing (i) at least in aggregate 66 $\frac{2}{3}$ per cent. of Total Commitments where the instructions relate to a Special Decision or (ii) greater than in aggregate 50 per cent. of Total Commitments, where the instructions relate to any Ordinary Decision (the “Majority Secured Creditors”).

“Total Commitments” means:

- (a) prior to the taking of Enforcement Action (i) the total commitments under the Finance Documents, plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes issued under the Note Documents; and
- (b) following the taking of Enforcement Action, (i) the aggregate principal amount outstanding under the Finance Documents and the Note Documents (including, if applicable, any accretion due to indexation), plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount expressed in pounds sterling on the basis of the applicable Exchange Rate.

“Positive Value” means in respect of each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or the Guarantors (as applicable) following termination of the relevant Hedging Agreements.

“Exchange Rate” means the spot rate at which any currency is converted to pounds sterling as quoted by certain banks as at 11:00 a.m. on the final Business Day on which Secured Creditors may vote on any matter on which the Security Trustee has sought the instructions of the Majority Secured Creditors pursuant to the Intercreditor Agreement.

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the “decision”) to be made pursuant to the Intercreditor Agreement, the Security Trustee shall notify the Obligors and each Secured Creditor Representative of the matter in question and shall also inform each Secured Creditor Representative of the date on which it must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the “Decision Date”).

Each Secured Creditor Representative shall, by the Decision Date, provide to the Security Trustee a certificate setting out directions to the Security Trustee as to the decision of its Secured Creditors, and the certificate shall include the Commitments in respect of the relevant Underlying Credit Document.

“Commitments” means:

- (a) prior to the taking of Enforcement Action:
 - (i) in respect of any Loan Facility, the total commitments under such Loan Facility;
 - (ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and
 - (iii) in respect of any Hedging Agreement, zero; and
- (b) following the taking of Enforcement Action:
 - (i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;
 - (ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and
 - (iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement.

If a Secured Creditor Representative has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the relevant Underlying Credit Document shall be excluded from:

- (a) the Total Commitments to be considered as voting in favour of the relevant decision (the numerator); and

(b) the Total Commitments to be used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right is affected.

In respect of Underlying Credit Documents which constitute a series of Notes, the holders of such Notes will be represented in their entirety by the Note Trustee (100 per cent. of principal outstanding will be voted for or against based on the voting mechanics in the Trust Deed).

In respect of Underlying Credit Documents which are bank facilities, the lenders will be represented in their entirety by the agent in respect of the relevant facility (100 per cent. of commitments or principal outstanding (as the case may be) will be voted for or against based on the voting mechanics in the relevant facility agreement).

In respect of the Hedge Counterparties, each Hedge Counterparty will have no vote prior to the taking of Enforcement Action (save in respect of a veto in relation to amendments which would affect the relevant Entrenched Rights). Following the taking of Enforcement Action, each Hedge Counterparty will vote the aggregate Positive Value under the relevant Hedging Agreement.

Prepayments

The Issuer and the Guarantors may make payments (including voluntary prepayments and redemptions in accordance with the terms of the relevant Finance Document) to the Secured Creditors from time to time in respect of the Secured Liabilities then due in accordance with the terms of the relevant Finance Document.

Bank Facilities Agreement

On 14 June 2012 the Guarantors entered into the Bank Facilities Agreement. The Bank Facilities Agreement is expected to be amended and restated on or about the date of this Prospectus. The Bank Facilities Agreement contains representations and warranties together with covenants and events of default that are, broadly, more extensive than those contained in the terms and conditions of the Notes and in the Trust Deed.

Events of Default

The events of default in the Bank Facilities Agreement include:

- (a) cross acceleration and non-payment cross default in respect of the Notes; and
- (b) a breach of the Intercreditor Agreement (subject to material adverse effect), loss of, or changes to, the Licence and the occurrence of any event or circumstance which has or could reasonably be expected to have, in the reasonable opinion of the majority lenders, a material adverse effect or occur due to a material breach by YWS.

Covenants

The covenants in the Bank Facilities Agreement include:

- (a) restrictions on (i) acquisitions by the Guarantors, and (ii) a disposal of YWS by the Guarantors or any member of the Group; and
- (b) restrictions on the incurrence of Financial Indebtedness and the provision of guarantees (subject to certain exceptions).

Negative Pledge

The Bank Facilities Agreement contains a negative pledge pursuant to which the Guarantors shall not (and the Guarantors must procure that no Intermediate Subsidiary shall), subject to certain exceptions, create or permit to subsist (i) any Security over any of its assets or (ii) “*Quasi Security*” (each as defined in the Bank Facilities Agreement).

Financial covenants

The Guarantors are required to comply with similar financial covenants to those described in “*Terms and Conditions of the Notes—Events of Default*” above.

Permitted Enforcement Action

As a result of the more extensive representations, warranties, covenants and events of default in the Bank Facilities Agreement, the agent in respect of the Bank Facilities Agreement (as a Secured Creditor Representative) may take Permitted Enforcement Action at a time when the Note Trustee may not do so. The taking of any Permitted Enforcement Action by the agent in respect of the New Facilities Agreement will trigger the cross acceleration provision in the Notes which will permit the Note Trustee (subject to approval from the Noteholders) to take Permitted Enforcement Action. See “*Enforcement Action*” above.

TAXATION

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

1 Interest on the Notes

The Notes issued will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange.

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

In all other cases, interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate, subject to the availability of other reliefs or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual, or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on the redemption of such Notes, HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2013.

2 Payments in respect of the Guarantee

The United Kingdom withholding treatment of payments by the Guarantors under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by the Guarantors may not be eligible for the quoted Eurobond exemption described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantors make any such payments, these may be subject to United Kingdom withholding tax at the basic rate.

3 EU Directive on the Taxation of Savings Income

The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other Member State, except that Luxembourg and Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

The European Commission has proposed certain amendments to the Directive, which may if implemented amend or broaden the scope of the requirements described above. A number of third countries (including Switzerland) and certain dependent or associated territories of certain Member States have adopted similar measures to the Directive.

SUBSCRIPTION AND SALE

Summary of the Dealership Agreement

Subject to the terms and on the conditions contained in a Dealership Agreement originally dated on or about the date of this Prospectus and as amended, supplemented, novated and/or restated from time to time (the “Dealership Agreement”) between the Issuer, the Guarantors and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series pursuant to the Dealership Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealership Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Joint Arrangers for certain of their expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealership Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling and Transfer Restrictions

United States

Selling Restrictions

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

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealership Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by such Dealer, (or, in the case of an identifiable Tranche of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of an identifiable Tranche purchased by or through it, in which case the Issuer shall notify 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 it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of such Tranche) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the

United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Transfer Restrictions

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (ii) It understands that such Notes and the Guarantees have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (iii) It understands that such Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

“THIS NOTE AND THE GUARANTEES IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.”

- (iv) It understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (as defined below), 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the

extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) 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 (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (ii) 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 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

These selling restrictions may be modified by the agreement of the Issuer, the Guarantors and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No representation is made by the Issuer, the Guarantors or the Dealers that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material or any Final Terms in all cases at its own expense and neither the Issuer, the Guarantors, the Note Trustee nor any of the Dealers shall have responsibility therefor.

FORM OF FINAL TERMS

Final Terms dated [•]

KELDA FINANCE (NO.3) PLC

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
unconditionally and irrevocably guaranteed by Kelda Finance (No.2) Limited and
Kelda Finance (No.1) Limited

under the £[•] Guaranteed Secured Medium Term Note Programme

Part A—Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [•] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC (and amendment thereto, including Directive 2010/73/EU), to the extent implemented in the Relevant Member State) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer, the Guarantors and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at *www.yorkshirewater.com*] [and] during normal business hours at [Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ] [and copies may be obtained from [address]]. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: *www.londonstockexchange.com*.

- | | | |
|-----|--|--|
| 1. | (i) Issuer: | Kelda Finance (No.3) plc |
| | (ii) Guarantors: | Kelda Finance (No.2) Limited
Kelda Finance (No.1) Limited |
| 2. | (i) Series Number: | [•] |
| | (ii) Tranche Number: | [•] |
| 3. | Specified Currency or Currencies: | [•] |
| 4. | Aggregate Nominal Amount of Notes: | [•] |
| | (i) Series: | [•] |
| | (ii) Tranche: | [•] |
| 5. | Issue Price: | [•] |
| 6. | (i) Specified Denominations: | [•] |
| | (ii) Calculation Amount: | [•] |
| 7. | (i) Issue Date: | [•] |
| | (ii) Interest Commencement Date: | [•] |
| 8. | Maturity Date: | [•] |
| 9. | Interest Basis: | [•] per cent. Fixed Rate]
[[<i>LIBOR/EURIBOR</i>] +/- [•] per cent.
Floating Rate] |
| 10. | Put/Call Options: | [Investor Put]
[Issuer Call] |
| 11. | [Date [Board] approval for issuance of Notes obtained: | [•] [and [•], respectively]] |

Provisions relating to Interest (if any) Payable

13. **Fixed Rate Note Provisions**
- (i) Rate[(s)] of Interest: [Applicable/Not Applicable]
[●] per cent. per annum [payable [annually/
semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance
with [[●]]/not adjusted]
- (iii) Fixed Coupon Amounts: [●] per Calculation Amount
- (iv) Broken Amounts: [●] per Calculation Amount payable on the
Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [Actual/Actual]
[Actual/Actual-ISDA]
[Actual/365 (Fixed)]
[Actual/360]
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual-ICMA]
[●] in each year
- (vi) [Determination Dates: [●] in each year]
14. **Floating Rate Note Provisions**
- (i) Interest Period(s): [Applicable/Not Applicable]
[●]
- (ii) Specified Interest Payment Dates: [●]
- (iii) First Interest Payment Date: [●]
- (iv) Interest Period Date: [●]
- (v) Business Day Convention: [Floating Rate Convention/Following
Business Day Convention/Modified
Following Business Day Convention/
Preceding Business Day Convention/[●]]
- (vi) Additional Business Centre(s): [●]
- (vii) Manner in which the Rate(s) of Interest is/
are to be determined: [Screen Rate
Determination/ISDA
Determination/[●]]
- (viii) Party responsible for calculating the Rate(s)
of Interest and/or Interest Amount(s) (if
not the [Calculation Agent]): [●]
- (ix) Screen Rate Determination:
— Reference Rate: [●]
— Interest Determination Date(s): [●]
— Relevant Screen Page: [●]
- (x) ISDA Determination:
— Floating Rate Option: [●]
— Designated Maturity: [●]
— Reset Date: [●]
- (xi) Margin(s): [+/-][●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [Actual/Actual]
[Actual/Actual-ISDA]
[Actual/365 (Fixed)]
[Actual/360]
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual-ICMA]
- (xv) Fall back provisions, rounding provisions,
denominator. [●]

Provisions relating to Redemption

15. **Call Option** [Applicable/Not Applicable]
(i) Optional Redemption Date(s): [●]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
(iii) If redeemable in part:
(a) Minimum Redemption Amount: [●] per Calculation Amount
(b) Maximum Redemption Amount: [●] per Calculation Amount
16. **Put Option** [Applicable/Not Applicable]
(i) Optional Redemption Date(s): [●]
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
17. **Early Redemption Amount** [●]
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:

General Provisions applicable to the Notes

18. Form of Notes: **Bearer Notes:**
[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
Registered Notes:
[Regulation S Global Note (U.S.\$/€[●] nominal amount) registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
19. New Global Note: [Yes] [No]
20. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[●]]
21. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No.]

Distribution

22. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA C/TEFRA D/TEFRA not applicable]

Signed on behalf of the Issuer:

By:
Duly authorised

Signed on behalf of the Issuer:

By:
Duly authorised

Part B—Other Information

1 Listing

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●][*London Stock Exchange plc*] with effect from [●].]
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●].] [Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: [●]

2 Ratings

Ratings: The Notes to be issued have been rated:
[[Fitch: [●]]
[S&P: [●]]

3 [Interests of Natural and Legal Persons involved in the Issue/Offer] > cfn

[●]

4 [Total Expenses

Estimated total expenses: [●]

5 [Fixed Rate Notes only—YIELD

Indication of yield: [●].

6 Operational Information

ISIN Code: [●]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/[●]]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [●]

Names and addresses of additional Paying Agent(s) (if any) [●]

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary Global Note or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 25 January 2013. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes may be issued pursuant to the Programme.
- (2) Each of the Issuer and the Guarantors has obtained all necessary consents, approvals and authorisations in England and Wales in connection with the establishment and update of the Programme and the Guarantee. The establishment of the Programme was authorised by a resolution of the board of directors of the Issuer and passed on 11 January 2013 and the giving of the Guarantee by the Guarantors was authorised by a resolution of the board of directors of each Guarantor and passed on 11 January 2013.
- (3) There has been no significant change in the financial or trading position of (i) the Issuer since its incorporation on 26 October 2012, (ii) KF2 since its incorporation on 16 May 2012 or (iii) KF1 since its incorporation on 11 May 2012 and no material adverse change in the prospects of (i) the Issuer since its incorporation on 26 October 2012, (ii) KF2 since its incorporation on 16 May 2012 or (iii) KF1 since its incorporation on 11 May 2012.
- (4) There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantors are aware) in respect of the Issuer, the Guarantors or the Group during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantors or the Group.
- (5) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (6) The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (7) There are no material contracts entered into other than in the ordinary course of the Issuer's or Guarantors' business which could result in either being under an obligation or entitlement that is material to the Issuer's or Guarantors' ability to meet its obligations to Noteholders in respect of the Notes being issued.
- (8) Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
- (9) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.
- (10) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for

inspection at the registered office of the Issuer and at the specified offices of the Paying Agents for the time being:

- (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
- (ii) the Agency Agreement;
- (iii) the Intercreditor Agreement;
- (iv) the Security Agreements;
- (v) the Memorandum and Articles of Association of the Issuer and the Guarantors;
- (vi) the latest published annual report and audited financial statements of the Issuer and the Guarantors;
- (vii) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity);
- (viii) a copy of this Prospectus together with the documents, or sections of documents incorporated by reference in this Prospectus, any supplement to this Prospectus or further Prospectus; and
- (ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

This Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

- (11) The Issuer has not published any financial statements since its incorporation on 26 October 2012. The Guarantors have not published any financial statements since their incorporation on 16 May 2012 and 11 May 2012 respectively.
- (12) The Auditors of the Issuer and the Guarantors are PricewaterhouseCoopers LLP, of Benson House, 33 Wellington Street, Leeds LS1 4JP, which is a member firm of the Institute of Chartered Accountants in England and Wales. The financial statements of KF2 and the Issuer will be prepared in accordance with UK GAAP. The consolidated financial statements of KF1 will be prepared in accordance with IFRS.
- (13) The Dealers and the Joint Arrangers and their respective affiliates (i) have provided, and may in the future provide, investment banking, commercial lending, consulting and financial advisory services to, (ii) have entered into and may, in the future enter into, other related transactions with, and (iii) have made or assisted or advised any party to make, and may in the future make or assist or advise any party to make, acquisitions and investments in or related to, the Issuer or the Guarantors and their respective subsidiaries and affiliates or other parties that may be involved in or related to the transactions contemplated in this Prospectus, in each case in the ordinary course of business. In particular, each of the Dealers and the Joint Arrangers will be a lender under the Bank Facilities Agreement.

APPENDIX

**Kelda Finance (No.1) Limited
Unaudited Consolidated Interim Management Financial Statements
for the 21 week period ended 30 September 2012**

The financial statements included on the following pages are the unaudited consolidated interim management accounts of KF1.

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Information to accompany the consolidated interim financial statements

Presented below are the consolidated results for Kelda Finance (No.1) Limited for the 21 week period ended 30 September 2012. These are prepared under International Financial Reporting Standards for the purposes of the £260m Facilities Agreement dated 14 June 2012.

Kelda Finance (No.1) Limited was incorporated on 16 May 2012 and is the holding company of a group including Kelda Finance (No.2) Limited, Yorkshire Water Services Holdings Limited and its subsidiary companies.

On 14 June 2012 Kelda Holdco Limited transferred a £260m loan facility to Kelda Finance (No.2) Limited in exchange for an intercompany loan balance.

On 24 June 2012, Kelda Finance (No.2) Limited—a wholly owned subsidiary of Kelda Finance (No.1) Limited—acquired the Yorkshire Water Services Holdings Limited group of companies in exchange for shares issued to Kelda Group Limited. These interim accounts consolidate the results of Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Yorkshire Water Services Holdings Limited and its subsidiary companies from 24 June 2012 to 30 September 2012.

Group income statement

For the 21 week period ended 30 September 2012

	Note	Unaudited 21 Week Period ended 30 Sep 2012
		£m
Group revenue		234.5
Operating costs		(138.0)
Group operating profit from continuing operations		96.5
Investment income		4.0
Finance costs		(37.7)
Exceptional finance costs	2	(1.9)
Exceptional finance income	2	111.5
Profit from continuing operations before taxation		172.4
Tax credit	3	5.9
Profit for the period from continuing operations		178.3

Group statement of comprehensive income

For the 21 week period ended 30 September 2012

	Unaudited 21 Week Period Ended 30 Sep 2012
	£m
Profit for the period	178.3
Other comprehensive income for the period	—
Total comprehensive income for the period	178.3

Balance sheet

As at 30 September 2012

	Note	Unaudited At 30 Sep 2012 £m
Non-current assets		
Intangible assets		14.2
Property, plant and equipment		6,556.1
		<u>6,570.3</u>
Current assets		
Inventories		1.2
Trade and other receivables		179.5
Amounts owed by parent entities		1,285.4
Tax assets		2.7
Cash and cash equivalents	5	48.0
		<u>1,516.8</u>
Total Assets		<u>8,087.1</u>
Current liabilities		
Short term borrowings		(117.5)
Trade and other payables		(450.1)
		<u>(567.6)</u>
Non-current liabilities		
Long term borrowings		(4,473.3)
Long-term payables		(59.0)
Financial liabilities		(1,249.1)
Deferred grants and contributions on depreciated assets		(69.7)
Provisions		(0.6)
Deferred tax liabilities		(834.0)
		<u>(6,685.7)</u>
Total liabilities		<u>(7,253.3)</u>
Net assets		<u>833.8</u>
Capital and reserves		
Issued share capital	8	—
Hedging reserve		(13.2)
Translation reserve		(0.2)
Revaluation reserve		1,646.3
Profit and loss reserve		(799.1)
Total shareholder's funds		<u>833.8</u>

Group cash flow statement

For the 21 week period ended 30 September 2012

	Note	Unaudited 21 week period ended 30 Sep 2012
		£m
Cash generated by continuing operations	6	170.2
Income taxes paid		—
Interest paid	7	(76.6)
Net cash flow from operating activities		93.6
Investing activities		
Interest received	7	45.2
Proceeds on disposals of property, plant and equipment		0.1
Purchases of property, plant and equipment		(91.5)
Capital grants and contributions		5.0
Net cash used in investing activities		(41.2)
Financing activities		
Dividends paid	4	(154.0)
Drawdown of borrowings		375.2
Repayment of borrowings		(251.2)
Repayments of obligations under finance leases		(1.0)
Net cash used in financing activities		(31.0)
Decrease in cash and cash equivalents		21.4
Cash and cash equivalents on acquisition of subsidiary		26.6
Cash and cash equivalents at the end of the period	5	48.0

Group statement of changes in equity

For the 21 week period ended 30 September 2012

	Ordinary shares	Share premium	Hedging reserve	Translation reserve	Share- based payment reserve	Revaluation reserve	Profit and loss reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
On incorporation	—	—	—	—	—	—	—	—
Shares issued	—	778.4	—	—	—	—	—	778.4
Reduction in capital	—	(778.4)	—	—	—	—	778.4	—
Acquired during the period	—	—	(13.2)	(0.2)	0.1	1,646.3	(1,341.8)	291.2
Profit for the period	—	—	—	—	—	—	178.3	178.3
Dividends	—	—	—	—	—	—	(414.0)	(414.0)
Other movements	—	—	—	—	(0.1)	—	—	(0.1)
Total included in the Group statement of other comprehensive income	—	—	—	—	—	—	—	—
At 30 September 2012	—	—	(13.2)	(0.2)	—	1,646.3	(799.1)	833.8

Kelda Finance (No.1) Limited
Notes to the financial statements
For the six months ended 30 September 2012

1. Basis of preparation and accounting

The financial statements are produced under International Financial Reporting Standards (IFRS).

The accounting policies, methods of computation and presentation are consistent with those proposed for the audited financial statements of Kelda Finance (No.1) Limited for the period ended 31 March 2013.

On 24 June 2012, Kelda Finance (No.2) Limited—a wholly owned subsidiary of Kelda Finance (No.1) Limited—acquired the Yorkshire Water Services Holdings Limited group of companies in exchange for shares issued to Kelda Group Limited. These interim accounts therefore consolidate the results of Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Yorkshire Water Services Holdings Limited and its subsidiary companies for the period from 24 June 2012 to 30 September 2012.

2. Exceptional finance income and costs

Exceptional finance income relates to movements in the fair value of index linked swaps. The index linked swaps hedge against movements in RPI by receiving interest based on LIBOR and accruing interest payable based on RPI. These swaps have been valued at the reporting date at fair value, which at 30 September 2012 resulted in a £1,310.5m loss (on acquisition: £1,418.7m loss). Of the movement in the period of £108.2m, a charge of £3.3m relating to RPI accretion has been recognised within finance costs and £111.5m has been recognised as exceptional finance income. This has been included in the income statement as the specific circumstances which would allow them to be held in reserves have not been met. However, these losses are unrealised and may reverse in the future.

Exceptional finance costs relate to movement in the fair value of finance lease swaps and combined cross currency interest rate swaps and associated bonds. The movement of fair value of finance lease swaps is a result of floating to fixed interest rate swaps taken out by the Yorkshire Water Services Holdings Limited group of companies to hedge against movements in 12 month LIBOR interest rates on floating rate finance leases. The swaps hedge the movement in interest rates by receiving interest based on 12 month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 30 September 2012 resulted in a £22.4m loss (on acquisition: £20.9m loss). The movement in the period of £1.5m has been recognised as an exceptional finance cost. This has been included in the income statement as the specific circumstances which would allow them to be held in reserves have not been met. However, these losses are unrealised and may reverse in the future.

Exceptional finance costs also include the fair value movement of various combined cross currency interest rate swaps which were nominated as fair value through profit and loss on inception by the Yorkshire Water Services Holdings Limited group of companies. The combined cross currency interest rate swaps have been valued at the reporting date at fair value. In line with IAS39, the financial instruments to which the swaps relate have also been measured at fair value at 30 September 2012. The net impact of the fair value movement in the period of the cross currency swaps and the associated bonds has resulted in a £0.4m charge to the income statement.

3. Tax Credit

	Unaudited 21 week period ended 30 Sep 2012 £
Tax relating to continuing operations:	
Current tax	—
Deferred tax	8.6
Prior year tax	(2.7)
	5.9

Kelda Finance (No.1) Limited
Notes to the financial statements (Continued)
For the six months ended 30 September 2012

3. Tax Credit (Continued)

The current tax expense comprises corporation tax calculated at the estimated effective tax rates for the year.

Deferred tax in the current period includes a £25.6m charge relating to the exceptional finance income of £111.5m for movements in the fair value of index linked hedges and a £0.4m credit relating to the exceptional finance charge of £1.9m for movement in the fair value of finance lease and cross combined currency interest rate hedges, offset by adjustments made in respect of tax rate changes.

4. Dividends paid

	Unaudited 21 week period ended 30 Sep 2012
	£m
Cash dividends	154.0
Other dividends	260.0
Total dividends	414.0

5. Analysis of net debt

	Unaudited At 30 Sep 2012
	£m
Cash and cash equivalents:	
Cash at bank and in hand	—
Short term deposits	48.0
	48.0
Short term borrowings:	
Bank loans	(92.4)
Finance leases	(25.1)
	(117.5)
Long term borrowings:	
Bank loans	(609.6)
Fixed rate guaranteed bonds due in more than 5 years	(1,993.1)
Index linked guaranteed bonds due in more than 5 years	(1,232.9)
Fixed rate US Dollar bonds due in more than 5 years	(284.5)
Other loans	(87.9)
Finance leases	(265.3)
	(4,473.3)
Amounts owed by parent entities	1,009.0
Total net debt	3,533.8

Included in long term loans stated above of £609.6m is £260.0m transferred to Kelda Finance (No.2) Limited from Kelda Holdco Limited under the £260m Facilities Agreement dated 14 June 2012 in exchange for an intercompany loan balance. With the exception of the £260m facility, all debt is held within the Yorkshire Water Services Holdings Limited group of companies.

Of the total net debt, £497.2m relates to class B debt. Net debt at 30 September 2012 includes £1,009.0m presented within debtors.

Kelda Finance (No.1) Limited
Notes to the financial statements (Continued)
For the six months ended 30 September 2012

5. Analysis of net debt (Continued)

Other loans above of £87.9m include index linked swaps of £77.5m, representing £157.9m of RPI accretion discounted by £80.4m to reflect the net present value of the future liability.

Yorkshire Water raises debt as part of the Yorkshire Water financing group. This group of companies includes Yorkshire Water and its subsidiary companies. Debt covenants covering the financing group include the consolidated external debt of this group of companies. When calculating the consolidated debt position it should be noted that the book value recorded in these accounts on the internal loan relating to the exchanged bonds is higher than the book value recorded in Yorkshire Water Services Odsal Finance Ltd accounts by £36.3m, which accounted for the exchanged bonds at their fair value at the date of exchange.

Included in net debt above are £4.7m of unamortised loan issue costs.

6. Reconciliation of operating profit to cash generated by continuing operations

	Unaudited 21 week period ended 30 Sep 2012
	£m
Operating profit	96.5
Depreciation	48.2
Amortisation of grants	0.2
Decrease in trade and other receivables	6.7
Increase in trade and other payables	18.3
Other non-cash movements	0.3
Net cash inflow from operating activities	170.2

7. Cash interest

	Unaudited 21 week period ended 30 Sep 2012
	£m
Cash interest received:	
External interest received by Yorkshire Water financing group	9.0
Interest received from parent entities	36.2
	<u>45.2</u>
Cash interest paid:	
External interest on £260m facility	3.0
External interest paid by Yorkshire Water financing group	73.6
	<u>76.6</u>

8. Share capital

	No of ordinary shares	Nominal value of ordinary shares
	£	£
Balance at 25 June 2012 and 30 September 2012	<u>100</u>	<u>100</u>

INDEX OF DEFINED TERMS

“2006 ISDA Definitions” means the definitions published by the International Swaps and Derivatives Association Inc. to be used in the documentation of interest rate and currency exchange transactions;

“Accounting Principles” means accounting principles, policies, standards, bases and practices which, at the relevant time; are generally accepted in the United Kingdom;

“Additional Finance Documents” means:

(a) in respect of a Loan Facility other than those made available under the Bank Facilities Agreement, the Finance Documents as defined in the facility agreement governing the terms of such Loan Facility; and

(b) any Additional Hedging Agreement;

“Additional Finance Parties” means in respect of a Loan Facility other than those made available under the Bank Facilities Agreement, the Finance Parties (as defined in the relevant Additional Finance Documents); provided that such parties have acceded to the Intercreditor Agreement by executing a Secured Creditor Accession Deed;

“Additional Hedge Counterparties” means in respect of any Additional Hedging Agreements, the hedge counterparties under such documents;

“Additional Hedging Agreement” means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by an Obligor and an Additional Hedge Counterparty for the purpose of hedging liabilities after the date of this Prospectus;

“Additional Note Documents” means in respect of an issue of Notes by the Issuer other than the initial issuance of Notes, any additional documents governing the terms of such Notes and any loan drawdown documents pursuant to the Issuer/KF2 Loan Agreement;

“Additional Note Parties” means in respect of an issue of Additional Notes by the Issuer, the Noteholders of such Additional Notes and the Note Trustee (on its own behalf and on behalf of the relevant Noteholders) and any agents in respect of such issue of Notes under the relevant Additional Note Documents; provided that any such agents which are not already party to the Intercreditor Agreement have become Secured Creditors by executing Secured Creditor Accession Deeds;

“Additional Notes” means any Notes issued under Additional Note Documents;

“Affiliate” means in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing, in relation to The Royal Bank of Scotland plc (“RBS”), the term “Affiliate” shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty’s Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty’s Treasury and UK Financial Investments Limited) and which are not part of RBS and its subsidiaries or subsidiary undertakings or The Royal Bank of Scotland Group plc and its subsidiaries or subsidiary undertakings (including The Royal Bank of Scotland N.V. and each of its subsidiaries or subsidiary undertakings);

“Affiliated Fund” means, in relation to any person, any Fund which is advised by, or the assets of which are managed (either solely or predominantly) from time to time by, that person, that person’s Sponsor Affiliates, or the general partner, trustee, nominee, manager or investment adviser of any of them;

“Agency Agreement” means the agency agreement relating to the Programme originally dated on or around the date of this Prospectus and as amended or restated from time to time between the Issuer, the Guarantors, Deutsche Trustee Company Limited as Note Trustee, Deutsche Bank AG, London Branch as initial Issuing and Paying Agent and the other agents mentioned in it;

“Alternative Clearing System” means Euroclear, Clearstream, Luxembourg or any other permitted clearing system;

“AMP” means an asset management plan submitted by YWS to Ofwat in respect of a five year period;

“AMP Period” means a five year period in relation to which an AMP is submitted by YWS;

“Approved Bank” means:

- (a) any Lender;
- (b) any bank or financial institution which has a rating for its long-term debt obligations of A- or higher by S&P or Fitch or A3 or higher by Moody’s (or equivalent ratings by such rating agencies in the event of any change in rating scale) or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution which is otherwise approved as such by the Note Trustee (acting as directed by an Extraordinary Resolution of the Noteholders).

“Auditors” means one of PricewaterhouseCoopers, Ernst & Young, KPMG or Deloitte & Touche or any other reputable audit firm reasonably acceptable to the Note Trustee;

“Bank Facilities” means the facilities made available to KF2 under the Bank Facilities Agreement;

“Bank Facilities Agreement” means the facilities agreement for certain term and revolving facilities between, among others, the Guarantors and the Lenders dated on or around 14 June 2012, as amended and restated from time to time;

“Bearer Note” means a Note that is in bearer form, and includes any replacement Bearer Note issued pursuant to the Conditions and any temporary Global Note or permanent Global Note;

“Bi-lateral Loan Facility” means a Loan Facility made available to an Obligor designated as a Bi-lateral Loan Facility;

“Bi-lateral Loan Facility Lender” means the provider of the credit facility under a Bi-lateral Loan Facility;

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are open for general business in London, and:

- (a) (in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of that currency; or
- (b) (in relation to any date for payment or purchase of euro) any TARGET2 Business Day;

“Calculation Date” means, in respect of the relevant year, 31 March and 30 September of that year, in respect of the first year, starting on 31 March 2013;

“Calculation Period” means:

- (a) in respect of a Calculation Date falling on 31 March, two periods, consisting of (i) the immediately preceding 12 months and (ii) the immediately succeeding 12 months; and
- (b) in respect of a Calculation Date falling on 30 September, one period, consisting of the aggregate of the immediately preceding 6 months and the immediately succeeding 6 months;

“Capital Expenditure or Capex means, for any period, expenditure which should be treated as capital expenditure in accordance with the Accounting Principles (and so that, to the extent the relevant expenditure is financed under a finance lease, the total amount expended by the relevant lessor during such period shall be included as Capital Expenditure);

“Capital Maintenance Expenditure” means the aggregate of the Infrastructure Renewals Charge and Current Cost Depreciation as set out by Ofwat in its most recent Final Determination;

“Cash” means cash in hand or credit balances or amounts on deposit which are freely transferable and freely convertible and are accessible by a member of the Group on demand with any Approved Bank and which is not subject to any security interest (other than one existing under the Transaction Security Documents);

“Cash Equivalents” means:

- (a) securities denominated in pounds sterling and issued on or unconditionally guaranteed by the government of the United States, the United Kingdom, France or Germany or by any agency of such a government having an equivalent credit rating;
- (b) commercial paper denominated in pounds sterling not issued or guaranteed by a member of the Group, for which a recognised trading market exists and maturing within 90 days of being acquired and having a rating of at least A-1 from S&P and Fitch and at least P-1 from Moody’s; and

- (c) certificates of deposit or bankers' acceptances maturing within 90 days of being acquired issued by any bank or financial institution having a long term unsecured debt rating of at least A-1 from S&P and Fitch and at least P-1 from Moody's;

“Cash Flow” means, for any Calculation Period, operating profit as shown in the YWS financial statements, after (without double counting and to the extent that such items are included or excluded (as relevant) in arriving at operating profit as shown in the YWS financial statements):

- (a) adding back depreciation;
- (b) adding back amortisation;
- (c) adding back exceptional, one-off or non-recurring costs;
- (d) deducting exceptional, one-off or non-recurring receipts;
- (e) adding back exceptional, one-off or non-recurring non-cash write-downs of assets;

minus corporation tax paid, plus corporation tax repaid;

“Certificate” means a registered certificate representing one or more Registered Notes of the same Series and, save as provided in the Conditions, comprising the entire holding by a Noteholder of his Registered Notes of that Series;

“Classic Global Note” or “CGN” means a classic global note;

“Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January;

“Clearstream, Luxembourg” means Clearstream Banking, société anonyme;

“Commitments” means:

- (a) prior to the taking of Enforcement Action:
 - (i) in respect of any Loan Facility, the total commitments under such Loan Facility; and
 - (ii) in respect of any series of Notes, the principal amount outstanding under all of such series of Notes; and
 - (iii) in respect of any Hedging Agreement, zero; and
- (b) following the taking of Enforcement Action:
 - (i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;
 - (ii) in respect of any series of Notes, the principal amount outstanding under all of such series of Notes; and
 - (iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement;

“Common Safekeeper” means in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes;

“Common Terms Agreement” means the common terms agreement entered into on 24 July 2009 (as amended and/or restated, supplemented or novated from time to time) between, among others, YWS and Deutsche Trustee Company Limited, in relation to the Securitisation;

“Compliance Certificate” means a certificate supplied by the Issuer and each Guarantor to the Note Trustee certifying compliance with, and setting out, among other things, calculation of, the financial covenants set out in the Trust Deed;

“Conditions” means, in respect of the Notes of each Series, the terms and conditions applicable thereto which shall be substantially in the form set out in the section entitled “*Terms and Conditions of the Notes*” in this Prospectus, as modified, with respect to any Notes represented by a Global Certificate or a Global Note, by the provisions of such Global Certificate or Global Note, shall incorporate any additional provisions forming part of such terms and conditions set out in Part A of the relevant Final Terms relating to the Notes of that Series and shall be endorsed on the Definitive Notes, subject to amendment and completion and any reference to a particularly numbered Condition shall be construed accordingly;

“Construction Output Price Index” means the index issued by the Department for Business, Enterprise and Regulatory Reform (or any successor thereto), 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;

“Couponholder” has the meaning given to it in the Conditions;

“Coupons” means the bearer coupons relating to interest bearing Bearer Notes or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions;

“Cure Investment” means a subscription by the immediate Holding Company of KF1 for shares in KF1 or any subordinated debt made available by one or more of its direct or indirect shareholders to KF1;

“Current Cost Depreciation” 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 the Group in Ofwat’s most recent Periodic Review adjusted as appropriate for any subsequent IDOK and for movements in the Retail Price Index provided that for the purposes of calculating any financial covenant for any Calculation Period for which there is no Final Determination, the “Current Cost Depreciation” shall be YWS’s good faith estimate of such expenditure for such Calculation Period;

“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, Barclays Bank PLC, Banco Santander S.A., Commonwealth Bank of Australia, HSBC Bank plc, Lloyds TSB Bank plc and any other entity which the Issuer and the Guarantors may appoint as a dealer in accordance with the Dealership Agreement;

“Dealership Agreement” means the Dealership Agreement relating to the Programme originally dated on or around the date of this Prospectus and as amended or restated from time to time between the Issuer, the Guarantors, the Dealers and any other entity which the Issuer and the Guarantors may appoint as a dealer in accordance with the Dealership Agreement;

“Default” means an Event of Default or a Potential Event of Default;

“Defeasance Account” means an account in the name of KF1, secured in favour of the Security Trustee on behalf of the Secured Creditors, the proceeds of which shall, prior to an Event of Default, only be used in payment of outstanding additional indebtedness which is permitted by the terms of the Bank Facilities Agreement and, following an Event of Default, shall be applied in accordance with the priorities set out in clause 11 (*Application of Proceeds*) of the Intercreditor Agreement;

“Defeasance Cash” means the amount standing to the credit of the Defeasance Account from time to time;

“Definitive Note” means a Bearer Note in definitive form having, where appropriate, Coupons, and/or a Talon attached on issue and, unless the context requires otherwise, means a Certificate (other than a Global Certificate) and includes any replacement Note or Certificate issued pursuant to the Conditions;

“Defra” means the United Kingdom Department for the Environment, Food and Rural Affairs;

“EEA Regulated Market” means a market which complies with the requirements set out in Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments;

“Enforcement Action” means:

- (a) the cancellation of any commitments by a Secured Creditor following the occurrence of an event of default (howsoever described) and/or the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case in accordance with the Underlying Credit Documents;
- (b) the taking of any steps to enforce or require the enforcement of any Transaction Security (including the crystallisation of any floating charge forming part of the Transaction Security);

- (c) the making of any demand against the Issuer or the Guarantors in relation to any guarantee, indemnity or other assurance against loss in respect of any Liabilities or exercising any right to require either the Issuer or the Guarantors to acquire any Liability;
- (d) following the occurrence of an Event of Default (as defined in the Intercreditor Agreement), the exercise of any right of set-off against the Issuer or the Guarantors in respect of any Liabilities;
- (e) the suing for, commencing or joining of any legal or arbitration proceedings against the Issuer or the Guarantors to recover any Liabilities;
- (f) the entering into of any composition, assignment or arrangement with the Issuer or the Guarantors (unless approved by the Majority Secured Creditors); or
- (g) the petitioning, applying or voting for, or the taking of any steps (including the appointment of any liquidator, receiver, administrator or similar officer) in relation to, the winding up, dissolution, administration or reorganisation of the Issuer or the Guarantors or any suspension of payments or moratorium of any indebtedness of the Issuer or the Guarantors, or any analogous procedure or step in any jurisdiction;

“Enterprise Act” means the Enterprise Act 2002 which received Royal Assent on 7 November 2002, and any subsequent amendments thereto;

“Entrenched Rights” means the rights of the Secured Creditors provided by the terms of clause 23.1 of the Intercreditor Agreement and summarised in the section entitled “*Intercreditor, Enforcement and the Bank Facilities Agreement*” of this Prospectus;

“EURIBOR” means the Euro-zone Inter-Bank Offered Rate;

“Euro” “euro” or “€” means the currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty on the functioning of the European Community, as amended from time to time;

“Euroclear” means Euroclear Bank S.A./N.V.;

“Eurosysteem” means the European Central Bank and the national central banks of EU Member States that have adopted the Euro;

“Event of Default” means an event described in Condition 10 (*Events of Default*) that, if so required by that Condition, has been certified by the Note Trustee to be, in its opinion, materially prejudicial to the interests of the Noteholders;

“Exchange Date” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located;

“Extraordinary Resolution” means a resolution passed at a meeting of Noteholders of a single series of Notes duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent. of the votes cast;

“Facility C” means the revolving facility granted to KF2 in accordance with clause 2 of the Bank Facilities Agreement;

“Final Determination” means the final price determination made by Ofwat on a five-yearly basis;

“Final Terms” means in relation to a Tranche, the Final Terms issued specifying the relevant issue details of such Tranche, substantially in the form set out in the section entitled “*Terms and Conditions of the Notes*” in this Prospectus;

“Finance Documents” means the Original Finance Documents and the Additional Finance Documents;

“Finance Party” has the meaning given to it in the Finance Documents;

“Financial Indebtedness” means any indebtedness of any member of the Group for or in respect of the following (without double counting):

- (a) monies borrowed or raised and debit balances at banks or other financial institutions;
 - (i) which shall be, calculated net of applicable credit balances where such monies are borrowed by a member of the Group as part of netting arrangements with a financial institution; and
 - (ii) which shall include accretions by indexation in respect of index-linked swaps entered into by a member of the Group;
- (b) any acceptance credit or bill discounting facility (including any dematerialised equivalent);
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any share in any member of the Group which is not held by another member of the Group and which by its terms (or any the terms of any security into which it is convertible or for which it is exchangeable, in each case at the option of the holder of that security) or upon the happening of any event matures or is mandatorily redeemable or is redeemable at the option of its holder in whole or in part on or prior to the Discharge Date (as defined in the Intercreditor Agreement);
- (e) any agreement treated as a finance lease in accordance with the Accounting Principles;
- (f) receivables sold or discounted (except to the extent that there is no recourse);
- (g) the acquisition cost of any asset or service to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition or construction of that asset or the acquisition of that service (but excluding trade credit on customary commercial terms) and is due more than three months after the date of acquisition or supply;
- (h) any termination amount due by a member of the Group in respect of any Treasury Transaction that has terminated;
- (i) any other transaction which has the commercial effect of a borrowing and is treated as such under the applicable Accounting Principles;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or other instrument issued by a bank or financial institution in respect of an underlying liability of any person which is of the nature referred to in the above paragraphs; or
- (k) any guarantee in respect of an underlying liability of any person which is of the nature referred to in the above paragraphs,

provided that any amount owed by one member of the Group to another member of the Group shall not be taken into account;

“Financial Year” means the annual accounting period of the Group ending on or about 31 March in each year;

“Fitch” means Fitch Ratings Ltd.;

“Fixed Rate Note” means a Note 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 Final Terms);

“Floating Rate Note” means a Note 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 Final Terms);

“FSMA” means the Financial Services and Markets Act 2000, as amended from time to time;

“Fund” means any co-investment vehicle, unit trust, investment trust, investment company, limited partnership, general partnership or other collective investment scheme, investment professional (as defined in Article 19(5)(d) of the Financial Services and Markets Act (Financial Promotion) Order 2005), high net worth company, unincorporated association or high value trust (as defined in Article 49(2)(a) to (c) of the Financial Services and Markets Act (Financial Promotion) Order 2005), pension fund, insurance company, authorised person under the Financial Services and Markets Act 2000 or any body corporate or other entity, in each case the assets of which are managed professionally for investment purposes;

“Global Certificate” means a Certificate representing Registered Notes of one or more Tranches of the same Series that are registered in the name of a nominee for one or more clearing systems;

“Global Note” means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require;

“Group” means the Obligors and any of their Subsidiaries from time to time;

“Group PMICR” means, in respect of a Calculation Period, the ratio of:

(a) Cash Flow for that Calculation Period less Capital Maintenance Expenditure spent or to be spent in that Calculation Period (as anticipated by Ofwat in its most recent Final Determination) to;

(b) the Total Interest Service for the same Calculation Period;

“Group RAR” means the ratio of Total Net Debt to RCV;

“Group Tax Relief” means any right to allocate or reallocate Tax or Relief between members of a group including by way of the surrender of losses under Part 5 Corporation Tax Act 2010;

“Guarantors” means KF1 and KF2;

“Hedge Counterparty” means a person which is or becomes a party to the Intercreditor Agreement as a Hedge Counterparty in accordance with the provisions of the Intercreditor Agreement;

“Hedging Agreement” means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Guarantors or the Issuer and a Hedge Counterparty for the purpose of hedging interest rate liabilities;

“Hedging Liabilities” means the Liabilities owed by the Guarantors to the Hedge Counterparties under or in connection with the Hedging Agreements;

“Holding Company” of any other person, means a person in respect of which that other person is a Subsidiary;

“ICSD” means International Central Securities Depositories;

“IDOK” means an interim determination of K (as that term is defined in the Instrument of Appointment) as provided for in Part IV of Condition B of the Instrument of Appointment;

“Infrastructure Renewals Charge” 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 the Group in Ofwat’s most recent Periodic Review adjusted as appropriate for any subsequent IDOK and for movements in the Retail Price Index provided that for the purposes of calculating any financial covenant for any Calculation Period for which there is no Final Determination, the “Infrastructure Renewals Charge” shall be YWS’s good faith estimate of such expenditure for such Calculation Period;

“Insolvency Act” means the Insolvency Act 1986;

“Instrument of Appointment” or “Licence” means the instrument of appointment dated August 1989 granted by the Secretary of State for Environment for YWS as a water undertaking under Sections 11 and 14 of the Water Act 1989 (now Sections 6, 7, 11 and 12 of the WIA), as modified or amended from time to time;

“Intercreditor Agreement” means the intercreditor agreement originally dated 14 June 2012 as amended or restated from time to time between, among others, the Issuer, the Guarantors, the Lenders, the Note Trustee and the Security Trustee;

“Interest” means, in respect of any period, interest and amounts in the nature of interest or recurring commitment fees paid or received, under any liabilities of the Total Net Debt after taking into account any hedging arrangements;

“Intermediate Subsidiary” means, in respect of the Guarantors, any Subsidiary of the Guarantors that is a Holding Company of YWS but is not a member of the Securitisation Group;

“Investor’s Currency” means the currency in which the investor’s financial activities are principally denominated;

“ISDA” means the International Swaps and Derivatives Association Inc.;

“Issuer” means Kelda Finance (No.3) plc;

“Issuer/KF2 Loan” means the loan made pursuant to the Issuer/KF2 Loan Agreement;

“Issuer/KF2 Loan Agreement” means the loan agreement entered into between the Issuer, KF2 and the Security Trustee on or around the Refinancing Date;

“Issuer Security Agreement” means the security agreement dated on or around the Refinancing Date between the Issuer and the Security Trustee;

“Issuing and Paying Agent” means the person named as such in the Conditions or any Successor Issuing and Paying Agent, in each case, at its specified office;

“Joint Arrangers” means The Royal Bank of Scotland plc, Barclays Bank PLC, Banco Santander S.A., Commonwealth Bank of Australia, HSBC Bank plc and Lloyds TSB Bank plc;

“Junior Group” means the Holding Companies of KF1;

“Kelda Group” means Kelda Holdings Limited and its subsidiaries;

“Kelda Group Payment Arrangement” means the arrangement entered into pursuant to Section 59F Taxes Management Act 1970 under which Kelda Group Limited has agreed to discharge the Tax liabilities of the Group (other than the Securitisation Group) and the Junior Group;

“KF1” means Kelda Finance (No.1) Limited;

“KF1/KF2 Security Agreement” means the security agreement dated 25 June 2012 between the Guarantors and the Security Trustee;

“KF2” means Kelda Finance (No.2) Limited;

“Legal Opinion” means any legal opinion delivered to the Note Trustee in accordance with the covenants set out in the Trust Deed;

“Legal Reservations” means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Acts, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any Relevant Jurisdiction; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in the Legal Opinions;

“Lenders” means the “Lenders” as defined in Bank Facilities Agreement;

“Liabilities” means all present and future liabilities, obligations and indebtedness at any time of the Issuer or the Guarantors to any Secured Creditor or any Subordinated Lender (both actual and contingent and whether incurred solely or jointly or in any other capacity) together with any of the following matters relating to or arising in respect of those liabilities and obligations:

- (a) any refinancing, novation, deferral or extension;
- (b) any claim for damages or restitution;
- (c) any claim as a result of any recovery by the Issuer or the Guarantors of a payment or discharge on the grounds of preference; and
- (d) any claim for breach of representation, warranty or undertaking or an event of default or under any indemnity given under or in connection with any document or agreement evidencing or constituting any liability or obligation falling within this definition,

and any amounts which would be included in any of the above but for any discharge, non-provability or unenforceability of those amounts in any insolvency or other proceedings;

“LIBOR” means the London inter-bank offered rate;

“Licence” shall have the same meaning as Instrument of Appointment;

“Licence Holder” means YWS or any successor which is a member of the Group;

“Limitation Acts” means the Limitation Act 1980 and the Foreign Limitation Periods Act 1984;

“Loan Facility” means a loan facility made available to the Issuer or the Guarantors;

“Lock-Up” has the meaning given to it in “*Overview of the Key Documents—Trust Deed—Lock Up*”;

“London Stock Exchange” means The London Stock Exchange Plc;

“Majority Secured Creditors” means:

- (a) in respect of any Special Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing at least in the aggregate 66⅔ per cent. of Total Commitments; and
- (b) in respect of any Ordinary Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing greater than in the aggregate 50 per cent. of Total Commitments;

“Market” means the Regulated Market of the London Stock Exchange;

“Master Definitions Agreement” or “MDA” means the master definitions agreement dated 24 July 2009 (as amended and/or restated from time to time) between, among others, YWS, the Securitisation Issuers and Deutsche Trustee Company Limited;

“Material Adverse Effect” means a material adverse effect on or material adverse change in:

- (a) the financial condition, assets or business of the Group taken as a whole;
- (b) the ability of the Obligors to perform and comply with their payment obligations under any Finance Document and/or their obligations under the financial covenants set out in the Trust Deed; or
- (c) subject in each case to Legal Reservations, the validity, legality or enforceability of any Finance Document or the rights or remedies of any Secured Creditor thereunder (including, for the avoidance of doubt, the priority and ranking of any Transaction Security);

“Member State” means a member state of the European Union;

“Moody’s” means Moody’s Investor Services Limited;

“New Global Note” or “NGN” means new global note;

“New Safekeeping Structure” or “NSS” means the new safekeeping structure which applies to Registered Notes held in global form by a Common Safekeeper for Euroclear and Clearstream, Luxembourg and which is required for such Registered Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations;

“Note Documents” means the Trust Deed, the Issuer/KF2 Loan Agreement, the Dealership Agreement and the Agency Agreement;

“Note Trustee” means Deutsche Trustee Company Limited at the date of this Prospectus and, where the context so admits, includes any other note trustee for the time being appointed pursuant to the Trust Deed;

“Noteholder” has the meaning given to it in the Conditions;

“Notes” means the medium-term notes to be issued by the Issuer pursuant to the Dealership Agreement, guaranteed by the Guarantors, constituted by the Trust Deed and for the time being outstanding or, as the context may require, a specific number of them;

“Obligors” means the Issuer and the Guarantors;

“Official List” means the official list of the UK Listing Authority;

“Ofwat” means the Water Services Regulation Authority for England and Wales, including any successor body or office;

“Ordinary Decision” means any decision of the Majority Secured Creditors which is not a Special Decision;

“Original Facility Agent” means The Royal Bank of Scotland plc as Facility Agent under the Bank Facilities Agreement;

“Original Finance Documents” has the meaning given to “Finance Documents” in the Bank Facilities Agreement;

“Original Finance Party” means a “Finance Party” as such term is defined and used in the Bank Facilities Agreement;

“Original Hedge Counterparties” means those financial institutions who become a party to the Intercreditor Agreement in accordance with clause 5 thereof by providing a Secured Creditor Accession Deed on or before the Refinancing Date;

“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 Ofwat 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 Ofwat for the purpose 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 any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union;

“Paying Agents” means the persons (including the Issuing and Paying Agent) referred to as such in the Conditions or any Successor Paying Agents, in each case, at their respective specified offices;

“Periodic Review” has the meaning given to it in the MDA;

“Periodic Review Effective Date” means the date with effect from which the new K will take effect, following a Periodic Review.

“Permanent Dealers” means all Dealers in respect of the Programme and excludes those appointed as such solely in respect of one or more specified Tranches;

“permanent Global Note” means a Global Note representing Bearer Notes of one or more Tranches of the same Series, either on issue or upon exchange of a temporary Global Note, or part of it;

“Permitted Disposal” means any disposal:

- (a) of assets by the Guarantors in their ordinary course of trade and on arm’s length terms entered into for bona fide commercial purposes for the benefit of their business;
- (b) for cash and on arm’s length terms by the Guarantors of any (i) surplus plant or material and any (ii) obsolete or worn-out assets which in each case in the reasonable opinion of such company are not required for the efficient operation of its business or which are to be replaced by other similar assets comparable or superior as to type, value or quality;
- (c) by the Guarantors of cash where such disposal is not otherwise prohibited by the Finance Documents;
- (d) by the Guarantors of assets, the disposal of which is permitted by the Finance Documents;
- (e) of Cash Equivalents by the Guarantors on arm’s length terms for cash or in exchange for other Cash Equivalents; and
- (f) in respect of a Permitted Transaction, Permitted Loan or Permitted Distribution;

“Permitted Distribution” means, in each case provided that no Event of Default has occurred and is continuing:

- (a) the payment of a dividend, any other distribution or payment of any amount under any loan from a member of the Group to the Issuer and/or either Guarantor, or from KF1 to Kelda Group Limited, in each case where such payment is made by a member of the Group to the Issuer, the Guarantors and/or Kelda Group Limited to enable payments in respect of any employment costs, insurance premia or professional advisers’ fees incurred by it, provided that such costs, premia and fees in aggregate shall not exceed £750,000 (or its equivalent) leaving the Group in any financial year;

- (b)
- (i) the surrender of Group Tax Relief by any member of the Group to another member of the Group;
 - (ii) the surrender of Group Tax Relief by any member of the Group to an entity outside the Group, provided that, in the reasonable commercial opinion of the Group, such Group Tax Relief could not (on a commercially reasonable basis and within the relevant accounting period) be used within the Group;
 - (iii) the payment by any member of the Group of any amount in respect of Group Tax Relief not exceeding the amount of Tax saved or to be saved by that member of the Group by virtue of that surrender, provided, for the avoidance of doubt, that no such payment shall be required;
 - (iv) any payment by YWS, or to YWS on account of Tax Liabilities paid by YWS, under or in connection with the Securitisation Group Payment Arrangement;
 - (v) any payments by Kelda Group Limited, or to Kelda Group Limited, on account of any Tax liabilities paid by Kelda Group Limited under the Kelda Group Payment Arrangement; provided that, if such payment is made in respect of the Tax liabilities of any member of the Junior Group (a “Junior Group Payment”), Kelda Group Limited has received a cash amount equal to such Junior Group Payment from the Junior Group on or prior to making the Junior Group Payment under the Kelda Group Payment Arrangement; or
 - (vi) the payment of any amount under the Issuer/KF2 Loan Agreement made by the Issuer to KF2.

Notwithstanding any other provision of this Agreement, any amount due by a member of the Junior Group to a member of the Group in respect of any surrender of Group Tax Relief within paragraph (b)(ii) may be left outstanding on inter-company account;

“Permitted Enforcement Action” means the steps that a Secured Creditor is entitled to take to enforce its rights against an Obligor provided by the terms of the Intercreditor Agreement and summarised in the section entitled “*Intercreditor, Enforcement and the Bank Facilities Agreement*” of this Prospectus;

“Permitted Financial Indebtedness” means Financial Indebtedness:

- (a) arising under any of the Finance Documents;
- (b) arising under any Subordinated Debt;
- (c) arising under a foreign exchange transaction for spot or forward delivery entered into in connection with protection against fluctuation in currency rates where that foreign exchange exposure arises in the ordinary course of trade, but not a foreign exchange transaction for investment or speculative purposes;
- (d) arising under a Permitted Loan or a Permitted Guarantee;
- (e) of any person acquired by either Guarantor or any Intermediate Subsidiary after 14 June 2012 which is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or its maturity date extended in contemplation of, or since, that acquisition, and outstanding only for a period of six months or less following the date of acquisition;
- (f) arising under any netting or set-off arrangements permitted pursuant to paragraph (d) of the definition of “Permitted Security”, the maximum aggregate net amount of which does not exceed £10,000,000;
- (g) arising under the Notes or the Note Documents;
- (h) permitted in accordance with the terms of the Intercreditor Agreement; or
- (i) arising after the date hereof provided that:
 - (i) such additional Financial Indebtedness does not rank senior to the Notes;
 - (ii) if such additional Financial Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantors; and

(iii) no Lock-Up or Event of Default would occur as a result of the incurrence of such Financial Indebtedness;

“Permitted Guarantee” means:

- (a) any guarantee arising under any Finance Document, the Notes or the Note Documents;
- (b) the endorsement of negotiable instruments in the ordinary course of trade;
- (c) any guarantee given in respect of the netting or set-off arrangements permitted pursuant to paragraph (c) of the definition of Permitted Security;
- (d) any guarantee permitted by the definition of Permitted Financial Indebtedness or in respect of Permitted Financial Indebtedness;
- (e) any customary indemnity given under the terms of any sale and purchase agreement to any purchaser of an asset, provided that such indemnity is capped at an amount not exceeding the consideration received in respect of such asset (such capped amount, the “Capped Amount”), provided that for so long as such indemnity is outstanding (i) an amount (the “Ring-fenced Deposit Amount”) equal to the Capped Amount shall be deposited in a new bank account of any member of the Group and such Ring-Fenced Deposit Amount shall not be debited from such account (including for the purposes of paying dividends) and (ii) such Ring-Fenced Deposit Amount shall be excluded from Cash and Cash Equivalents for the purposes of calculating Total Net Debt; and
- (g) any guarantee not permitted by the preceding paragraphs and the outstanding principal amount of which does not exceed £2,000,000 (or its equivalent) in aggregate for the Guarantors, the Issuer and any Intermediate Subsidiaries at any time;

“Permitted Loan” means, in respect of the Guarantors or an Intermediate Subsidiary:

- (a) any trade credit extended to its customers on normal commercial terms and in the ordinary course of its trading activities;
- (b) a loan made to a member of the Group provided that such Loan constitutes Subordinated Debt;
- (c) a loan permitted under the Lock-Up provisions;
- (d) a loan made to an employee or director if the amount of that loan when aggregated with the amount of all loans to employees and directors by members of the Group does not exceed £2,000,000 (or its equivalent) at any time;
- (e) any loan made pursuant to any Finance Document, the Notes or the Note Documents;
- (f) any loan made by the Issuer to KF2 pursuant to the Issuer/KF2 Loan Agreement; and
- (g) any loan not otherwise permitted above (other than a loan made by one member of the Group to another member of the Group) if the amount of that loan when aggregated with the amount of all other loans does not exceed £3,000,000 (or its equivalent) at any time;

“Permitted Security” means:

- (a) any Security or Quasi-Security arising under any Finance Document (including any Transaction Security Document), the Notes or the Note Documents;
- (b) any lien arising by operation of law and in the ordinary course of trading and not as a result of any default or omission of the Guarantors or any Intermediate Subsidiary;
- (c) any cash management, netting or set-off arrangement entered into by the Guarantors or any Intermediate Subsidiary in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of the Group;
- (d) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Guarantors or any Intermediate Subsidiary for the purpose of:
 - (i) hedging any risk to which any member of the Group is exposed in its ordinary course of trading; or
 - (ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only,

excluding, in each case, any Security or Quasi-Security under a credit support arrangement in relation to a hedging transaction;

- (e) any Security or Quasi-Security over or affecting any asset acquired by the Guarantors or any Intermediate Subsidiary after the date of this Agreement if:
 - (i) the Security or Quasi-Security was not created in contemplation of the acquisition of that asset by the Guarantors or such Intermediate Subsidiary;
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the Guarantors or such Intermediate Subsidiary; and
 - (iii) the Security or Quasi-Security is removed or discharged within six months of the date of acquisition of such asset;
- (f) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Guarantors or any Intermediate Subsidiary in the ordinary course of trading and not arising as a result of any default or omission by the Guarantors;
- (g) any Security or Quasi-Security arising as a result of a disposal which is not prohibited by the terms of any of the Transaction Documents;
- (h) any Security or Quasi-Security permitted under the terms of the Intercreditor Agreement; or
- (i) any Security or Quasi-Security securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security or Quasi-Security given by any member of the Group other than any permitted under paragraphs (a) to (i) above) does not exceed £3,000,000 (or its equivalent in other currencies);

“Permitted Transaction” means:

- (a) any disposal required, Financial Indebtedness incurred, guarantee, indemnity or Security or Quasi-Security given, or other transaction arising, under, or in connection with, the Notes, the Note Documents or any Finance Document;
- (b) transactions (other than (i) any sale, lease, license, transfer or other disposal in circumstances where such sale, lease, license, transfer or other disposal is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset and (ii) the granting or creation of Security or the incurring or permitting to subsist of Financial Indebtedness) conducted in the ordinary course of trading on arm’s length terms;
- (c) any transaction in relation to the acquisition of part of the business of YWS by the Guarantors or any other Intermediate Subsidiary, or in relation to the separation or divestiture (by contract or otherwise) of part of such business into a separate licensed entity, in each case where such transaction is in preparation for or otherwise in connection with the introduction of retail competition or other market or regulatory reform in the water markets in England, provided that:
 - (i) the resultant change does not cause Group RAR to exceed 0.925:1;
 - (ii) Ofwat approves the transaction; and
 - (iii) such transaction does not or could not reasonably be expected to have a Material Adverse Effect;
- (d) any transaction between members of the Group, provided that, where any such transaction gives rise to any intra-Group loan or other balance between members of the Group, such loan or intra-Group balance constitutes Subordinated Debt;
- (e) any corporate reconstruction of the Group (including, but not limited to any capital reduction of a member of the Group, the insertion of any new holding companies, the removal of holding companies, any tax restructurings or a Permitted Disposal) provided that:
 - (i) where such transaction gives rise to any intra-Group loan or other balance between members of the Group, such loan or intra-Group balance constitutes Subordinated Debt;
 - (ii) the Guarantors continue to comply with the financial covenants set out in the Trust Deed; and
 - (iii) Such transaction does not or could not reasonably be expected to have a Material Adverse Effect;

- (f) In relation to a member of the Securitisation Group only, any Permitted Tax Loss Transaction (as defined in the MDA); and
- (g) any other transaction agreed to by the Note Trustee (if directed to do so by an Extraordinary Resolution of the Noteholders);

“Positive Value” means in respect each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or the Guarantors (as applicable) following termination of the relevant Hedging Agreements;

“Potential Event of Default” means an event or circumstance that would, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10 (*Events of Default*), become an Event of Default;

“Programme” means the £200,000,000 guaranteed secured medium term note programme established by the Issuer and listed on the regulated market of the London Stock Exchange;

“Programme Limit” means the maximum aggregate nominal amount of Notes that may be issued and outstanding at any time under the Programme, as such limit may be increased pursuant to the Dealership Agreement;

“Proprietary Interest” means any legal, beneficial or other proprietary interest of any kind whatsoever held by a Sponsor in or to any Shareholder Instrument or any right to control the voting or other rights attributable to any Shareholder Instrument, disregarding any conditions or restrictions to which the exercise of any right attributed to such interest may be subject. For the avoidance of doubt, an Interest will not include any indirect interest in a Shareholder Instrument (i.e. an interest in an entity or partnership that holds Shareholder Instruments);

“Prospectus Directive” means Directive 2003/71/EC and amendments thereto and includes any relevant implementing measure in each Relevant Member State;

“Quasi-Security” means:

- (a) the sale, transfer or disposal by any other means of assets on terms whereby they are or may be leased to or re-acquired by the Issuer or the Guarantors or any Intermediate Subsidiary;
- (b) the sale, transfer or disposal by any other means of receivables on recourse terms;
- (c) the entry into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) the entry into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset;

“Rating Agencies” means Fitch and S&P;

“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 Ofwat) and notified to YWS and, if applicable, any Permitted Subsidiary (as defined in the MDA) established or acquired pursuant to paragraph (g) of the definition of Permitted Acquisition (as defined in the MDA), by Ofwat at the most recent Periodic Review or IDOK or in the most recent annual statement of regulatory capital values issued by Ofwat to all regulatory directors of water and sewerage companies and water only companies (the “Annual RCV Update”) or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review, IDOK or Annual RCV Update (interpolated as necessary and adjusted as appropriate for Out-turn Inflation) provided that “RCV” for the purposes of calculating the Group RAR for any Calculation Period for which there is no Final Determination shall be YWS’s good faith, present estimate of its (and, if applicable, any Permitted Subsidiary established or acquired pursuant to paragraph (g) of the definition of Permitted Acquisition) regulatory capital value on the last day of such Calculation Period;

“Redemption Amount” means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, all as defined in the Conditions;

“Refinancing Date” means the date that Notes are first issued under the Programme;

“Register” means the register maintained by the Registrar;

“Registered Holder” means the person in whose name a Registered Note is registered;

“Registered Note” means a Note in registered form;

“Registrar” means the person named as such in the Conditions or any Successor Registrar, in each case at its specified office;

“Regulated Business” means the business of a “relevant undertaker” (as that term is defined in the WIA) in the United Kingdom carried out by the Group;

“Regulated Entity” means Yorkshire Water Services Limited and any other member of the Group from time to time which carries out Regulated Business;

“Regulation S” means the Regulation S adopted under the Securities Act;

“Relevant Jurisdiction” means, in relation to the Obligors:

(a) its jurisdiction of incorporation; and

(b) any jurisdiction whose laws govern any of the Transaction Security Documents entered into by it;

“Relevant Member State” means each Member State of the European Economic Area which has implemented the Prospectus Directive;

“Relief” includes any relief, loss, allowance, exemption, set-off, deduction or credit in computing or against profits or Tax;

“Responsible Person(s)” means the Issuer and the Guarantors, as applicable;

“Retail Price Index” means the all-items retail prices index for the United Kingdom published by the Office for National Statistics (January 1987 = 100) or at any future date, such other index of retail prices as may have then replaced it for the purposes of Ofwat’s determination of price limits for water and sewerage services.

“Ring-fenced Deposit Amount” has the meaning given to it in the definition of Permitted Guarantee;

“S&P” means Standard & Poor’s Ratings Services;

“Secured Creditor Accession Deed” means a deed of accession, substantially in the form set out in Schedule 2 (*Form of Secured Creditor Accession Deed*) in the Intercreditor Agreement;

“Secured Creditor Representative” means:

(a) in respect of any Notes, the Note Trustee;

(b) in respect of the Original Finance Documents, the Original Facility Agent;

(c) in respect of a Loan Facility (except a Bi-lateral Loan Facility), the agent in respect of that Loan Facility;

(d) in respect of a Bi-lateral Loan Facility, the Bi-lateral Loan Facility Lender; and

(e) in respect of a Hedging Agreement, the relevant Hedge Counterparty;

“Secured Creditors” means:

(a) the Note Trustee (on its own behalf and on behalf of the relevant Noteholders) and the Noteholders;

(b) the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar;

(c) any Additional Note Parties;

(d) the Original Finance Parties;

(e) any Additional Finance Parties;

(f) any Hedge Counterparties;

(g) the Security Trustee; and

(h) any person who accedes to the Intercreditor Agreement as a Secured Creditor pursuant to a Secured Creditor Accession Deed,

provided that, for the avoidance of doubt, Noteholders and holders of coupons in respect of Notes may only act through the Note Trustee;

“Securities Act” means the United States Securities Act of 1933 and any subsequent amendments thereto;

“Securitisation” has the meaning given to it in “*Risk Factors- YWS is subject to certain restrictions in paying dividends as part of its covenant-based ring-fencing*”;

“Securitisation Group” means Yorkshire Water Services Holdings Limited, Yorkshire Water Services Limited, Yorkshire Water Services Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited, Yorkshire Water Services Odsal Finance Limited and Yorkshire Water Services Bradford Finance Limited and such other subsidiaries as constitute Permitted Subsidiaries under the Securitisation Programme from time to time;

“Securitisation Group Payment Arrangement” means the arrangement entered into pursuant to Section 59F Taxes Management Act 1970 under which YWS has agreed to discharge the Tax liabilities of the Securitisation Group;

“Securitisation Issuers” means Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited;

“Securitisation Programme” means the £8,000,000,000 Multicurrency programme for the issue of Guaranteed Bonds by Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited established on 24 July 2009;

“Security” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect;

“Security Agreements” means the KF1/KF2 Security Agreement and the Issuer Security Agreement;

“Security Trustee” means Deutsche Trustee Company Limited or any other security trustee appointed pursuant to the Intercreditor Agreement;

“Series” means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

“Shareholder Instrument” means:

(a) any ordinary shares and preference shares in Kelda Holdings Limited, and any right of subscription for or conversion into such ordinary shares or preference shares;

(b) any instrument, document or security granting a right of subscription for, or conversion into, any share capital of (i) any member of the Group, (ii) any Subsidiaries of any member of the Group, or (iii) any member of the Junior Group;

(c) any unsecured loan notes issued by Skeldergate Eurobond Co Limited; and

(d) any instrument evidencing indebtedness (whether or not interest bearing) issued by any (i) any member of the Group, (ii) any Subsidiaries of any member of the Group, or (iii) any member of the Junior Group, in conjunction with and/or stapled to, any issue of share capital of (i) any member of the Group, (ii) any Subsidiaries of any member of the Group, or (iii) any member of the Junior Group or an instrument carrying rights to subscribe for or convert into the share capital of (i) any member of the Group, (ii) any Subsidiaries of any member of the Group, or (iii) any member of the Junior Group, but excludes any debt instrument or warrants issued to investors or lenders who are not Sponsors,

excluding in each case two payment in kind facility deeds each dated 26 November 2007 pursuant to which money has been lent to Saltaire PIK Co Limited;

“Special Decision” means any decision of the Majority Secured Creditors relating to any matters which:

(a) would release any of the Transaction Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Intercreditor Agreement;

(b) would change:

(i) any material definitions which relate to the voting mechanics and voting rights in respect of the Special Decisions; or

- (ii) any of the matters requiring Special Decisions;
- (c) would relate to the removal of the Security Trustee in accordance with clause 14.1.7 of the Intercreditor Agreement; or
- (d) relate to any Enforcement Action,

provided that, for the avoidance of doubt, the Majority Secured Creditors may not take any decisions relating to Entrenched Rights without the relevant Secured Creditor's consent;

"Specified Currency" has the meaning given to it in the relevant Final Terms;

"Specified Denomination" has the meaning given to it in the relevant Final Terms;

"Sponsor Affiliate" means with respect to any person from time to time:

- (a) any other person (a "Relevant Party") who or which, directly or indirectly, Controls or is Controlled by, or is under common Control with, the first noted person, which shall include, for the avoidance of doubt,
 - (i) any person in which the first noted person holds, directly or indirectly, 100 per cent. of the participating equity or any person which, together with its Sponsor Affiliates, holds, 100 per cent. of the participating equity of the first noted person; and
 - (ii) in the case of Infracapital Partners LP, includes any other person who or which would fall within the scope of this paragraph (a) if the reference to the first noted person included M&G Investment Management Limited;
 - (iii) any other person who holds a Proprietary Interest in a Shareholder Instrument(s) to the extent that it became a holder of such a Proprietary Interest by virtue of an in specie distribution on a solvent winding up of the first person (and to the extent that this Relevant Party directly or indirectly Controls or is Controlled by, or is under common Control with, the first noted person as a result of its holding of such Proprietary Interest);
- (b) any Affiliated Fund or any Subsidiary of such Affiliated Fund; and
- (c) a trustee of the beneficial interest:
 - (i) of such person; or
 - (ii) of any Relevant Party or Affiliated Fund or any Subsidiary of such Affiliated Fund.

"Sponsors" means:

- (a) Citi Infrastructure Partners, L.P., CIP UK Water, LP and CIP UK Water II, LP;
- (b) Wharfedale Acquisitions Limited;
- (c) EPSOM Investment PTE Limited; and
- (d) Wharfedale II Limited, Wharfedale III Limited and Infrastructure Saxon S.à r.l.,

and, in each case, their Sponsor Affiliates from time to time;

"Stabilising Manager(s)" means any Dealer designated as a Stabilising Manager;

"Sterling", "Pounds" or "£" means the lawful currency of the United Kingdom;

"Subordinated Debt" means Financial Indebtedness (ignoring for this purpose the words "provided that any amount owed by one member of the Group to another member of the Group shall not be taken into account") which is:

- (a) a Subordinated Liability (as defined in the Intercreditor Agreement);
- (b) has no mandatory cash pay and matures after the latest Maturity Date of any Notes; or
- (c) which is otherwise subordinated to the Notes;

and includes any amount representing a Permitted Distribution declared but not yet paid.

"Subordinated Lender Accession Deed" means a deed of accession, substantially in the form set out in Schedule 3 (*Form of Subordinated Creditor Accession Deed*) to the Intercreditor Agreement;

“Subordinated Lenders” means any person who becomes a Subordinated Lender by executing a Subordinated Lender Accession Deed;

“Subordinated Liabilities” means the Liabilities owed by the Obligors to the Subordinated Lenders;

“Subsidiary” means a subsidiary within the meaning of section 1159 of the Companies Act 2006 and, for the purpose of the Financial Ratios and in relation to financial statements of the Group, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006;

“Successor” means, in relation to an Agent, such other or further person as may from time to time be appointed by the Issuer and the Guarantors as such Agent with the written approval of, and on terms approved in writing by, the Note Trustee and notice of whose appointment is given to Noteholders;

“Talons” means talons for further Coupons or, as the context may require, a specific number of them and includes any replacement Talons issued pursuant to the Conditions;

“TARGET2” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“TARGET2 Business Day” means any day on which TARGET2 is open for the settlement of payments in euro;

“Tax” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) payable in connection with any failure to or any delay in paying any of the same;

“TEFRA” means the United States Tax Equity and Fiscal Responsibility Act of 1982;

“temporary Global Note” means a Global Note representing Bearer Notes of one or more Tranches of the same Series on issue;

“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 2009 and 31 March 2010, the first Test Period shall be from 1 April 2009 to 31 March 2010, in the case of the Calculation Date on 30 September 2009 the second Test Period shall be the period of 12 months starting on 1 April in the following year, and interest shall be annualised on the basis of the interest charge from the Initial Issue Date to 31 March 2010;

“Total Commitments” means:

- (a) prior to the taking of Enforcement Action (i) the total commitments under the Finance Documents, plus (ii) the aggregate principal amount outstanding under the Notes issued under the Note Documents; and
- (b) following the taking of Enforcement Action, (i) the aggregate principal amount outstanding under the Finance Documents and the Notes issued under the Note Documents, plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount expressed in pounds sterling on the basis of the applicable exchange rate (as determined in accordance with the Intercreditor Agreement);

“Total Interest Service” for the Group for any period means the aggregate of the Interest paid by the Group for such period less interest received by the Group for that period excluding interest recovered from Affiliates of any member of the Group;

“Total Net Debt” in respect of the Group at any time means the aggregate at that time of the nominal Financial Indebtedness of the members of the Group less (i) Cash and Cash Equivalents (excluding any Ring-fenced Deposit Amounts) and (ii) Defeasance Cash and excluding:

- (a) any amount thereof which represents accruing interest (but not capitalised interest);

(b) any amounts outstanding or mark to market under Treasury Transactions (excluding for the avoidance of doubt the accreting portion of any index-linked swaps and any termination amount due by a member of the Group in respect of any Treasury Transaction that has terminated); and

(c) any pensions deficit;

“Tranche” means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical;

“Transaction Costs” means all non-periodic fees, costs and expenses, stamp, registration and other Taxes incurred by the Guarantors or any other member of the Group in connection with the Note Documents and the Finance Documents;

“Transaction Documents” means:

(a) the Trust Deed, the Issuer/KF2 Loan Agreement and the Agency Agreement;

(b) the Original Finance Documents (other than the Intercreditor Agreement and the Transaction Security Documents);

(c) the Intercreditor Agreement;

(d) the Transaction Security Documents;

(e) any Additional Note Documents;

(f) any Hedging Agreements; and

(g) any other Underlying Credit Documents,

and in each case any agreement specified to be a Transaction Document by the Security Trustee;

“Transaction Security” means the Security created, evidenced or expressed to be created or evidenced pursuant to the Transaction Security Documents;

“Transaction Security Documents” means the Security Agreements and any other document entered into at any time by any of the Obligors creating, evidencing or expressed to create or evidence any Security in favour of the Security Trustee for the Secured Creditors (or any of them) and any Security granted under any covenant for further assurance in any of the Transaction Documents;

“Transfer Agents” means the persons (including the Registrar) referred to as such in the Conditions or any Successor Transfer Agents, in each case at their specified offices;

“Treasury Transaction” means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate, price or index;

“Trust” includes a superannuation fund, managed investment scheme or custodial responsibility;

“Trust Deed” means the trust deed dated on or around the date of this Prospectus between the Issuer, the Guarantors and the Note Trustee (as amended or restated from time to time);

“U.K. Listing Authority” means the Financial Services Authority in its capacity as competent authority under the FSMA;

“U.S. Dollars” or “\$” means the lawful currency of the United States of America;

“WIA” means the Water Industry Act 1991;

“YWH” means Yorkshire Water Services Holdings Limited;

“YWS” means Yorkshire Water Services Limited; and

“YWS Base Prospectus” means the base prospectus dated 26 September 2012 in respect of the Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Service Odsal Finance Limited £8,000,000,000 Multicurrency programme for the issuance of Guaranteed Bonds.

Registered Office of the Issuer

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Registered Office of the Guarantors

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Joint Arrangers and Dealers

The Royal Bank of Scotland plc

135 Bishopsgate
London EC2M 3UR

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

Banco Santander S.A.

Ciudad Grupo Santander
Edificio Encinar
Avenida de Cantabria
28660, Boadilla del Monte
Madrid, Spain

Commonwealth Bank of Australia

Senator House
85 Queen Victoria Street
London EC4V 4HA

HSBC Bank plc

8 Canada Square
London E14 5HQ

Lloyds TSB Bank plc

10 Gresham Street
London EC2V 7AE

Security Trustee

Deutsche Trustee Company Limited

Winchester House
1 Great Winchester Street
London EC2N 2DB

Note Trustee

Deutsche Trustee Company Limited

Winchester House
1 Great Winchester Street
London EC2N 2DB

Transfer Agent and Registrar

Deutsche Bank Luxembourg S.A.

2 Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

Issuing and Paying Agent and Calculation Agent

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB

Auditors

To the Issuer and the Guarantors

PricewaterhouseCoopers LLP

Benson House
33 Wellington Street
Leeds LS1 4JP

Legal Advisers

To the Issuer and the Guarantors

in respect of English law

Linklaters LLP

One Silk Street
London EC2Y 8HQ

Legal Advisers

To the Dealers

in respect of English law

Allen & Overy LLP

One Bishops Square
London E1 6AD

