YORKSHIRE WATER FINANCE PLC

(*incorporated with limited liability in England and Wales with registered number 11444372*)

£8,000,000,000

Multicurrency programme for the issuance of Guaranteed Bonds

financing

Yorkshire Water Services Limited

(*incorporated in England and Wales with limited liability with registered number 02366682*)

The payment of all amounts owing in respect of the bonds (the "Bonds") issued by Yorkshire Water Finance plc (the "Issuer") will be unconditionally and irrevocably guaranteed by Yorkshire Water Services Limited ("YWS"), Yorkshire Water Services Holdings Limited ("YWH") and Yorkshire Water Services Finance Limited ("YWSF") as described herein. YWS, YWSF, the Issuer and YWH are together referred to herein as the "Obligors". YWH has no significant assets other than the shares in its wholly-owned subsidiary, YWS.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000, as amended ("FSMA") (the "UK Listing Authority" or "UKLA") for Bonds issued under the £8,000,000,000 multicurrency programme (the "Programme") during the period of twelve months after the date hereof, to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such bonds to be admitted to trading on the London Stock Exchange's regulated market (the "Market"). Except where the context provides otherwise, references in this Prospectus to Bonds being "listed" (and all related references) shall mean that such Bonds have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "MiFID II") of the European Parliament and of the Council on markets in financial instruments. The Programme provides that Bonds will be listed on the London Stock Exchange. The Issuer may not issue unlisted bonds.

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

For the avoidance of doubt, the Issuer may not as of the date of this Prospectus issue Wrapped Bonds pursuant to this Prospectus without issuing a supplemental prospectus.

Interests in a Temporary Global Bond (as defined below) will be exchangeable, in whole or in part, for definitive securities in bearer form on or after the date 40 days after the later of the commencement of the offering and the relevant Issue Date, upon certification as to non-U.S. beneficial ownership or to the effect that the holder is a U.S. person who purchased in a transaction that did not require registration under the Securities Act (as defined below) and as may be required by U.S. tax laws and regulations, as described in Chapter 8 "*The Bonds*" under "*Forms of the Bonds*".

See Chapter 4 "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Arranger			
NatWest Markets			
Dealers			
Bank of China Limited, London Branch	Barclays	BNP PARIBAS	HSBC
Lloyds Bank Corporate Markets	MUFG	NatWest Markets	Santander Corporate & Investment Banking

Prospectus dated 30 January 2019

Under the Programme, the Issuer may, subject to all applicable legal and regulatory requirements, from time to time issue Bonds in bearer and/or registered form (respectively "Bearer Bonds" and "Registered Bonds"). Copies of each Final Terms or Drawdown Prospectus (as defined below) will be available (in the case of all Bonds) from the specified office set out below of Deutsche Trustee Company Limited as bond trustee (the "Bond Trustee"), (in the case of Bearer Bonds) from the specified office set out below of each of the Paying Agents (as defined below) and (in the case of Registered Bonds) from the specified office set out below of each of the Registrar and the Transfer Agent (each as defined below).

The maximum aggregate nominal amount of all Bonds from time to time Outstanding (as defined below) under the Programme will not exceed £8,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

Details of the aggregate principal amount, interest (if any) payable, the Issue Price (as defined below) and any other conditions not contained herein, which are applicable to each Tranche of each Sub-Class of each Class of each Series (all as defined below) will be set forth in a final terms (the "Final Terms") or a drawdown prospectus ("Drawdown Prospectus") which, in the case of Bonds to be admitted to the Official List and to trading on the Market, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the relevant date of issue of the Bonds of such Tranche.

Bonds issued by the Issuer under the Programme will be issued in series (each a "Series") and in one or more of four classes (each a "Class"). Bonds issued by the Issuer may be issued in wrapped or unwrapped form. The guaranteed unwrapped Bonds will be designated as either "Class A Unwrapped Bonds" or "Class B Unwrapped Bonds". The guaranteed wrapped Bonds will be designated as either "Class A Wrapped Bonds" or as "Class B Wrapped Bonds". Each Class may comprise one or more sub-classes (each a "Sub-Class") with each Sub-Class pertaining to, among other things, the currency, interest rate and Maturity Date (as defined below) of the relevant Sub-Class. Each Sub-Class fixed rate, floating rate or index-linked Bonds and may be denominated in sterling, euro or U.S. dollars (or in other currencies subject to compliance with applicable laws). Each Sub-Class may be issued in one or more tranches (each a "Tranche"), the specific terms of each Tranche being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class.

Each Class of Unwrapped Bonds is expected on issue to have the following credit ratings:

Class	**Standard & Poor's**	**Moody's**	**Fitch**
Class A Unwrapped Bonds	A-	Baa1	A
Class B Unwrapped Bonds	BBB	Ba1	BBB+

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 credit rating agencies as amended (the "CRA Regulation"). 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 S&P Global Ratings Europe Limited ("Standard & Poor's"), Moody's Investors Service Limited ("Moody's") and Fitch Ratings Ltd. ("Fitch", and together with Standard & Poor's and Moody's the "Rating Agencies"). Each of the Rating Agencies is a credit rating agency established and operating in the European Community and is registered under the CRA Regulation.

The European Securities and Market Association ("ESMA") is obliged to maintain on its website a list of credit rating agencies registered in accordance with the CRA Regulation. This list must be updated within 30 days of ESMA's notification to the relevant credit rating agency of adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.

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

For the avoidance of doubt, the Issuer may not as of the date of this Prospectus issue Wrapped Bonds pursuant to this Prospectus without issuing a Drawdown Prospectus. The credit ratings of any Class of Wrapped Bonds which may be issued by the Issuer under the Programme in the future are not known as at the date of this Prospectus.

None of the Class A Unwrapped Bonds or Class B Unwrapped Bonds (the "Unwrapped Bonds") will benefit from a Financial Guarantee or the guarantee of any other financial institution.

If Class A Wrapped Bonds and/or Class B Wrapped Bonds (the "Wrapped Bonds") are issued, they will be unconditionally and irrevocably guaranteed as to scheduled payments of interest and principal (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Step-up Fee Amounts, as defined below (the "FG Excepted Amounts")) pursuant to Financial Guarantees (as defined below) (and the endorsements thereto) to be issued by certain financial institutions, each a "Financial Guarantor". The Financial Guarantor issuing a Financial Guarantee in respect of any Class, Sub-Class or Tranche of Class A Wrapped Bonds or Class B Wrapped Bonds is referred to as the "Relevant Financial Guarantor" in respect of such Classes, Sub-Classes or Tranches. The credit rating of such Class A Wrapped Bonds and such Class B Wrapped Bonds will be based upon the financial strength of the relevant Financial Guarantor and the underlying ratings of such Bonds.

Each Sub-Class of Bearer Bonds may be represented initially by a Temporary Global Bond (as defined below), without interest coupons, which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (as defined below) on or about the Issue Date (as defined below) of such Sub-Class. Ratings ascribed to all of the Bonds reflect only the views of the Rating Agencies.

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

In the case of any Bonds 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 Directive 2003/71/EC as amended (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 Bonds).

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

Amounts payable under the Bonds may be calculated by reference to (i) LIBOR, which is provided by ICE Benchmark Administration Limited ("IBA"), (ii) EURIBOR, which is provided by the European Money Markets Institute (the "EMMI"), (iii) RPI, which is provided by the Office for National Statistics or the relevant successor index, (iv) CPI, which is provided by the Office for National Statistics or the relevant successor index, or (v) CPIH, which is provided by the Office for

National Statistics or the relevant successor index. As at the date of this Prospectus, the IBA appears and the EMMI does not appear on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "Benchmark Regulation").

As far as the Issuer is aware, RPI, CPI, and CPIH do not fall within the scope of the Benchmark Regulation by virtue of Article 2 of that regulation. In addition, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that the EMMI is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

On 10 December 2013, five U.S. financial regulators approved a final rule to implement Section 13 of the Bank Holding Company Act of 1956, commonly known as the Volcker Rule. The Volcker Rule generally prohibits sponsorship of and investment in "covered funds" by "banking entities," a term that includes most internationally active banking organisations and their affiliates, though a banking entity may sponsor and invest in a covered fund in certain limited circumstances and subject to a number of exceptions. A sponsor or adviser to a covered fund is also prohibited from entering into certain "covered transactions" with that covered fund. Covered transactions include (among other things) entering into a swap transaction or guaranteeing notes if the swap or the guarantee would result in a credit exposure to the covered fund.

If the Issuer is a covered fund, the Volcker Rule and its related regulatory provisions will impact the ability of banking entities to hold an "ownership interest" in it. This may adversely impact the market price and liquidity of the Bonds. Further, if a banking entity is considered the "sponsor" of the Issuer under the Volcker Rule, that banking entity may face a prohibition on covered transactions with the Issuer. This could adversely impact the ability of the banking entity to enter into new transactions with the Issuer and may require amendments to certain existing transactions and arrangements.

There is limited interpretive guidance regarding the Volcker Rule, and implementation of the regulatory framework for the Volcker Rule is still evolving. The Volcker Rule's prohibitions and lack of interpretive guidance could negatively impact the liquidity and market price of the Bonds. Any entity that is a "banking entity" as defined under the Volcker Rule and is considering an investment in the Bonds should consider the potential impact of the Volcker Rule in respect of such investment and on its portfolio generally. Each purchaser must determine for itself whether it is a banking entity subject to regulation under the Volcker Rule. None of the Issuer, the Obligors, any member of the YW Financing Group or the Kelda Group, the Arranger, the Dealers, the Bond Trustee, the Security Trustee, the Financial Guarantors or the Other Parties makes any representation regarding the ability of any purchaser to acquire or hold the Bonds, now or at any time in the future.

IMPORTANT NOTICE

This prospectus (the "Prospectus") comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the other Obligors which, according to the particular nature of the Issuer and the Bonds, 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.

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

The information relating to the Hedge Counterparties contained in Chapter 10 "*Description of the Hedge Counterparties*" was provided by the Hedge Counterparties. The information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by the Hedge Counterparties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Copies of each set of Final Terms or Drawdown Prospectus (in the case of Bonds to be admitted to the Official List) will be available from Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ and from the specified office set out below of each of the Paying Agents or the Registrar and Transfer Agents (as applicable) and from the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.
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.

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

For any Series of Wrapped Bonds issued under the Programme, a new Financial Guarantee dated as of the Issue Date of such Series of Wrapped Bonds will be entered into by each Relevant Financial Guarantor in respect of such Bonds as set out in full in a supplemental prospectus published on or before the date of publication of the Final Terms or Drawdown Prospectus in respect of such Bonds. The identity of the Relevant Financial Guarantor for any Series of Wrapped Bonds will be set out in the applicable Final Terms or Drawdown Prospectus.

In the case of each Tranche of Wrapped Bonds, admission to the Official List and trading on the Market is subject to the issue by each Relevant Financial Guarantor of a Financial Guarantee in respect of such Tranche.

No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Issuer, any member of the YW Financing Group (as defined below) or the Kelda Group (as defined below) or the offering or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer, any member of the YW Financing Group, the Kelda Group, the Dealers, the Arranger, the Bond Trustee or the Security Trustee. Neither the delivery of this Prospectus nor any offering or sale of Bonds made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or any member of the YW Financing Group since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus.

This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or any Dealer to subscribe for, or purchase, any of the Bonds.

Save for the Issuer and the other Obligors, no other party has separately verified the information contained herein (other than, in respect of the Hedge Counterparties, the information in Chapter 10 "*Description of the Hedge Counterparties*"). Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any Dealer, the Arranger, any Financial Guarantor, the Bond Trustee, the Security Trustee or any of the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Agents, the Account Bank, the Standstill Cash Manager, the Finance Lessors or the members of the Kelda Group (each as defined below and, together, the "Other Parties") as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds or their distribution (other than, in respect of the Hedge Counterparties, the information in Chapter 10 "*Description of the Hedge Counterparties*"). The statements made in this paragraph are without prejudice to the respective responsibilities of the Issuer and the other Obligors. Each person receiving this Prospectus acknowledges that such person has not relied on any Dealer, the Arranger, any Financial Guarantor, the Bond Trustee or the Security Trustee or any Other Party nor on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision (other than, in respect of the Hedge Counterparties, the information in Chapter 10 "*Description of the Hedge Counterparties*").

None of the Issuer, the Obligors, any member of the YW Financing Group or the Kelda Group, the Arranger, the Dealers, the Bond Trustee, the Security Trustee, the Financial Guarantors or the Other Parties accept responsibility to investors for the regulatory treatment of their investment in the Bonds (including (but not limited to) whether any transaction or transactions pursuant to which Bonds are issued from time to time is or will be regarded as constituting a "securitisation" for the purpose of (i) Regulation (EU) 2017/2042 of the European Parliament and of the Council of 12 December 2017 (the "Securitisation Regulation") together with the final regulatory technical standards and implementing technical standards to the Securitisation Regulation published by the European Banking Authority or the European Supervisory Authority (European Securities and Markets Authority) pursuant to the Securitisation Regulation and any other applicable guidance, technical standards or related documents published by the European Banking Authority or the European Supervisory Authority (European Securities and Markets Authority) (including any successor or replacement agency or authority) and any delegated regulations of the European Commission (and in each case including any amendment or successor thereto) and (ii) Articles 17 of Directive 2011/61/EU on Alternative Investment Fund Managers (the "AIFMD"), as implemented by Section 5 of the European Union Commission Delegated Regulation (EU) No. 231/2013 of 19 December 2012, supplementing the AIFMD, and as amended by the Securitisation Regulation, including any guidance published in relation thereto and any implementing laws or regulations in force in any Member State of the European Union.

If the regulatory treatment of an investment in the Bonds is relevant to any investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the "*Risk Factors – Legal, Regulatory and Competition Considerations*" section of this Prospectus for further information.

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

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

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

THE BONDS 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 BONDS MAY INCLUDE BEARER BONDS THAT ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, THE BONDS MAY NOT BE OFFERED OR SOLD OR, IN THE CASE OF BEARER BONDS, DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).

THE BONDS 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 BONDS AND DISTRIBUTION OF THIS PROSPECTUS SEE CHAPTER 12 "*SUBSCRIPTION AND SALE*".

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA ("EEA"). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU (AS AMENDED, "MIFID II"); (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC (AS AMENDED OR SUPERSEDED, THE "INSURANCE MEDIATION DIRECTIVE"), WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC (AS AMENDED OR SUPERSEDED, THE "PROSPECTUS DIRECTIVE"). CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014 (AS AMENDED, THE "PRIIPS REGULATION") FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

MIFID II PRODUCT GOVERNANCE / TARGET MARKETS - THE FINAL TERMS IN RESPECT OF ANY BONDS MAY INCLUDE A LEGEND ENTITLED "MIFID II PRODUCT GOVERNANCE" WHICH WILL OUTLINE THE TARGET MARKET ASSESSMENT IN

RESPECT OF THE BONDS AND WHICH CHANNELS FOR DISTRIBUTION OF THE BONDS ARE APPROPRIATE. ANY PERSON SUBSEQUENTLY OFFERING, SELLING OR RECOMMENDING THE BONDS (A “DISTRIBUTOR”) SHOULD TAKE INTO CONSIDERATION THE TARGET MARKET ASSESSMENT; HOWEVER, A DISTRIBUTOR SUBJECT TO MIFID II IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS (BY EITHER ADOPTING OR REFINING THE TARGET MARKET ASSESSMENT) AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS.

A DETERMINATION WILL BE MADE IN RELATION TO EACH ISSUE ABOUT WHETHER, FOR THE PURPOSE OF THE PRODUCT GOVERNANCE RULES UNDER EU DELEGATED DIRECTIVE 2017/593 (THE “MIFID PRODUCT GOVERNANCE RULES”), ANY DEALER SUBSCRIBING FOR ANY BONDS IS A MANUFACTURER IN RESPECT OF SUCH BONDS, BUT OTHERWISE NEITHER THE ARRANGER NOR THE DEALERS NOR ANY OF THEIR RESPECTIVE AFFILIATES WILL BE A MANUFACTURER FOR THE PURPOSE OF THE MIFID PRODUCT GOVERNANCE RULES.

THE APPLICABLE FINAL TERMS IN RESPECT OF ANY BONDS MAY INCLUDE A LEGEND ENTITLED "SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION" WHICH WILL STATE THE PRODUCT CLASSIFICATION OF THE BONDS PURSUANT TO SECTION 309B(1) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) (THE "SFA"). THE ISSUER WILL MAKE A DETERMINATION IN RELATION TO EACH ISSUE ABOUT THE CLASSIFICATION OF THE BONDS BEING OFFERED FOR PURPOSES OF SECTION 309B(1)(A). ANY SUCH LEGEND INCLUDED ON THE APPLICABLE FINAL TERMS WILL CONSTITUTE NOTICE TO "RELEVANT PERSONS" FOR PURPOSES OF SECTION 309B(1)(C) OF THE SFA.

THE BONDS 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 BONDS OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The distribution of this Prospectus and the offering, sale or delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the other Obligors and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on distribution of this Prospectus, see Chapter 12 “*Subscription and Sale*” below. This Prospectus does not constitute, and may not be used for the purposes of, an offer to or solicitation by any person to subscribe or purchase any Bonds in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

All references herein to “pounds”, “sterling”, “Sterling” or “£” are to the lawful currency of the United Kingdom, all references to “$”, “U.S.$”, “U.S. dollars” or “dollars” are to the lawful currency of the United States of America, and references to “€”, “euro” or “Euro” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, from time to time.

In connection with the issue and distribution of any Tranche of Bonds, the Dealer (if any) disclosed as the stabilising manager in the applicable Final Terms or Drawdown Prospectus (the “Stabilising Manager”) or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Bonds of the Series of which such Tranche forms

part at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager or any agent of his 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 of Bonds 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 of Bonds and 60 days after the date of the allotment of the relevant Tranche of Bonds. Any stabilisation action or over allotment shall be conducted by the relevant Stabilising Manager or any person acting for him in accordance with all applicable laws and rules. Any loss or profit sustained as a consequence of any such over-allotment or stabilising shall, as against the Issuer, be for the account of the Stabilising Manager.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

(a) the audited annual financial statements of YWSF for the year ended 31 March 2018 and for the year ended 31 March 2017, each of which have been previously published and which have been approved by the Financial Conduct Authority or filed with it;

(b) the audited annual financial statements of YWS for the year ended 31 March 2018 and for the year ended 31 March 2017, each of which have been previously published and which have been approved by the Financial Conduct Authority or filed with it;

(c) the audited annual financial statements of YWSH for the year ended 31 March 2018 and for the year ended 31 March 2017, each of which have been previously published and which have been approved by the Financial Conduct Authority or filed with it;

(d) the terms and conditions of the Bonds as set out at pages 153 to 192 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 15 July 2009;

(e) the terms and conditions of the Bonds as set out at pages 157 to 199 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 3 August 2010;

(f) the terms and conditions of the Bonds as set out at pages 167 to 209 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 2 August 2011;

(g) the terms and conditions of the Bonds as set out at pages 133 to 174 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 26 September 2012;

(h) the terms and conditions of the Bonds as set out at pages 123 to 165 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 14 February 2014;

(i) the terms and conditions of the Bonds as set out at pages 128 to 170 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 15 October 2014;

(j) the terms and conditions of the Bonds as set out at pages 131 to 168 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 27 November 2015; and

(k) the terms and conditions of the Bonds as set out at pages 143 to 184 (inclusive) of the Prospectus of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited in relation to the Programme dated 13 April 2017.

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any information or 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.

Each of YWS and YWSF will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to either of YWS or YWSF, as appropriate, at their respective offices set out at the end of this Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus may be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html. 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.

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

The hyperlinks included in this Prospectus, or included in any documents incorporated by reference into the Prospectus, and the websites and their content are not incorporated into, and do not form part of, this Prospectus.

SUPPLEMENTAL PROSPECTUS

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

Each of the Obligors has undertaken to the Dealers in the Dealership Agreement (as defined in Chapter 12 "*Subscription and Sale*") to comply with Section 81 of the Financial Services and Markets Act 2000 ("FSMA").

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

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

FINAL TERMS AND DRAWDOWN PROSPECTUS

In the following paragraphs, the expression "necessary information" means, in relation to any Tranche of Bonds, 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 Bonds. In relation to the different types of Bonds 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 Bonds 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 Tranche of Bonds.

Any information relating to the Bonds which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Bonds will be contained in the relevant Final Terms or in a Drawdown Prospectus. 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, together with all of the necessary information in relation to the Bonds, may been contained in a Drawdown Prospectus. In addition, the Obligors may agree with any Dealer and the Bond Trustee that the Bonds may be issued in a form not contemplated by the Conditions (as defined below), in which event (in the case of the Bonds admitted to the Official List only) a Drawdown Prospectus will be made available which will describe the effect of the agreement reached in relation to such Bonds.

The terms and conditions applicable to any particular Tranche of Bonds which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Bonds which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified or identified in the relevant

Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the Issuer and the relevant Bonds.

For a Tranche of Bonds which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement this Prospectus and must be read in conjunction with this Prospectus. The terms and conditions applicable to any particular Tranche of Bonds which is the subject of Final Terms are the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

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CHAPTER 1
THE PARTIES

Issuer	Yorkshire Water Finance plc, a company incorporated in England and Wales with limited liability (registered number 11444372), is the principal financing vehicle for raising funds to support the long-term debt financing requirements of YWS. The Issuer is a wholly-owned subsidiary of YWS.
YWS	Yorkshire Water Services Limited, a company incorporated in England and Wales with limited liability (registered number 02366682), which holds an Instrument of Appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed YWS as a water and sewerage undertaker under the WIA for the areas described in the Instrument of Appointment. YWS is a wholly-owned subsidiary of YWH.
YWH	Yorkshire Water Services Holdings Limited, a company incorporated in England and Wales with limited liability (registered number 06815156). YWH is a wholly-owned subsidiary of Kelda Finance (No.2) Limited.
KGL	Kelda Group Limited, a private company incorporated in England and Wales with limited liability (registered number 02366627).
YWSF	Yorkshire Water Services Finance Limited, a private company incorporated with limited liability in England and Wales (registered number 04636719). YWSF is a wholly-owned subsidiary of YWS.
Guarantors	Pursuant to the terms of the Security Agreement, YWH guarantees the obligations of YWS, YWSF, and the Issuer under each Finance Document in favour of the Security Trustee. In addition, YWS, YWSF, and the Issuer each guarantee the obligations of each other (but not those of YWH) under each Finance Document in favour of the Security Trustee. YWH, YWS, YWSF, and the Issuer are collectively referred to herein as the "Guarantors" and each a "Guarantor".
YW Financing Group	The YW Financing Group is comprised of YWH, YWS, YWSF, and the Issuer, and any Permitted Subsidiaries.
Kelda Group	Kelda Holdings Limited and its Subsidiaries from time to time.
Arranger	NatWest Markets Plc
Dealers	Banco Santander, S.A., Bank of China Limited, London Branch, Barclays Bank PLC, BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc, NatWest Markets Plc and MUFG Securities EMEA plc will act as dealers (together with any other dealer appointed from time to time by the Issuer and the other Guarantors, the "Dealers") either generally with respect to the Programme or in relation to a particular Tranche, Sub-Class, Class or Series of Bonds.

Financial Guarantors	The Issuer may arrange for financial guarantee companies (each a "Financial Guarantor") to issue Financial Guarantees in favour of the Bond Trustee in respect of Classes or Sub-Classes of Class A Wrapped Bonds and/or Class B Wrapped Bonds issued or raised under an Authorised Credit Facility. Such Financial Guarantors will unconditionally and irrevocably guarantee the scheduled payment of interest and principal (as adjusted for indexation, as applicable, but excluding the FG Excepted Amounts) in respect of such Wrapped Bonds. The YWSF Financial Guarantor also constitutes a Financial Guarantor in respect of the Participating YWSF Bonds.
Hedge Counterparties	Certain financial institutions which from time to time enter into Hedging Agreements with the YW Financing Group as counterparties and which comply with certain criteria set out in the Hedging Policy, in the Common Terms Agreement and described in Chapter 7 "*Overview of the Financing Agreements*". The name and a brief description of each current Hedge Counterparty is set out in Chapter 10, "*Description of the Hedge Counterparties*". The YW Financing Group may enter into further Hedging Agreements from time to time which comply with the Hedging Policy.
Bond Trustee	Deutsche Trustee Company Limited acts as trustee (the "Bond Trustee") for and on behalf of the holders of each Class of Bonds of each Series (the "Bondholders").
Security Trustee	Deutsche Trustee Company Limited acts as security trustee for itself and on behalf of the Shared Secured Creditors and the Ring-fenced Secured Creditors (as defined below) (the "Security Trustee").
Secured Creditors	The Secured Creditors comprise any person who is a party to, or has acceded to, the STID as a Secured Creditor and includes Ring-fenced Secured Creditors and Shared Secured Creditors.
Authorised Credit Providers	Among others, the EIB (the "Existing Authorised Credit Providers").
Liquidity Facility Providers	The DSR Liquidity Facility Providers and the O&M Reserve Facility Providers.
Senior Facilities Agreement Providers	Certain financial institutions assembled from time to time by the Kelda Group (each a "**Senior Facilities Agreement Provider**" and together, the "**Senior Facilities Agreement Providers**").
Senior Facilities Arrangers	The Royal Bank of Scotland plc, HSBC Bank plc, Santander, S.A., London Branch
Senior Facilities Agent	The Royal Bank of Scotland plc or any other entity appointed as Facility Agent under the Senior Facilities Agreement.
Initial Issuing Bank	The Royal Bank of Scotland plc.
Finance Lessors	Certain financial institutions which lease plant, machinery and Equipment (as defined below) to YWS under the terms of various Finance Leases.

Paying Agents	Deutsche Bank AG, London Branch acts as principal paying agent (the "Principal Paying Agent" and, together with any other paying agents appointed by the Issuer, the "Paying Agents") to provide certain issue and paying agency services to the Issuer in respect of the Bearer Bonds and Registered Bonds.
Agent Bank	Deutsche Bank AG, London Branch acts as agent bank (the "Agent Bank") to provide certain calculation agency services under the Agency Agreement in respect of the Bonds.
Account Bank	National Westminster Bank plc, acting through its City of London office at 1 Princes Street, London (the "Account Bank").
Cash Manager	YWS (the "Cash Manager"), or during a Standstill Period, The Royal Bank of Scotland plc (the "Standstill Cash Manager").
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A. acts as transfer agent (the "Transfer Agent") and provides certain transfer agency services to the Issuer in respect of the Registered Bonds. Deutsche Bank Luxembourg S.A. acts as registrar (the "Registrar") and provides certain registrar services to the Issuer in respect of the Registered Bonds.
Participating YWSF Bond Trustee	Deutsche Trustee Company Limited acts as trustee for and on behalf of the holders of each Class of Participating YWSF Bonds, such entity (or any successor trustee appointed pursuant to the relevant Participating YWSF Bond Trust Deeds (as defined below)), (the "Participating YWSF Bond Trustee").

CHAPTER 2
OVERVIEW OF THE PROGRAMME

The following does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the Conditions of any particular Tranche of Bonds, the applicable Final Terms or Drawdown Prospectus. Words and expressions not defined in this section shall have the same meanings as defined in Chapter 8 "*The Bonds*".

Description	Guaranteed Bond Programme.
Programme Size	Up to £8,000,000,000 (or its equivalent in other currencies calculated as described herein) aggregate nominal amount of Bonds Outstanding at any time.
Issuance in Classes	Bonds issued by the Issuer under the Programme will be issued in Series, with each Series belonging to one of four Classes. The Unwrapped Bonds issued by the Issuer are and will be designated as one of Class A Unwrapped Bonds or Class B Unwrapped Bonds. The Wrapped Bonds issued by the Issuer are and will be designated as either Class A Wrapped Bonds or Class B Wrapped Bonds. Each Class comprises or will comprise one or more Sub-Classes of Bonds with each Sub-Class pertaining to, among other things, the currency, interest rate and Maturity Date of the relevant Sub-Class and each Sub-Class can be issued in one or more Tranches, the specific terms of each Tranche of a Sub-Class being identical in all respects, save for the issue dates, interest commencement dates and/or issue prices, to the terms of the other Tranches of such Sub-Class. The specific terms of each Tranche of Bonds will be set out in the applicable Final Terms or Drawdown Prospectus.
Issue Dates	The date of issue of a Tranche of Bonds as specified in the relevant Final Terms or Drawdown Prospectus (each an "Issue Date").
Distribution	Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Certain Restrictions	Each issue of Bonds denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the restrictions applicable at the date of this Prospectus. See Chapter 12 "*Subscription and Sale*". Bonds having a maturity of less than one year from the date of issue will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See Chapter 12 "*Subscription and Sale*".
Currencies	Euro, sterling, U.S. dollars and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.

Redenomination	The applicable Final Terms or Drawdown Prospectus may provide that certain Bonds may be redenominated in euro. The relevant provisions applicable to any such redenomination will be contained in Condition 19 (*European Economic and Monetary Union*), as amended by the applicable Final Terms or Drawdown Prospectus.
Maturities	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Relevant Currency (as defined in the Conditions).
Issue Price	Bonds have been and will be issued on a fully-paid basis and may be issued at an issue price which is at par or at a discount to, or premium over, par, as specified in the relevant Final Terms or Drawdown Prospectus.
Interest	Bonds will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be interest-bearing and interest will be calculated (unless otherwise specified in the relevant Final Terms or Drawdown Prospectus) on the Principal Amount Outstanding (as defined in the Conditions) of such Bond. Interest will accrue at a fixed or floating rate (plus, in the case of Indexed Bonds, amounts in respect of indexation) and will be payable in arrear, as specified in the relevant Final Terms or Drawdown Prospectus, or on such other basis and at such rate as may be so specified. Interest will be calculated on the basis of such Day Count Fraction (as defined in the Conditions) as may be agreed between the Issuer and the relevant Dealer as specified in the relevant Final Terms or Drawdown Prospectus.
Form of Bonds	Each Sub-Class of Bonds will be issued in bearer or registered form as described in Chapter 8 "*The Bonds*". Registered Bonds will not be exchangeable for Bearer Bonds.
Fixed Rate Bonds	Fixed Rate Bonds will bear interest at a fixed rate of interest payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, as specified in the relevant Final Terms or Drawdown Prospectus.
Floating Rate Bonds	Floating Rate Bonds will bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the Relevant Currency governed by an agreement incorporating the 2000 ISDA Definitions or the 2006 ISDA Definitions (each as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Sub-Class) as set out in the relevant Final Terms or Drawdown Prospectus; or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service (being EURIBOR or LIBOR);

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Sub-Class of Floating Rate Bonds.

Indexed Bonds

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Indexed Bonds (including Limited Indexed Bonds as defined in Condition 7(a) (*Indexation – Definitions*)) may be calculated in accordance with Condition 7 by reference to the UK Retail Price Index.

Interest Payment Dates

Interest in respect of Fixed Rate Bonds is or will be payable annually in arrear and in respect of Floating Rate Bonds and Indexed Bonds is or will be payable semi-annually in arrear (or, in each case, as otherwise specified in the relevant Final Terms or Drawdown Prospectus).

Redemption

The applicable Final Terms or Drawdown Prospectus will indicate either that the relevant Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, or for taxation reasons if applicable, or following an Index Event or (subject to the terms of the STID) following an Event of Default) or that such Bonds will be redeemable at the option of the Issuer and/or the Bondholders upon giving notice to the Bondholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer, in each case as set out in the applicable Final Terms or Drawdown Prospectus.

Redemption for Index Event, Taxation or Other Reasons

Upon the occurrence of certain index events (as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*)), the Issuer may redeem all, but not some only, of the Indexed Bonds at their Principal Amount Outstanding together with accrued but unpaid interest and amounts in respect of indexation and any and all amounts due and payable, in the case of the Issuer, to any Financial Guarantor under the Finance Documents. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Sub-Classes of Indexed Bonds referable to the Index the subject of such Index Event are also redeemed.

In addition, in the event of the Issuer becoming obliged to make any deduction or withholding from payments in respect of the Bonds (although the Issuer will not be obliged to pay any additional amounts in respect of such deduction or withholding) the Issuer may (but is not obliged to) (a) use its reasonable endeavours to arrange for the substitution of another company incorporated in an alternative jurisdiction (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) of the Bonds) and, failing this, (b) redeem (subject to certain conditions as set out in Condition 8(c) (*Redemption for Index Event, Taxation or Other Reasons*) of the Bonds) all (but not some only) of the Bonds at their Principal Amount Outstanding (plus, in the case of Indexed Bonds, amounts in respect of indexation) together with accrued but unpaid interest.

No single Class or Sub-Class of Bonds may be redeemed if the Issuer is obliged to make any deduction or withholding from payments in respect of the Bonds, unless all the other Classes and Sub-Classes of Bonds are also redeemed in full at the same time. In addition, if such Bonds are Wrapped Bonds, the Issuer shall also pay any and all such amounts due to the relevant Financial Guarantor under the Finance Documents in respect of such Wrapped Bonds.

In the event of YWS electing to prepay an advance under the Issuer/YWS Loan Agreement where such advance was funded by the proceeds of an issuance of a Sub-Class of Bonds (in whole or in part), the Issuer shall be obliged to redeem all or the relevant part of such Sub-Class of Bonds or the proportion of the relevant Sub-Class which the proposed prepayment amount bears to the amount of the relevant advance under the relevant Issuer/YWS Loan Agreement.

Where YWS or the Issuer has hedged its exposure in relation to such an advance under an Issuer/YWS Loan Agreement funded by the proceeds raised from an issuance of a Sub-Class of Bonds under a Hedging Agreement, YWS or, as the case may be, the Issuer shall be obliged to reduce the notional amount of such Hedging Agreement by an amount equal to the amount of such prepayment and to pay any resulting termination payment.

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

The Issuer shall only be permitted to pay Early Redemption Amounts to the extent that in so doing it will not cause an Event of Default to occur or subsist.

Denomination of Bonds	Bonds have been and will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that (i) in the case of any Bonds which are to be admitted to trading on a regulated market within the 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 Bonds) and (ii) in any other case, the minimum specified denomination of each Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Relevant Currency. See the section "*Certain Restrictions*" above.
Taxation	Payments in respect of Bonds or under the relevant Financial Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any jurisdiction, unless and save to the extent that the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event and to that extent, the Issuer and, to the extent there is a claim under the relevant Financial Guarantee, the relevant Financial Guarantor will make payments subject to the appropriate withholding or deduction. Notwithstanding the foregoing, no additional amounts will be paid by the Issuer or the Guarantors or, to the extent there is a claim under the relevant Financial Guarantee, by the relevant Financial Guarantor in respect of any withholdings or deductions, unless otherwise specified in the applicable Final Terms or Drawdown Prospectus.
Status of the Bonds	The Bonds in issue at the date of this Prospectus constitute, and any further Bonds issued under the Programme will constitute, secured obligations of the Issuer. Each Class of Bonds issued by the Issuer ranks and will rank *pari passu* without preference or priority in point of security amongst themselves. The Bonds represent the right of the holders of such Bonds to receive interest and principal payments from (a) the Issuer in accordance with the terms and conditions of the Bonds (the "Conditions") and the trust deed (as amended, supplemented or restated from time to time) (the "Bond Trust Deed") to be entered into by YWS, YWH, YWSF, the Issuer and the Bond Trustee in connection with the Programme and (b) in the case of the Wrapped Bonds only, the relevant Financial Guarantor in certain circumstances in accordance with the relevant Financial Guarantee.

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

In the case of interest and principal on Class B Bonds only, if, on any Interest Payment Date or any date upon which such Class B Bond is to be redeemed (in whole or in part) prior to the taking of Enforcement Action, there are insufficient funds available to the Issuer to pay accrued interest or principal on the Class B Bonds (after taking into account, in respect of interest, any amounts available to be drawn under any DSR Liquidity Facility or from the Class B Debt Service Reserve Account of the Issuer), the Issuer's liability to pay such accrued interest or principal will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest or principal (including any interest accrued thereon). Interest will accrue on such deferred interest or principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

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

Covenants

The representations, warranties, covenants (positive, negative and financial) and events of default which will apply to, among other things, the Bonds are set out in the common terms agreement dated the Closing Date and as amended, supplemented or restated from time to time (the "CTA"). See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

Guarantee and Security	The Bonds in issue have been, and any further Bonds issued under the Programme will be, unconditionally and irrevocably guaranteed and secured by each of YWS, YWSF, and YWH, pursuant to a guarantee and security agreement (the "Security Agreement") entered into by each Obligor in favour of the Security Trustee over the entire property, assets, rights and undertaking of each such Obligor (the "Security"), in the case of YWS to the extent permitted by the WIA and the Instrument of Appointment. Each such guarantee constitutes a direct, unconditional and secured obligation of each such Obligor. The Security is held by the Security Trustee on trust for the Secured Creditors (as defined below) under the terms of the Security Agreement and subject to the terms of the STID (as defined below) (see Chapter 7 "*Overview of the Financing Agreements*" under "*Security Agreement*"). YWS's business (together with the facilities available to the YW Financing Group, including the Issuer/ YWS Loan Agreements) have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Bonds issued under the Programme.
Intercreditor Arrangements	The Secured Creditors and each Obligor are, and will each be, party to a security trust and intercreditor deed dated on the Closing Date and as amended, supplemented or restated from time to time (the "STID"), which regulates, among other things, (i) the claims of the Secured Creditors; (ii) the exercise and enforcement of rights by the Secured Creditors; (iii) the rights of the Secured Creditors to instruct the Security Trustee; (iv) the rights of the Secured Creditors during the occurrence of an Event of Default; (v) the Entrenched Rights and Reserved Matters of each Secured Creditor; and (vi) the giving of consents and waivers and the making of amendments by the Secured Creditors. See Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".
Status of Financial Guarantees in relation to Wrapped Bonds	Each Financial Guarantee issued in favour of the Bond Trustee in relation to each Sub-Class of Wrapped Bonds will constitute a direct, unsubordinated and unsecured obligation of the relevant Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application, pursuant to which the relevant Financial Guarantor will guarantee the timely payment of interest and principal (other than the FG Excepted Amounts) on the relevant Sub-Class of Wrapped Bonds.

Reimbursement	The Issuer will be obliged, pursuant to the terms of a guarantee and reimbursement deed with the relevant Financial Guarantor in respect of any Sub-Class or Sub-Classes of Wrapped Bonds, *inter alia*, to reimburse such Financial Guarantor in respect of payments made by it under the relevant Financial Guarantee or Financial Guarantees of such Sub-Class or Sub-Classes of Bonds. Each such Financial Guarantor will be subrogated to the rights of the relevant Class A Wrapped Bondholders or Class B Wrapped Bondholders against the Issuer in respect of any payments made under such Financial Guarantees. See Chapter 7 "*Overview of the Financing Agreements*" under "*Financial Guarantor Documents*".
Authorised Credit Facilities	Subject to certain conditions being met, the Issuer, YWSF and YWS is permitted to incur certain indebtedness under authorised credit facilities (each an "Authorised Credit Facility") with an Authorised Credit Provider. These Authorised Credit Facilities may comprise loan, hedging, finance leases, liquidity facilities and other facilities (including Financial Guarantees and letter of credit facilities) subject to the terms of the CTA and the STID. Each Authorised Credit Provider will be party to the CTA and the STID and may have voting rights thereunder. See Chapter 7 "*Overview of the Financing Agreements*".
DSR Liquidity Facilities	YWS has agreed to procure that (a) on any Payment Date the aggregate of (i) all amounts available for drawing under any DSR Liquidity Facilities in respect of Class A Debt and Class B Debt; and (ii) all aggregate amounts standing to the credit of the Debt Service Reserve Accounts (including the value of any Authorised Investments funded from amounts standing to the credit of the Debt Service Reserve Accounts) are at least equal to the Required Balance and (b) on any Non-Participating YWSF Bond Payment Date the aggregate of (i) all amounts available for drawing under any DSR Liquidity Facilities in respect of Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds); and (ii) all amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account) are at least equal to the Non-Participating YWSF Bond Required Balance. As of the date of this Prospectus, the Non-Participating YWSF Bond Required Balance will be an amount equal to the next 18 months' interest and principal forecast to be due on the Non- Participating YWSF Bonds, after taking into account anticipated real flow receipts under any Hedging Agreement then in place in respect of any Non-Participating YWSF Bonds. An amount equal to the Non-Participating YWSF Bond Required Balance is retained in YWSF's Non-Participating YWSF Bond Reserve Account. Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited and YWSF entered into a DSR Liquidity Facility Agreement dated 7 April 2011, as amended and restated on 23 September 2011 and as further amended and restated on

26 September 2012 (as may be further amended, supplemented or restated from time to time) which was renewed on 31 March 2017 (the "DSR Liquidity Facility Agreement"). Pursuant to the 2018 Reorganisation, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited were succeeded by the Issuer on 16 August 2018. Pursuant to the terms of the DSR Liquidity Facility Agreement and each further DSR Liquidity Facility Agreement, the DSR Liquidity Facility Providers make available, and will make available (as applicable), to the Issuer or, as the case may be, YWSF a 364-day revolving credit facility to enable drawings to be made by the Issuer or, as the case may be, YWSF in circumstances where YWS has or will have insufficient funds available to it on a Payment Date to pay (a) scheduled interest or certain other payments in respect of Senior Debt (including payments due to be made by YWS under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements and the YWSF/YWS Loan Agreements, to enable the Issuer or, as the case may be, YWSF to make interest payments due on the Bonds or, as the case may be, the YWSF Bonds); or (b) certain other payments ranking in priority to or pari passu with the Bonds (excluding any principal repayments)). Subject to the terms of the STID and the CTA, the DSR Liquidity Facility Agreement is and any further DSR Liquidity Facilities entered into shall be (as applicable) on such commercial terms as the Issuer or, as the case may be, YWSF have agreed or may agree (as applicable) with the relevant liquidity facility provider in terms of tenor and pricing subject always to meeting minimum Rating Agency criteria.

O&M Reserve Facilities

YWS shall at all times maintain an O&M Reserve Facility to be provided by the O&M Reserve Facility Providers available for drawing which, when aggregated with amounts (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Accounts of YWS) standing to the credit of the O&M Reserve Accounts, amount to not less than the O&M Reserve Required Amount. Yorkshire Water Services Odsal Finance Limited entered into the O&M Reserve Facility Agreement on 7 April 2011, as amended and restated on 23 September 2011, and as further amended and restated on 26 September 2012 (as may be further amended, supplemented or restated from time to time) which was renewed on 29 March 2018 (the "O&M Reserve Facility Agreement") and has a term of 364 days, and as part of the 2018 Reorganisation (as defined herein), transferred to YWS which became the borrower under the O&M Reserve Facility Agreement.

Listing

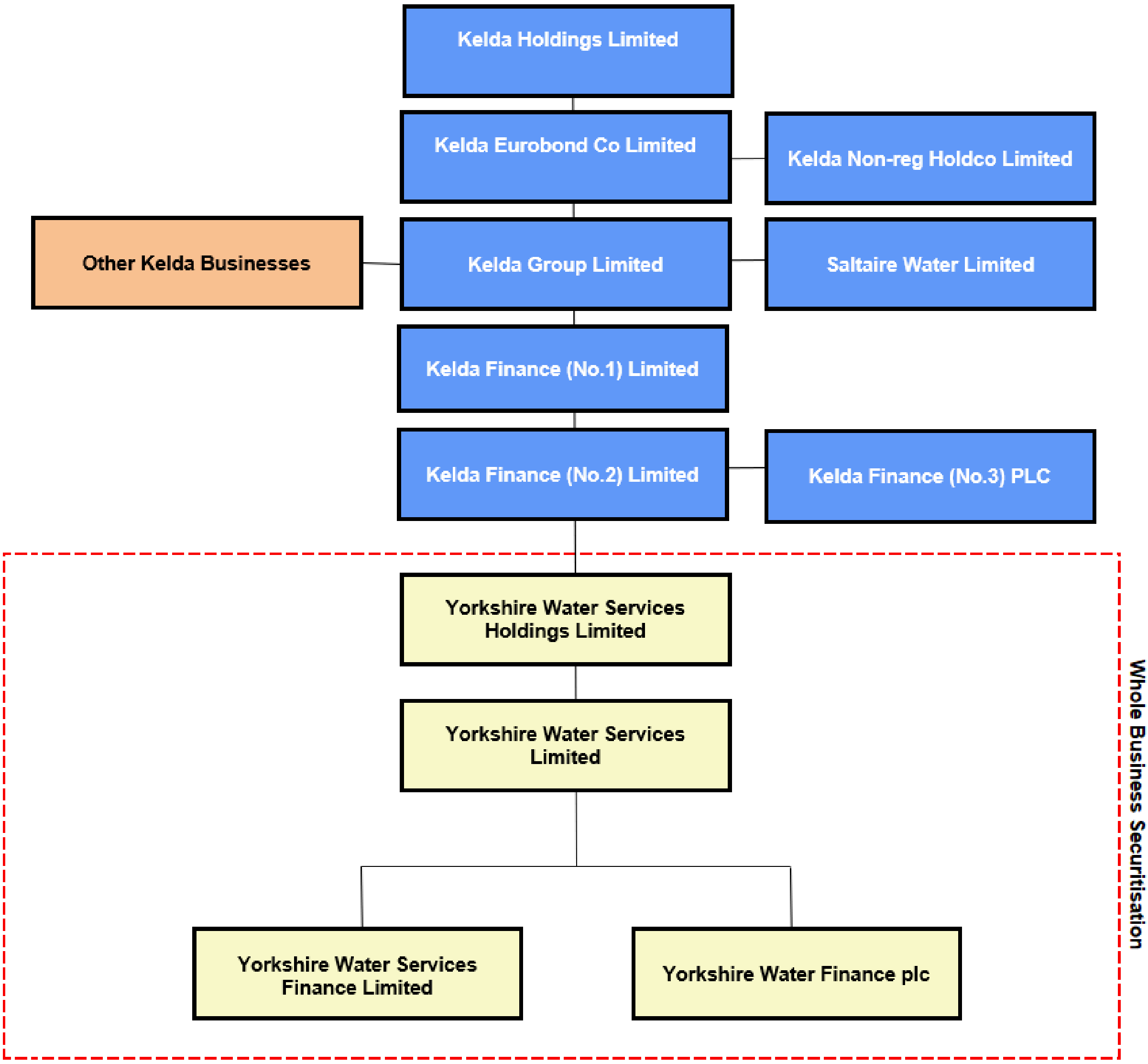
Application has been made to admit Bonds issued under the Programme to the Official List and to admit them to trading on the Market. The Issuer may not issue unlisted bonds.

The applicable Final Terms or Drawdown Prospectus will state on which stock exchange(s) the Bonds are to be listed.

Ratings	The ratings assigned to the Class A Unwrapped Bonds and the Class B Unwrapped Bonds by the Rating Agencies reflect only the views of the Rating Agencies. The ratings assigned by the Rating Agencies to the Class A Wrapped Bonds and the Class B Wrapped Bonds on issuance of such Bonds will be based on the debt rating of all or any of the Rating Agencies of the Relevant Financial Guarantor appointed in respect of such Wrapped Bonds and the underlying ratings of such Bonds and reflect only the views of the Rating Agencies. The initial ratings of a Series of Bonds will be specified in the relevant Final Terms or Drawdown Prospectus. A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of YWS or, in the case of the Class A Wrapped Bonds and the Class B Wrapped Bonds, of the Relevant Financial Guarantor from time to time. ESMA is obliged to maintain on its website a list of credit rating agencies registered in accordance with the Regulation. This list must be updated within 30 days of ESMA's notification to the relevant credit rating agency of adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation.
Governing Law	The Bonds in issue and any non-contractual obligations arising out of or in connection therewith are, and any new Bonds and any non-contractual obligations arising out of or in connection therewith will be, governed by, and construed in accordance with, English law.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Bonds in the United States, the United Kingdom, the European Economic Area, Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Sub-Class of Bonds. See Chapter 12 "*Subscription and Sale*".
Investor Information	YWS is required to produce an investors' report (the "Investors' Report") semi-annually to be delivered within 120 days from 31 March or 90 days from 30 September of each year. Such Investors' Report will include, among other things: (i) a general overview of the YWS business in respect of the six month period ending on the immediately preceding Calculation Date; (ii) the calculations of Class A ICR, the Class A Adjusted ICR, the Class A Average Adjusted ICR, the Senior Adjusted ICR, the Senior Average Adjusted ICR, the Conformed Class A Adjusted ICR, the Conformed Class A Average Adjusted ICR, the Conformed Senior Adjusted ICR and the Conformed Senior Average Adjusted ICR for each Test Period (historic and projected); (iii) the Class A RAR and Senior RAR for each Test Period (historic and projected); and (iv) reasonable detail of the computations of these financial ratios. Each such Investors' Report will be made available by YWS and the Issuer on YWS's website.

CHAPTER 3
OVERVIEW OF THE FINANCING STRUCTURE

OWNERSHIP STRUCTURE



PROGRAMME STRUCTURE

- The Issuer may under the Programme issue Class A Unwrapped Bonds, Class A Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor), Class B Unwrapped Bonds and Class B Wrapped Bonds (guaranteed as to scheduled principal and interest by a Financial Guarantor).
- YWS may borrow money from Authorised Credit Providers under Authorised Credit Facilities to repay or refinance the YW Financing Group's Financial Indebtedness and for general corporate purposes.
- The Issuer will on-lend the proceeds of each Series of Bonds issued on or after the date of this Prospectus to YWS pursuant to an Issuer/YWS Loan Agreement.
- The Issuer and YWSF may also borrow money from DSR Liquidity Facility Providers under the DSR Liquidity Facility or any further DSR Liquidity Facilities to service certain shortfalls in meeting payments in respect of the YW Financing Group's indebtedness. The Issuer and YWSF will on-lend any drawings under a DSR Liquidity Facility to YWS under an Issuer/YWS Loan Agreement or a YWSF/YWS Loan Agreement respectively.
- YWS may additionally borrow money from O&M Reserve Facility Providers under the O&M Reserve Facility or any further O&M Reserve Facilities for funding YWS's operating and maintenance expenditure and from Authorised Credit Providers under Authorised Credit Facilities for funding the working capital and Capital Expenditure requirements of YWS.
- Prior to the Closing Date, YWSF had issued each Class of YWSF Bonds which, upon issue, were unsecured obligations of YWSF guaranteed by YWS. The Initial YWSF/YWS Loan Agreement documents the terms of each advance that had previously been made by YWSF to YWS prior to the Closing Date in respect of the proceeds of each Class of YWSF Bonds issued.
- On the Closing Date, YWSF completed a consent solicitation process in respect of one Class of YWSF Bonds. As a result of the consent solicitation process, the terms and conditions of such Class of YWSF Bonds were amended on the Closing Date and the bond trustee in respect of such Class of YWSF Bonds entered into the CTA, STID and MDA in respect of such Class in order to take the benefit of and to be bound by the Security and the common covenant, trigger event, event of default and intercreditor terms applicable to the Programme on behalf of the holders of such YWSF Bonds. As a result, such YWSF Bonds became Participating YWSF Bonds and the bond trustee became the Participating YWSF Bond Trustee in respect thereof.
- In addition to the consent solicitation process described above, on the Closing Date, YWSF also completed an exchange offer in respect of certain other Classes of YWSF Bonds pursuant to which the holders of such Classes of YWSF Bonds were offered new Class A Unwrapped Bonds which were issued by Yorkshire Water Services Odsal Finance Limited under the Programme on the Closing Date in exchange for delivering their existing YWSF Bonds to Yorkshire Water Services Odsal Finance Limited (the "Exchange Offer"). Pursuant to the 2018 Reorganisation, the Exchanged YWSF Bonds were transferred to YWSF and cancelled.
- As part of the Exchange Offer, certain holders of the YWSF Bonds did not accept the offer to exchange such YWSF Bonds for new Class A Unwrapped Bonds issued by Yorkshire Water Services Odsal Finance Limited as a result of which certain holders of the YWSF Bonds retained their YWSF Bonds. In each such case, from and including the Closing Date, such YWSF Bonds became Non-Participating YWSF Bonds, which benefit from the Shared Security (see Chapter 7 "*Overview of the Financing*

Agreements - Security Agreement") and which rank in point of payment and security pari passu with the Class A Bonds issued by the Issuer under the Programme. The bond trustee in respect of each Class of Non-Participating YWSF Bonds is referred to as the Non-Participating YWSF Bond Trustee.

- The Class A Unwrapped Bonds originally issued by the Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited (and in each case, which are now obligations of the Issuer) as at the date of this Prospectus constitute, and the Class A Unwrapped Bonds and the Class A Wrapped Bonds issued by the Issuer from time to time will constitute, Class A Debt for the purposes of the STID. The Participating YWSF Bonds issued by YWSF will also constitute Class A Debt for the purposes of the STID. The Non-Participating YWSF Bonds do not constitute Class A Debt, however the Non-Participating YWSF Bonds do benefit from the Shared Security.

- Where applicable, each of YWS, YWSF, and/or the Issuer are required to hedge their respective interest rate and currency exposure under the Senior Debt by entering into interest and currency swap agreements and other hedging arrangements with Hedge Counterparties in accordance with the Hedging Policy. The economic effect of any hedging entered into by the Issuer will be passed on to YWS through the relevant Issuer/YWS Loan Agreement and the economic effect of any hedging entered into by YWSF will be passed on to YWS through the relevant YWSF/YWS Loan Agreement.

- Payments made by YWS under the Issuer/YWS Loan Agreements enable the Issuer to make payments due on the Bonds issued by the Issuer. Each Issuer/YWS Loan Agreement provides for payments to become due from YWS to the Issuer on dates and in amounts that match the obligations of the Issuer in respect of Bonds issued by the Issuer (and any DSR Liquidity Facility entered into by the Issuer) plus a certain profit margin.

- Payments made by YWS under the Initial YWSF/YWS Loan Agreement will enable YWSF to make payments due on the Participating YWSF Bonds and the Non-Participating YWSF Bonds. The Initial YWSF/YWS Loan Agreement provides for payments to become due from YWS to YWSF on dates and in amounts that match the obligations of YWSF in respect of the Participating YWSF Bonds and the Non-Participating YWSF Bonds (and any DSR Liquidity Facility entered into by YWSF).

- The Issuer and/or YWSF may withdraw sums standing to the credit of the Debt Service Reserve Accounts and/or draw under any DSR Liquidity Facility to on-lend to YWS to enable YWS to meet any shortfall in the amounts available to YWS on any Payment Date to pay (a) scheduled interest or certain other payments in respect of Senior Debt (including payments due to be made by YWS under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements and the YWSF/YWS Loan Agreements, to enable the Issuer or, as the case may be, YWSF to make interest payments due on the Bonds or, as the case may be, the Participating YWSF Bonds); or (b) certain other payments ranking in priority to or *pari passu* with the Bonds (excluding any principal repayments)). YWSF may withdraw sums standing to the credit of the Non-Participating YWSF Bond Reserve Account and/or draw under any DSR Liquidity Facility available in respect of the Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds) to on-lend to YWS to enable YWS to meet any shortfall in amounts available to YWS or YWSF to pay scheduled interest and/or principal in respect of any Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds).

- The respective obligations of YWS, YWSF, and the Issuer to each of their Secured Creditors are guaranteed by each other in favour of the Security Trustee pursuant to the Security Agreement. YWH in turn guarantees in favour of the Security Trustee the respective obligations of YWS, YWSF, and the Issuer.

- The obligations of each of YWS, YWSF, the Issuer and YWH are secured in favour of the Security Trustee under the terms of the Security Agreement.
- The guarantees and security granted by YWH and the Issuer are held by the Security Trustee for itself and on behalf of the Ring-fenced Secured Creditors and the guarantees and security granted by YWS and YWSF are held by the Security Trustee for itself and on behalf of the Shared Secured Creditors (which include the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee), in each case under the terms of the STID, which regulates the rights and claims of the Secured Creditors against the Obligors and the duties and discretions of the Security Trustee.

CHAPTER 4
RISK FACTORS

The following sets out certain aspects of the Programme documentation and the activities of the YW Financing Group about which prospective Bondholders should be aware. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or operational performance of the Issuer, YWS or the other Obligors or their ability to meet their obligations (including the payment of principal and interest) under the Bonds.

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

In addition, while the various structural elements described in this document are intended to lessen some of these risks for holders of the Bonds, there can be no assurance that these measures will ensure that the holders of the Bonds of any Sub-Class receive payment of interest or repayment of principal from the Issuer in respect of such Bonds, or from a Financial Guarantor in respect of the Class A Wrapped Bonds or Class B Wrapped Bonds issued by the Issuer, on a timely basis or at all.

Regulatory and Competition Considerations

Regulated Business

The water industry is subject to extensive legal and regulatory controls with which YWS must comply. The application of the laws, regulations, standards and policies published by Ofwat, DEFRA, DWI, Natural England and other regulators (as well as any future changes to any of these laws, regulations standards and policies), could have a material adverse impact on the business, financial condition or operational performance of YWS.

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

Instrument of Appointment

As further described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*", YWS operates in accordance with its Instrument of Appointment. Under the WIA, the Instrument of Appointment Conditions may be modified by Ofwat with YWS's consent or without YWS's consent, where, following a reference to the Competition and Markets Authority ("CMA"), the CMA determines (i) that the existing Instrument of Appointment operates against the public interest; and (ii) that those adverse effects could be remedied or prevented by modifications of the Instrument of Appointment. In determining whether any particular matter operates or may be expected to operate against the public interest, the CMA is to have regard to the matters in relation to which duties are imposed on the Secretary of State and Ofwat. Modifications could also result from a decision on a merger or market investigation reference by the CMA under the Enterprise Act if it concludes that matters investigation in relation to water or sewage services were anti-competitive or, in certain circumstances, against the public interest. In addition, the Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and YWS. Other proposed modifications agreed by Ofwat and YWS may be vetoed if it appears to the Secretary of State that the modifications should only be made, if at all, after a reference to the CMA. Finally, primary legislation can create powers for the making of modifications by Ofwat without the consent of Regulated Companies. Section 55 of the Water Act 2014 provides for modification of a licence where necessary and expedient as a consequence of a provision made by or under Part 1 of the Water Act 2014.

The UK Secretary of State has a power to veto certain proposed modifications agreed by Ofwat and YWS or refer them to the CMA. In the event of a referral to the CMA that determines that YWS's existing licence operates against the public interest and that those adverse effects could be remedied or prevented by modifications of the licence, the licence could be modified without YWS's consent. Additionally, modifications can result from a decision on a merger or market investigation referred by the CMA.

Any modification to the conditions of the Instrument of Appointment could have a material adverse impact on the business, financial condition or operational performance of YWS and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

In June 2018, Ofwat published an information notice setting out changes to how, when determining the level of licence fees, Ofwat will allocate relevant costs between companies holding appointments as water and/or sewerage undertakers (appointed water companies) and water supply and/or sewerage licensees ("WSS licensees"). Appointed water companies and WSSL licensees are required to pay licence fees to Ofwat, the Consumer Council for Water and the CMA. Ofwat is simplifying the licence fee structure by calculating the flat fee element of licence fees by licence, rather than by licence holder, for both the Consumer Council for Water's and Ofwat's costs.

In July 2018, Ofwat launched a consultation under section 13 of the WIA on two proposed modifications of the licence conditions of 17 water companies, including YWS. The first proposed modification would prohibit water companies from showing undue preference towards or undue discrimination against themselves, water companies (including new appointees ("NAVs")), water supply and/or sewerage licensees or unlicensed third parties in relation to the provision of certain water and sewerage services. The second proposed modification would place restrictions on the circumstances in which water companies could externally disclose or internally use information they were provided with in relation to the submission of bids to provide certain services or agreements for the adoption of infrastructure.

Breach of Instrument of Appointment Conditions

As described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Enforcement Powers*", a failure by YWS to comply with the Instrument of Appointment Conditions or certain statutory duties, may result in an Enforcement Order by Ofwat, or the Secretary of State, or the imposition of financial penalties of up to 10 per cent. of YWS's entire regulated turnover for a period of five years after the breach, which could have a material adverse impact on YWS.

Failure by YWS to comply with any Enforcement Order (as well as certain other defaults) may lead to the making of a Special Administration Order (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*") which could also have an adverse impact on YWS.

Termination of the Instrument of Appointment

As described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Termination of an Instrument of Appointment*", there are certain circumstances under which YWS could cease to hold its Instrument of Appointment for all or part of its region. The termination, non-renewal or transfer of the Instrument of Appointment could have a material adverse impact on YWS and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

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

Thus far there is no precedent to indicate how compulsory licence terminations or Special Administration Orders would work in practice for Regulated Companies with water supply licence customers and with activities regulated by the water supply licensing ("WSL") regime, nor is there any precedent for such Regulated Companies to indicate the extent to which creditors' interests would be protected (see paragraphs on "*Security*" and "*Special Administration*" below).

Competition in the water industry

Ofwat submitted its final assessment in September 2016 which concluded that evidence suggests that a net positive outcome of introduction of competition to the residential retail water market is more likely than not, with Ofwat noting that there are potential benefits worth around £2.9 billion over 30 years if competition is extended to household customers. It is now up to the Government to decide if and when retail competition should be extended to household customers, however, given the current political focus on Brexit (as of the date of this Prospectus) and with parliamentary time at a premium, the prospect of legislative changes being made to enable household competition being introduced in the immediate future looks remote as of the date of this Prospectus.

Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016

The Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016 ("Exit Regulations") came into force on 3 October 2016, and provide for water and sewerage undertakers whose areas are wholly or mainly in England to apply to the Secretary of State for permission to exit the non-household retail market in their area of appointment when the retail market for non-household customers opened in April 2017.

YWS notified the Secretary of State that YWS would not be exiting its non-household retail activities on 1 April 2017 and would be deferring its exit until after the opening of the non-household retail market. All other undertakers exited the non-household retail market at market opening or shortly thereafter, leaving YWS as the only water and sewerage undertaker in England which has not yet exited the non-household retail market. A contract currently exists between YWS and Three Sixty Water Ltd ("Three Sixty") (a sister company of YWS), which requires Three Sixty to provide all non-household retail services to the business customers of YWS and is a key part of ensuring appropriate separation between the non-household retail and wholesale parts of the business. This contract will remain in place and continue through to the point when YWS exits the non-household retail market.

YWS is required in the meantime to operate its non-household retail activities entirely separately from the wholesale and household retail business, and the wholesale business is required to treat the YWS non-household retail business in the same way as all other retailers. YWS have re-introduced the brand 'Yorkshire Water Business Services' ("YWBS"), to distinguish the non-household retail part of the business from the rest of Yorkshire Water.

A failure to comply with the requirements enabled by the Water Industry Act could result in a market investigation or referral to the CMA which could impose changes to YWS's operations or structure that could affect the financial condition of YWS.

On 21 December 2018 an agreement was signed with Scottish Water Business Stream to purchase the non-household retail customer portfolios of Yorkshire Water Business Services and Three Sixty Water Ltd (a sister company of YWS). As at the date of this Prospectus, the transaction remains subject to regulatory clearances, including YWS formally exiting the non-household retail market pursuant to the Exit Regulations.

Inset (NAV) appointments

As further described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*", appointments via the NAV regime allow one Regulated Company to replace another as the provider of water or wastewater in a specified geographical area previously within another Regulated Company's appointed territory. Appointments within this market may give rise to a potential material adverse impact with YWS facing increased competition for customers and the provision of services as a result of inset appointments affecting its Water Region and Sewerage Region.

YWS currently has no formal applications for NAV.

YWS Revenue and Cost Considerations

The net operating revenues generated by YWS may not be sufficient to enable it to make full and timely payment of amounts due to creditors. This could have a material adverse impact on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

Periodic Review

The turnover, profitability and cashflow of the Appointed Business is substantially influenced by the service levels, regulatory targets and price limits, established by Ofwat in its Periodic Review, and Ofwat's assessment of delivery against those factors. If a Periodic Review was determined adversely, this could have a material adverse impact on YWS and, consequently, on the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds. A detailed description of the process under which Ofwat determines price limits for YWS is described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Economic Regulation*".

There are now separate wholesale water and wastewater price limits and both are linked to RPI plus or minus K (in line with current methodology). There are also separate retail household and non-household price limits and these are linked to a method for calculating price caps based on the average cost to serve and average cost per customer type (default tariff), respectively.

The method is set out in "*Setting price limits for 2015-2020 – final methodology and expectations for companies*' business plans" (the "Ofwat Final Methodology"). The Ofwat Final Methodology set out the methodology for the price caps that have been introduced for the period 2015-2020 ("AMP6 Period") and is in line with the licence modifications set out above (see Chapter 6, "*Regulation of the Water and Wastewater Industry in England and Wales*").

In the 2014 Final Determination, Ofwat set out its views on the appropriate allowed return for wholesale activities, retail margins and range for out- and under-performance for the AMP6 period.

In its Water 2020 Paper from May 2016, Ofwat issued its decision to introduce additional price limits for bio-resources (previously referred to as sludge) and for water resources to apply from 1 April 2020.

The non-household retail price limits were reviewed by Ofwat, prior to the opening of the non-household retail market in 2017, to ensure that the new non-household retail market operates in a way that is in the best interests of customers, allowing companies flexibility within certain bounds to set tariffs for individual customers. Ofwat's final determinations for the three-year period from April 2017 were published on 15 December 2016. YWS's proposal in respect of default tariff caps was accepted by Ofwat, as set out in the YWS specific determination, published the same day.

Ofwat has supplemented its methodology for PR19 with amendments and clarifications. In particular, Ofwat published "Putting the sector back in balance: summary of Ofwat's decision on issues for PR19 business plans" on 3 July 2018 setting out amendments and clarifications to the PR19 methodology relating, notably, to a proposal for Regulated Companies to share financial outperformance for gearing materially exceeding Ofwat's notional assumptions. Following the changes introduced by Ofwat, Regulated Companies will, in particular, be required to: (a) set out proposals to share benefits with customers where Regulated Companies have gearing that is materially above the notional level that underpins price controls; (b) explain in business plans how dividend policies in 2020-25 take account of how companies deliver for customers over the price control period; and (c) set out transparently in business plans for customers and wider society, how performance related executive pay is linked to stretching delivery for customers. On 31 July 2018, Ofwat published "Putting the sector in balance: position statement on PR19 business plans" which confirmed Ofwat's changes to its 2019 price review methodology previously announced on 3 July 2018 and set out its final position on the consultation, a summary of issues raised by respondents, the detailed rationale for its decisions and an assessment of the likely impact.

Ofwat has a duty to exercise and perform its powers and duties in the manner it considers is best calculated to secure that companies holding an instrument of appointment are able (in particular, by securing reasonable returns as capital) to finance the proper execution of their functions. An adverse price determination, (which would adversely affect turnover, profitability and cashflow), may occur as a result of a number of factors. These include an inadequate allowed cost of capital or regulatory assumptions concerning operating expenditure and required capital expenditure and insufficiently accurate turnover forecasts.

In addition, unforeseen financial obligations or costs may arise after a Periodic Review (for example, as a result of ensuring regulatory compliance or changes to legislation or regulatory requirements) that were not taken into account by Ofwat in setting price limits and are consequently not compensated for, which could materially adversely affect financial performance.

Performance Commitments and incentives

For the five-year AMP6 Period, YWS agreed to 26 commitments on its operational performance ("Performance Commitments") in wholesale and household retail, including Performance Commitments relating to drinking water quality, leakage, sewer flooding and customer satisfaction. Actual performance against these commitments will increase or decrease revenues where commitments have attached financial penalties associated with underperformance or rewards for outperformance (outcome delivery incentives or "ODIs"). YWS has 14 Performance Commitments that have an associated ODI. The company's performance against these Performance Commitments are shown within Chapter 5 "*Description of the YW Financing Group*" under "*2017/2018 Business Performance*". The ODI incentives will be monitored during the AMP6 Period and will apply to revenues and the RCV from 1 April 2020.

YWS's Performance Commitments and incentives are set out in detail in the 2014 Final Determination and in particular in the YWS company-specific appendix of the 2014 Final Determination (http://webarchive.nationalarchives.gov.uk/20150624091829/https://www.ofwat.gov.uk/pricereview/pr14/det_pr20141212yky.pdf) on pages 110 to 155, together with a corrigendum (http://webarchive.nationalarchives.gov.uk/20150624091829/https://www.ofwat.gov.uk/pricereview/pr14/pap_pos201502pr14fdcorryky.pdf).

The ODIs in AMP6 mean that YWS faces risks of penalties from operational underperformance as well as opportunities for rewards for outperformance. These amounts are expected to manifest in the form of adjustments to YWS's closing AMP6 RCV. The potential ODI rewards and/or penalties are capped at +/- 2 per cent. of YWS's return on regulated equity and therefore YWS estimates that the maximum penalties for AMP6 underperformance could total £210 million (in 2012/13 prices).

Interim Determinations

An interim determination of a price limit may be made between Periodic Reviews in specified circumstances, including, in the cases of YWS and most other Regulated Companies, the circumstances contemplated by the Substantial Effects Clause in the Instrument of Appointment.

Under the Substantial Effects Clause, Ofwat can request price limit to be reset at a lower level if YWS's Appointed Business enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

Further, in respect of any interim determination of a price limit sought by YWS in respect of a substantial adverse effect on its Appointed Business, there is however no assurance that such interim determination of a price limit sought will be made or, if an interim determination of a price limit or determination pursuant to the provisions of the Substantial Effects Clause is made, that such adjustment or determination will provide adequate revenue compensation to YWS, therefore, YWS would have to bear any additional cost from its own resources. In such an event, Ofwat will consider all aspects of a price limit under such a request and may make an adjustment or determination that could place YWS in worse a position than the existing price limit.

Failure by YWS to deliver its capital investment programme

The Appointed Business requires significant capital expenditure for additions to, or replacement of, plant and equipment. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant Periodic Review Period and the associated funding costs and operating costs.

If YWS is unable to deliver its capital investment programme at expected expenditure levels, is unable to secure the expected level of efficiency savings on its capital investment programme, or the programme falls behind schedule or contains incorrect assumptions by YWS as to the capital investment required, YWS's profitability might suffer because of a need for increased capital expenditure. Ofwat may also factor such failure into future Periodic Reviews by seeking to recover amounts equivalent to the "allowed costs" of any parts of the programme that are not delivered. YWS's ability to meet regulatory Performance Commitments and environmental performance standards could also be adversely affected by such failure, which may result in penalties imposed by Ofwat of an amount up to 10 per cent. of turnover or other sanctions and the need for further increases in capital expenditure and operating expenditure by YWS.

Changes in the specified inflation index

In its Water 2020 Paper, Ofwat stated that it intends to amend all water company licences, including YWS's Instrument of Appointment, so that wholesale revenues will be indexed by CPI (or CPIH) from 1 April 2020. As part of its PR19 final methodology published in December 2017, Ofwat confirmed that revenues will be indexed by CPIH from 1 April 2020. In addition, 50 per cent. of RCV as at 1 April 2020 will be indexed by RPI and the remainder of the RCV as at that date, plus any new RCV added after that date will be indexed by CPIH. Additionally, Ofwat have signalled that they intend to implement a full transition to indexation by CPIH as soon as practicable. This exposure to fluctuations in inflation and between different indices in the future creates an element of unpredictability that could have adverse consequences on YWS's financial performance, and thus impact the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

The national and international economic uncertainties may put pressure on YWS's input costs, and energy and other commodity costs may rise at rates above RPI or other indices used to determine future RCV and revenues.

Targeted price limits

Ofwat is planning to set separate price limits for water resources, water network plus, bio-resources and wastewater network-plus from 1 April 2020 for five years. Ofwat has concluded that it wants to allocate RCV between the four price limits, using a focused allocation of RCV for bio-resources and an unfocused allocation for water resources. A focused allocation means the bio-resources RCV should be set equal to the estimated value of assets in this price limit. In this way, the RCV discount (the difference between the lower wastewater RCV and higher asset value) is focused on wastewater network-plus. Ofwat has published guidance for companies on the appropriate approach for estimating the bio-resources asset value (e.g. using net modern equivalent asset values). An unfocused allocation means the water resources RCV as a proportion of the wholesale water RCV should be set equal to the water resources asset value as a proportion of the wholesale water asset value. In this way, the RCV discount (the difference between the lower water RCV and higher asset value) is unfocused and shared between water resources and water network-plus. Rather than prescribing an allocation approach, this allocation was submitted to Ofwat by YWS as part of the PR19 business plans on 3 September 2018. Ofwat has committed to protect the value of the RCV for efficient investment incurred before 31 March 2020, which will include any RCV allocated to the bio-resources and water resources price limits.

Non-recovery of customer debt

Non-recovery of customer debt is a risk to YWS and may cause YWS's profitability to suffer. This risk is exacerbated by the WIA, which prohibits the disconnection for non-payment of a water supply for domestic use in any premises and the limiting of a supply with the intention of enforcing payment for domestic use in any premises; although allowance is made by Ofwat in the price limits at each Periodic Review for a proportion of debt deemed to be irrecoverable. YWS may therefore suffer losses from its inability to recover its debts fully, which could have a material adverse impact on the business, financial condition or operational performance of YWS.

Regulatory changes affecting RCV

RCV may be reduced or discontinued or the methodology for its calculation changed without modification of YWS's Instrument of Appointment. This may impact the Issuer's ability to meet its obligations (including the payment of principal and interest) under the Bonds.

On 5 October 2016, Ofwat issued its final amended reconciliation rulebook which forms part of the price review process which concluded in December 2014 (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under in the section entitled "*PR14 Reconciliation Rulebook*"). Within the reconciliation rulebook, Ofwat has published a revised CIS RCV adjustment calculation. This RCV calculation differs from that accepted in the 2014 Final Determination, and will result in a £101.2 million (in 2012/13 prices) reduction in YWS's opening RCV from 1 April 2020.

On 5 October 2016, Ofwat also issued its final reconciliation of companies' performance within the 2010 – 2015 period. Within this document, Ofwat published a revised CIS RCV adjustment in relation to performance within the 2010 – 2015 period. This adjustment will result in a £5.2 million (in 2012/13 prices) increase in YWS's opening RCV from 1 April 2020.

These adjustments to the RCV have been included within the PR19 business plan submitted to Ofwat by YWS on 3 September 2018. These adjustments are in line with Ofwat's final PR19 methodology that was published in December 2017.

An amendment to Ofwat's reconciliation process, which could result in a lower RCV for YWS, is a significant risk which could adversely affect YWS's business and financial performance.

Operational Risks

Sewer flooding

YWS's combined sewerage systems (as described more fully in Chapter 5 "*Description of the YW Financing Group*") can, during prolonged heavy rainfall, reach their hydraulic capacity resulting in flooding. As it is not possible to forecast accurately the occurrence and effects of sewer flooding, forward planning and the making of full and reliable provision for the effects, or the alleviation of the risk, of sewer flooding is difficult. The financial costs of measures required to deal with sewer flooding (including any compensation payments to its affected customers), or measures designed to alleviate the risk of sewer flooding to properties which become at risk, may therefore not be taken into account fully in a Periodic Review, which could have a material adverse impact on the business, financial condition or operational performance of YWS. In addition, underperformance against YWS's sewer flooding commitment may lead to financial penalties for YWS under the ODIs.

Water shortages

In the event of water shortages, additional costs may be incurred by YWS in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect its business, results of operations, profitability or financial condition. In addition, restrictions on the use or supply of water (including temporary use bans and Drought Orders or Drought Permits) may adversely affect YWS's turnover and may, in very extreme circumstances requiring an Emergency Drought Order which have never been experienced by YWS, lead to significant compensation becoming due to customers because of interruptions to supply, both of which could have a material adverse impact on the business, financial condition or operational performance of YWS.

Potential water shortages may be exacerbated by reductions in the volume of water licensed to be abstracted. This licensing regime was imposed by the EA to mitigate environmental damage or to achieve sustainable levels of abstraction. Costs may be incurred by YWS in implementing replacement sources and abstraction charges could be increased by the EA to cover compensation payments made to other abstractors whose licences are revoked or varied to alleviate environmental impact, each of which could have a material adverse impact on the business, financial condition or operational performance of YWS. In 2015/16, available water for abstraction was reduced by 2 Ml/d with potential further 0.7 Ml/d reduction required during AMP6 as part of YWS's sustainability reductions to meet the Water Framework Directive requirements for Heavily Modified Water Bodies.

Water Industry National Environment Programme

YWS's AMP7 Water Industry National Environment Programme ("WINEP") is the company's most extensive in terms of its scope and scale of ambition. The range of solutions vary from conventional engineering approaches, to YWS's largest ever programme of catchment interventions. The programme has been developed with the UK regulators, the Environment Agency and Natural England to meet the environmental, resilience and flood risk obligations and expectations of the UK Government for YWS's PR19 business plan.

WINEP is a major element of YWS's business plan and relevant aspects were also integrated within the company's drinking water quality submissions to DWI and its draft Water Resource Management Plan submitted to Defra. There is a focus on the removal of phosphorus from river water. Subject to ongoing conversations with Defra, YWS will need to satisfy its obligations under WINEP by 2025.

YWS is likely to incur significant costs on the programme, with the programme currently expected to represent approximately 17% of YWS's proposed total expenditure for PR19. This is approximately three times larger than the expenditure for PR14. The potentially significant cost and scale of the environmental project means this programme may have a material adverse impact on the business, financial condition or operational performance of YWS.

Service interruptions due to key site or installation disruption

Unexpected failure or disruption (including process safety failure, criminal acts or major health and safety incident) at a key site or installation (including a reservoir or treatment works), due to single supply water systems or for any other reason, could cause a significant interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that YWS operates, prejudicing its reputation and resulting in additional costs including liability to customers or loss of revenue, each of which could have a material adverse impact on the business, financial condition or operational performance of YWS. In addition, underperformance against the performance commitment for supply interruptions may lead to financial penalties under the ODIs.

Contamination of water supplies

Water supplies may be subject to contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made substances, criminal acts and failures of third parties. In the event that YWS's water supply is contaminated and it is unable to substitute water supply from an uncontaminated water source, or to treat adequately the contaminated water source in a cost-effective manner, there may be an adverse effect on its business, financial condition or operational performance because of the resulting prejudice to reputation and required capital and operational expenditures. YWS could also be fined for breaches of statutory requirements or regulations, or held liable for human exposure to hazardous substances in its water supplies or other environmental damage, which could have a material adverse impact on the business, financial condition or operational performance of YWS.

Such operational costs may be partly recoverable through the mechanisms referred to in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" or future price reviews but, in the event that such recovery is not possible, such costs could be significant and could have a material adverse impact on the business, financial condition or operational performance of YWS. YWS also maintains insurance policies in relation to legal liabilities likely to be associated with these risks. However, all the costs of any such liabilities may not be covered by insurance and insurance coverage may not continue to be available in the future. In addition, contamination of supplies could exacerbate water shortages, giving rise to the issues described above.

Weather

There is a risk that extreme weather conditions could cause flooding (including widespread flood inundation of above ground assets), prolonged periods of drought, leakage (due to dry ground conditions) and/or operational difficulties, which could adversely affect YWS's service performance and give rise to potential penalties, the need to pay compensation to customers or other regulatory action. In this regard, YWS maintains insurance cover consistent with the generally accepted practices of prudent water and sewage companies and this includes business interruption insurance.

Catastrophe Risk

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, reputational harm or severe damage to or destruction of YWS's operational assets. Subject to a possible interim determination of a price limit under the Substantial Effects Clause any costs resulting from suspension of operations of YWS could have a material adverse effect on the ability of YWS to meet its financing obligations.

Although the CTA requires YWS to maintain insurance (including business interruption insurance) to protect against certain of these risks, the proceeds from such insurance may not be adequate to cover reduced revenues, increased expenses or other losses or liabilities arising from the occurrence of any of the events described above. Moreover, there can be no assurance that such insurance coverage will be available for some or all of these risks in the future at commercially reasonable rates or at all. (See Chapter 5 "*Description of the YW Financing Group*" under "*Insurance and Risk Management*").

Technology and Information Risk

The increased use of online communications and cloud-based technology within YWS requires enhanced protection of both internal and customer information from unauthorised disclosure and improper use, especially as the sophistication of hackers continues to increase resulting in an increased risk of cyber attack. Any failure to adequately protect YWS's information technology systems or any failure of YWS's systems in respect of the security, governance and control of internal and customer information may lead to increased costs of operation, reputational damage, criminal fees and civil damages (including as a result of losses of sensitive information or breaches of legislation, including but not limited to the Data Protection Act 1998 or the General Data Protection Regulation which came into effect on 25 May 2018).

Legal Considerations

Litigation

As described in Chapter 5 "*Description of the YW Financing Group*", YWS, together with several other water companies, received a letter of claim from six personal search companies ("PSCs") on 1 September 2016. The claim is for historic fees amounting to approximately £14 million which the PSCs claim should not have been paid. On 16 December 2016, YWS received a further letter of claim on behalf of a further forty PCSs. The claim is framed in similar terms to the above claim. To date, this set of claimants have not specified an amount claimed. On 21 February 2018, YWS received a letter of claim from the Index Property Group. The value of the claim against YWS from this group of claimants is stated to be £106,622.22.

If these claims are successful, it may have an adverse impact on the financial condition of YWS.

Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, both the WIA and the Instrument of Appointment restrict a Regulated Company's ability to dispose of interests in (or create a charge or mortgage over) Protected Land (as explained in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Protected Land*", below). The vast majority of YWS's assets by value are tangible property which is Protected Land and cannot therefore be effectively secured. This necessarily affects the ability of YWS to create a floating charge over the whole or substantially the whole of its business. Furthermore, in any event, there is no right of a floating charge holder under the WIA to block the appointment of a Special Administrator.

The Secretary of State and Ofwat have rights under the WIA to appoint a Special Administrator in certain circumstances in respect of YWS and its business. The appointment of a Special Administrator effectively places a moratorium upon any holder of security from enforcing that security (see the section "*Special Administration*" below).

There are also certain legal restrictions which arise under the WIA and YWS's Instrument of Appointment affecting the enforcement of the security created under the Security Agreement. For example, such enforcement is prohibited unless the person enforcing the security has first given 14 days' notice to Ofwat or the Secretary of State, giving them time to petition for the appointment of a Special Administrator (see Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Security*").

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

The considerations described above do not apply to the fixed and floating charges created under the Security Agreement by YWH, YWSF and the Issuer because they are not Regulated Companies. The enforcement of the security granted under the Security Agreement over the shares in any company in the YW Financing Group (other than the Issuer and YWSF), including any Holding Company of YWS, would not be subject to the moratorium set out in the WIA nor would it be an event which would itself result in the making of the Special Administration Order. Notwithstanding this, given Ofwat's general duties under the WIA to exercise its powers to ensure that the functions of a Regulated Company are properly carried out, the Issuer anticipates that any intended enforcement of the Security granted by YWH over, and subsequently any planned disposal to a third party purchaser of, the shares in YWS would involve consultation with Ofwat. In addition, it is anticipated that any intended enforcement of the security created by YWH under the Security Agreement, to the extent that such enforcement would amount to a relevant merger situation for the purposes of the Enterprise Act or a concentration with a European Community dimension for the purposes of the European Merger Regulation, would require consultation with Ofwat and would be reviewable by the CMA or the European Commission.

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

Special Administration

As set out in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Special Administration Orders*", in some circumstances (for example, where YWS is in breach of its principal duties under its Instrument of Appointment or of the provisions of a final or confirmed provisional enforcement order (and in either case the breach is serious enough to make it inappropriate for YWS to continue to hold its Instrument of Appointment) or is unable, or is unlikely to be able, to pay its debts or a creditor has petitioned for the winding-up of YWS), this could lead to the appointment of a Special Administrator. The duties and functions of a Special Administrator differ in certain important respects to those of an administrator of a company which is not a Regulated Company.

During the period of the Special Administration Order, YWS has to be managed by the Special Administrator for the purposes of the order and in a manner which protects the interests of shareholders and creditors. As noted above, while the order is in force, no steps may be taken to enforce any security over the property of YWS except with the consent of the Special Administrator or the leave of the Court. A Special Administrator would be able to dispose of assets free of any floating charge existing in relation to them. A Special Administrator may not dispose of property which is the subject of a fixed charge without the agreement of the relevant creditor except under an order of the Court. On such a disposal, the disposal proceeds to which the chargee is entitled are determined by reference to "the best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order" as opposed to an amount not less than "open market value", which would apply in an administration for a company which is not a Regulated Company.

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

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

Environmental Considerations

YWS's water supply and sewerage operations are subject to a number of EU and UK laws and regulations relating to the protection of the environment and human health.

It is possible that YWS and other Regulated Companies will incur significant costs in the future in order to comply with requirements imposed under existing or future environmental laws and regulations (including nature conservation legislation). Where these costs are not considered as part of a Periodic Review, there can be no certainty as to how and whether future environmental laws and regulations will impact the business and financial condition of YWS and/or the interests of the Bondholders. It is possible that Ofwat may determine that the cost of fulfilling certain obligations is likely to be less than the cost actually incurred by YWS in fulfilling such obligations. In such circumstances, the funding allowed by Ofwat may not totally cover the actual costs and YWS would bear this additional element. In practice, the funding allowed by Ofwat is set for a package of obligations and some will cost more and some less.

The environmental legislation governing YWS's business means that YWS is at risk of enforcement action, prosecution, substantial fines to third parties, requirements to deal with the effects of contamination and/or upgrade plant and equipment, in the event of incidents such as the escape of sewage or a breach of water quality standards. This could materially and adversely affect YWS's reputation and/or financial position.

Priority Substances Directive

YWS is subject to the Environmental Quality Standards (2008/105/EC, usually referred to as the "Priority Substances Directive"), which was amended by 2013/39/EU. To ensure compliance, there is a risk that YWS may be required to install the equivalent of drinking water treatment at the sewage treatment works. This would represent a very significant investment for YWS if it is required to take such action and could have a negative impact on the financial condition of YWS.

Financing Considerations

High Leverage

At the date of this Prospectus, the YW Financing Group has substantial indebtedness in relation to its shareholders' equity. At 30 September 2018, the YW Financing Group was leveraged, after taking into account of cash reserves, at 67.4 per cent. as a percentage of Class A Net Indebtedness to RCV (being the Class A RAR) and at 75.6 per cent. as a percentage of Senior Net Indebtedness to RCV (being the Senior RAR) with RCV being £6,621.9 million. The corresponding numbers as at 31 March 2018 were 67.2 per cent. and 75.6 per cent. respectively with RCV being £6,446 million. Class A RAR and Senior RAR are alternative performance measures. Class A RAR has been calculated by looking at Class A Net Indebtedness to RCV and Senior RAR has been calculated by looking at Senior Net Indebtedness to RCV. As shown in the investors report of the YW Financing Group, for the period ended 30 September 2018, YWS's Class A Net Indebtedness was £4,463.8 million and YWS's Senior Net Indebtedness was £5,008.1 million.

The two RAR covenants included in this Prospectus allow potential Bondholders to assess YWS's performance and its compliance with lending covenants. The leverage of the YW Financing 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 (however, 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 (see Chapter 7 "*Overview of the Financing Agreements - Common Terms Agreement*")). 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 amounts under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements or the YWSF/YWS Loan Agreements, which would enable the Issuer to pay amounts due and owing in respect of the Bonds. Incurrence of additional indebtedness by YWS or the Issuer, which is permitted under the Finance Documents, may materially affect the ability of YWS, the Issuer or the other Obligors to pay amounts due and owing in respect of the Bonds.

Future Financing

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

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

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

(iii) refinance the YWSF Bonds and any other debt (including any RPI payments under an RPI Linked Hedging Agreement and for liquidity or working capital purposes) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Bonds.

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

Financing Structure Considerations

Special purpose vehicle Issuer

The Issuer is a special purpose financing entity with no business operations other than raising external funding for YWS through the issuance of the Bonds, borrowing under the Liquidity Facilities and Authorised Credit Facilities and entering into Hedging Agreements. After the Closing Date, other than the proceeds of the issuance of Bonds, the Issuer's principal source of funds for making payments due on the Bonds is pursuant to the Issuer/YWS Loan Agreements and funds available to it pursuant to any DSR Liquidity Facilities and pursuant to the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements and funds available to it. The Issuer has issued a guarantee in respect of the obligations of each of YWS and YWSF. YWSF is also a special purpose financing entity with no business operations other than having raised external funds for YWS through the issuance of the YWSF Bonds, and whose principal source of funds available to service debt will be pursuant to the YWSF/YWS Loan Agreements and the DSR Liquidity Facilities.

Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which YWS is subject. Such risks could limit funds available to YWS to enable YWS to satisfy in full and on a timely basis its obligations under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements, the YWSF/YWS Loan

Agreements and its guarantee under the Security Agreement (see the section "*YWS Revenue and Cost Considerations*" above).

Source of payments to Bondholders

Although any Class A Wrapped Bonds and Class B Wrapped Bonds issued by the Issuer will have the benefit of the relevant Financial Guarantee, none of the Bonds of any Class will be obligations or responsibilities of, nor are they guaranteed by, any of the Other Parties (other than the Guarantors and, in the case of the Wrapped Bonds, the Relevant Financial Guarantor). The guarantee by YWH may be of limited value because it does not own, nor will it own, any significant assets other than its direct shareholding in YWS. The guarantee by YWSF may be of limited value because it does not own, nor will it own, any significant assets and, furthermore, YWSF has Financial Indebtedness outstanding under the Participating YWSF Bonds (which constitutes Class A Debt of the YW Financing Group) and Non-Participating YWSF Bonds. The guarantee by the Issuer in respect of Bonds issued by the other Issuer may be of limited value because the Issuer does not own, nor will it own, any significant assets.

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

DSR Liquidity Facilities

YWS has agreed to procure that on any Payment Date, the aggregate of (i) all amounts available for drawing under the DSR Liquidity Facilities in respect of Class A Debt and Class B Debt; and (ii) all aggregate amounts standing to the credit of the Debt Service Reserve Accounts (including the value of Authorised Investments funded from amounts standing to the credit of the Debt Service Reserve Accounts) are at least equal to the Required Balance. Investors should note that in certain circumstances, the Required Balance will be zero. The Required Balance was zero as at the Closing Date and may return to zero in the future. However, as at the date of this Prospectus, the Required Balance is greater than zero (see the definition of Required Balance in "*Glossary of Defined Terms*").

If the Required Balance is greater than zero, the DSR Liquidity Facilities and any amounts credited to the Debt Service Reserve Accounts are intended to cover certain shortfalls in the ability of YWS to service payments of (a) scheduled interest or certain other payments in respect of Senior Debt (including payments due to be made by YWS under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements and the YWSF/YWS Loan Agreements, to enable the Issuer or, as the case may be, YWSF to make interest payments due on the Bonds or, as the case may be, the Participating YWSF Bonds); or (b) certain other payments ranking in priority to or *pari passu* with the Bonds (excluding any principal repayments). However, on any such Interest Payment Date, there are no assurances that any such shortfalls will be met in whole or in part by amounts standing to the credit of the Debt Service Reserve Accounts or by the DSR Liquidity Facilities.

Bond Considerations

Subordination of the Class B Bonds issued by the Issuer

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

If, on any Interest Payment Date or any date upon which such Class B Bond is to be redeemed (in whole or in part) prior to the taking of Enforcement Action, there are insufficient funds available to the Issuer to pay accrued interest or principal on the Class B Bonds (after taking into account, in respect of interest, any amounts available to be drawn under any DSR Liquidity Facility or from the Class B Debt Service Reserve Account of the Issuer), the Issuer's liability to pay such accrued interest or principal will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the Payment Priorities, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest or principal (including any interest accrued thereon). Interest will accrue on such deferred interest or principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

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

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

Insolvency proceedings and subordination provisions

Following a number of actions (one of which remains stayed) in the U.S., there is uncertainty as to the validity and/or enforceability in the U.S. of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor (so called "flip clauses"). Such provisions are similar in effect to certain of the terms which are included in Schedule 11 (Cash Management) to the CTA.

In England and Wales, the UK Supreme Court has upheld the validity of a flip clause. Further, in a recent decision of the English Supreme Court in *Re Lehman Brothers International (Europe) (In Administration)* [2017] UKSC 38, Lord Neuberger noted that he could see no objection to giving effect to contractual subordination provisions. However, in general, if a subordination provision included in the Finance Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Bondholders, the market value of the Bonds and/or the ability of the Issuer to satisfy its obligations under the Bonds.

Rights available to Bondholders

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts, authorities, duties and discretions of the Bond Trustee (except where expressly provided otherwise). Where, in the sole opinion of the Bond Trustee, there is a conflict of interest between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall give priority to the interests of the holders of the Class A Bonds whose interests shall prevail. Where, in the sole opinion of the Bond Trustee there is a conflict of interest between the holders of two or more Sub-Classes of Bonds of the same Class, the Bond Trustee shall consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and, in either case, will not have regard to the consequences of such exercise for the holders of other Sub-Classes of Bonds or for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof. Subject to certain exceptions, to the extent that the exercise of any rights, powers, trusts and discretions of the Bond Trustee affects or relates to any Class A Wrapped Bonds or Class B Wrapped Bonds, the Bond Trustee shall only act on the instructions of the Relevant Financial Guarantor(s) in accordance with the Bond Trust Deed. The STID provides that the Security Trustee (except in relation to certain Reserved Matters and Entrenched Rights as set out in the STID) will act on instructions of the relevant DIG Representative(s). When so doing, the Security Trustee is not required to have regard to the interests of any Finance Party (including the Bond Trustee as trustee for the Bondholders) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

Intercreditor Rights of Bondholders

The Bonds are subject to the provisions of the STID. The STID contains provisions enabling the Security Trustee to implement various modifications, consents and waivers in relation to the Finance Documents and the Bonds, subject to Entrenched Rights and Reserved Matters. See Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Entrenched Rights and Reserved Matters*" below. The Security Trustee is authorised to act on the instructions of the Class A DIG or, following repayment of the Qualifying Class A Debt, the Class B DIG.

Prior to a Default Situation or in respect of a STID Matter the subject of a valid Emergency Instruction Notice (in each case, other than in respect of Entrenched Rights and Reserved Matters), each Unwrapped Bondholder and, if an FG Event of Default has occurred and is continuing in relation to a Financial Guarantor, the relevant Wrapped Bondholders will be entitled to vote in the Class A DIG or, as the case may be, the Class B DIG, on a pound-for-pound basis through the clearing systems within a certain specified decision period (see Chapter 7 "*Summary of the Financing Agreements - Security Trust and Intercreditor Deed - Bondholder Voting*").

Prior to a Default Situation and other than in respect of Entrenched Rights or Reserved Matters of the Bondholders, the Bond Trustee (in its capacity as DIG Representative of the Wrapped Bondholders (following the occurrence of an FG Event of Default which is continuing in respect of the Financial Guarantor of the relevant Wrapped Bonds) and/or the Unwrapped Bondholders) will not be entitled to convene a meeting of Bondholders to seek directions in respect of any vote.

During a Default Situation the Bond Trustee shall be entitled to vote and will be entitled to convene a meeting of Bondholders to seek directions from the relevant Unwrapped Bondholders and, if an FG Event of Default has occurred and is continuing in relation to a Financial Guarantor, the relevant Wrapped Bondholders in respect of such vote (and Bondholders will no longer be able to vote directly through the clearing systems unless a proposer of a STID Matter elects to utilise the Emergency Instruction Procedure) (see Chapter 7 "*Overview of the Financing Agreements*" under "*Emergency Instruction Procedure*"). In respect of a vote relating to Entrenched Rights and Reserved Matters, the Bond Trustee will be entitled to convene a meeting of Bondholders to seek directions from the Bondholders of each affected Series of Bonds in respect of such vote (and Bondholders will not be entitled to vote directly through the clearing systems in respect of such matters).

Accordingly, in respect of modifications, waivers or consents in respect of provisions of the Finance Documents (other than those in respect of Basic Terms Modifications (as defined in Condition 15 "*Meetings of Bondholders, Modification, Waiver and Substitution*")), the votes of the Class A Bondholders or, following redemption in full of the Class A Bonds and repayment of all other Qualifying Class A Debt, the Class B Bondholders will be treated as a single class on a pound-for-pound basis with the other Secured Creditors in respect of Qualifying Debt. There is a risk that the votes of the Bondholders of the relevant Class may not constitute a majority in respect of modifications, waivers or consents. Such risk is increased due to the fact that prior to a Default Situation and in respect of a STID Matter the subject of a valid Emergency Instruction Notice (in each case, other than in respect of Entrenched Rights and Reserved Matters), only those votes of those Bondholders who participate in the vote within the specified decision period will be taken into account. Further, a vote in respect of the entire Outstanding Principal Amount of Class A Debt or, as the case may be, Class B

Debt will be taken in respect of certain other Authorised Credit Facilities. It is possible that the interests of the Secured Creditors in respect of certain other Qualifying Debt will not be aligned with the interests of a Class or Sub-Class of Bondholders, and it is possible that, in relation to votes on certain matters, owing to the relative size of Senior Debt that is capable of being voted by Authorised Credit Providers other than the Bondholders, the Security Trustee is given an instruction that is not in the interests of the Bondholders.

Under the terms of the STID and the CTA, any further issues of debt securities by the Issuer must be made subject to the intercreditor arrangements contained in the CTA and the STID (to which the Bonds are also subject). No alteration of the rights of priority of the Class A Bondholders or, as the case may be, the Class B Bondholders may be made without the consent of the relevant Bondholders.

The Entrenched Rights and Reserved Matters may materially and adversely affect the exercise and proceeds of any enforcement of the Security. Subject to such Entrenched Rights and Reserved Matters and **provided that** the relevant Quorum Requirement has been met, the Majority Creditors may make a modification to, or grant any consent or waiver in respect of, the Finance Documents without the need to seek a confirmation from the Rating Agencies as to the then current ratings of the Bonds.

Independent Enforcement Rights of Non-Participating Bondholders

Certain holders of YWSF Bonds did not accept the Exchange Offer and retained ownership of their YWSF Bonds following completion of the Exchange Offer, with such YWSF Bonds becoming Non-Participating YWSF Bonds for the purposes of this Prospectus and the Finance Documents. The Non-Participating YWSF Bonds contain certain independent rights which are not regulated pursuant to the STID. Such rights include: (a) the right to declare the Non-Participating YWSF Bonds due and payable at par if default is made in the payment of any principal or interest on such Non-Participating YWSF Bonds or failure to perform or observe any of the other obligations of YWSF or YWS, in each case, within the prescribed grace period; and (b) the right to put the Non-Participating YWSF Bonds to YWSF at par if YWS's Instrument of Appointment is terminated or any one of certain prescribed events occur which is material to the operation of YWS's business as a Regulated Company and such event causes a downgrade in the rating of the Non-Participating YWSF Bonds.

However, for so long as any Non-Participating YWSF Bonds remain outstanding, YWSF will be permitted pursuant to the terms of any DSR Liquidity Facility entered into by YWSF from time to time, to make a drawing under such DSR Liquidity Facility (or from its Non-Participating YWSF Bond Reserve Account if the Non-Participating YWSF Bond Required Balance has been met in whole or in part through monies standing to the credit of its Non-Participating YWSF Bond Reserve Account) in order to meet any shortfall in scheduled payments of interest or principal due in respect of the Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds). As at the date of this Prospectus, the Non-Participating YWSF Bond Required Balance is met in whole through monies standing to the credit of the Non-Participating YWSF Bond Reserve Account.

However, if there is no DSR Liquidity Facility available for drawing or, as the case may be, no monies standing to the credit of YWSF's Non-Participating YWSF Bond Reserve Account and YWSF and/or YWS fail to pay an amount due under the Non-Participating YWSF Bonds or if any one of the other rights of the Non-Participating YWSF Bonds described above are triggered resulting in the Non-Participating YWSF Bondholders taking Independent Enforcement Action, this could lead to the occurrence of an Insolvency Event in relation to YWS and/or YWSF and may adversely affect YWS's ability to satisfy on a timely basis its obligations under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements, the YWSF/YWS Loan Agreements and its guarantee under the Security Agreement and, ultimately, the Issuer's ability to make timely payment of interest and principal under the Bonds.

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

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

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

Indexed Bonds

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

(i) the market price of such Bonds may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Bonds or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable may be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Trading in the Clearing systems - integral multiples of less than the minimum Specified Denomination

In relation to any issue of Bonds which have a denomination consisting of the minimum Specified Denomination (set out in the applicable Final Terms or Drawdown Prospectus) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of the minimum Specified Denomination. In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than such minimum Specified Denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more of such Specified Denominations.

Rating of the Bonds

The ratings assigned by the Rating Agencies to the Wrapped Bonds are based solely on the ability of any Financial Guarantor to pay claims and reflect only the views of the Rating Agencies. The ratings assigned by the Rating Agencies to the Unwrapped Bonds reflect only the views of the Rating Agencies and in assigning the ratings the Rating Agencies take into consideration the credit quality of YWS and structural features and other aspects of the transaction.

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

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

Withholding Tax under the Bonds

In the event withholding taxes are imposed by or in any jurisdiction in respect of payments due under the Bonds, the Issuer is not obliged to gross-up or otherwise compensate Bondholders for the fact that the Bondholders will receive, as a result of the imposition of such withholding taxes, cash amounts which are less than those which would otherwise have been the case. The Issuer will, in such event, have the option (but not the obligation) of:

(i) arranging for the substitution of another company in an alternative jurisdiction in place of the Issuer (subject to certain conditions); and, failing this,

(ii) redeeming all Outstanding Bonds in full (subject to certain conditions).

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

Likewise, in the event withholding taxes are imposed in respect of payments due under the Wrapped Bonds and the Relevant Financial Guarantor is called upon under its Financial Guarantee or Financial Guarantees to make payments in respect of such payments, such Financial Guarantor is not obliged to gross-up or otherwise compensate the holders of such Wrapped Bonds for the fact that such Wrapped Bondholders will receive, as a result of the imposition of any withholding taxes, cash amounts which are less than those which would otherwise have been the case.

Political, social and macroeconomic risks relating to the United Kingdom's potential exit from the EU

On 23 June 2016 the UK held a referendum to decide on the UK's membership of the EU. The UK vote was to leave the EU. There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. Until the terms and timing of the UK's exit from the EU are clearer, it is not possible to determine the impact that the referendum, the UK's departure from the EU and/or any related matters may have on the UK economy or financial markets that may affect the business and financing of YWS or the regulatory framework applicable to it. As such, no assurance can be given that such matters would not adversely affect the business of YWS and/or the market value and/or the liquidity of the Bonds in the secondary market.

In addition, historically YWS has accessed funding from Europe-based investors and institutions, including, by way of example, the European Investment Bank. In light of the United Kingdom's potential exit from the EU, YWS may find it more difficult to access funding from such investors and institutions in the future, which could have a negative impact on YWS's ability to fund its activities and on the cost of that funding.

Change of Law

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

Changes in Financial Reporting Standards

Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the YW Financing Group calculated by reference to the financial statements produced in respect of the companies in the YW Financing Group. These financial and other covenants are set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the YW Financing Group may result in significant changes in the reporting of its financial performance. This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated. Changes in accounting standards may also impact the tax position of the Financing Group and result in increased tax payments which may ultimately have an adverse effect on the ability of the Issuer to make payments due under the bonds.

Regulation and Reform of LIBOR, EURIBOR or Other "Benchmarks"

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

Regulation (EU) 2016/1011 (the "Benchmark Regulation") applies from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016). The Benchmark Regulation could have a material impact on any Bonds linked to LIBOR, EURIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of, the published rate or level, of the benchmark. In addition, the Benchmark Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain "benchmarks" will fail to obtain a necessary licence, preventing them from continuing to provide such "benchmarks". Other administrators may cease to administer certain "benchmarks" because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith.

An example of such benchmark reform was the announcement by the UK Financial Conduct Authority on 12 July 2018 that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation (the "FCA Announcement"). The FCA Announcement indicates that steps are being taken to transition from the LIBOR benchmark to alternative interest rate benchmarks following the FCA's announcement on 27 July 2017 that it will no longer compel banks to submit rates for the calculation of the LIBOR benchmark. The potential elimination of the LIBOR benchmark could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Bonds linked to LIBOR (see "*Floating Rate Bonds*" below). Any such consequences could have a material adverse effect on the value and return on any such Bonds.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Bonds linked to a "benchmark".

Floating Rate Bonds

In the case of Floating Rate Bonds for which the rate of interest is determined by reference to LIBOR, EURIBOR or another "benchmark" rate or index, the terms and conditions of the Bonds provide that the applicable "benchmark" rate or index (as the case may be) shall be determined by reference to an identified screen page. In circumstances where such screen page (or any successor or replacement page) is not available, due to the applicable "benchmark" rate or index being discontinued, the terms and conditions of the Bonds provide for the rate of interest to be determined by the Principal Paying Agent by reference to quotations from certain reference banks. Where such quotations are not available, the rate of interest may revert to the rate of interest applicable as at the last preceding Interest Period before the applicable "benchmark" rate or index was discontinued, and if the applicable "benchmark" rate or index is discontinued permanently, the same rate of interest will continue to be the rate of interest for each successive Interest Period until the maturitys of the Bonds, so that the Bonds will effectively become fixed rate bonds utilising the last available applicable "benchmark" rate or index rate. Uncertainty as to the continuation of LIBOR, EURIBOR or the applicable "benchmark" rate or index, the availability of quotes from reference banks, and the rate that would be applicable if the relevant "benchmark" rate or index is discontinued may adversely affect the value of and return on the Bonds.

Green Bonds, Social Bonds and Sustainability Bonds

Prospective investors who intend to invest in any Green Bonds, Social Bonds or Sustainability Bonds (collectively, the "Sustainable Bonds") issued under the Programme must determine for themselves the relevance of the information in the relevant Final Terms (for example, regarding the use of proceeds) for the purpose of any investment in the Sustainable Bonds together with any other investigation such investors deem necessary. In particular, no assurance is or can be given to investors that the Green Eligible Categories, the Eligible Green Portfolio, the Social Eligible Categories, the Eligible Social Portfolio, the Sustainability Eligible Categories or the Eligible Sustainability Portfolio (each as defined in Chapter 9 "*Use of Proceeds*") will meet or continue to meet on an ongoing basis any or all investor expectations regarding investment in "green bond", "green", "social bond", "social", "sustainability bond", "sustainability" or "sustainable" or equivalently-labelled investments.

In connection with the issue of Sustainable Bonds under the Programme, the Issuer and/or YWS may request consultants and/or institutions with recognised social and environmental expertise to issue an opinion (i) confirming that the Eligible Green Portfolio (as defined in Chapter 9 "*Use of Proceeds*" below) has been defined in accordance with the broad categorisation of eligibility for green investments set out by the Green Bond Principles and the Loan Market Association's Green Loan Principles; (ii) confirming that the Eligible Social Portfolio (as defined in Chapter 9 "*Use of Proceeds*" below) has been defined in accordance with the broad categorisation of eligibility for social investments set out by the Social Bond Principles; (iii) confirming that the Eligible Sustainability Portfolio (as defined in Chapter 9 "*Use of Proceeds*" below) has been defined in accordance with the broad categorisation of eligibility for sustainability investments set out by the Sustainability Bond Guidelines and/or (iv) regarding the suitability of the Sustainable Bonds as an investment in connection with certain environmental, social, sustainability and/or sustainable investments (any such opinion, an "External Review").

Any External Review and the Yorkshire Water Sustainable Finance Framework are not, nor shall they be deemed to be, incorporated in and/or form part of this Prospectus. An External Review and/or the Yorkshire Water Sustainable Finance Framework may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Green Bonds, Eligible Green Portfolio, Social Bonds, Eligible Social Portfolio, Sustainability Bonds or Eligible Sustainability Portfolio. An External Review and/or the Yorkshire Water Sustainable Finance Framework would not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is released. Prospective investors must determine for themselves the relevance of the Yorkshire Water Sustainable Finance Framework, any External Review and/or the information contained therein and/or the provider of any External Review for the purpose of any investment in the Sustainable Bonds. In particular, no assurance or representation is or can be given to investors that an External Review and/or the Yorkshire Water Sustainable Finance Framework will reflect any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. The Bondholders have no recourse against the provider of any External Review and/or the Yorkshire Water Sustainable Finance Framework. In addition, although the Issuer may agree at the time of issue of any Sustainable Bonds to certain reporting and use of proceeds obligations it would not be an event of default under the Bonds if the Issuer fails to comply with such obligations. A withdrawal of an External Review and/or the Yorkshire Water Sustainable Finance Framework may affect the value of such Sustainable Bonds and/or may have consequences for certain investors with portfolio mandates to invest in green, social, sustainability and/or sustainable assets.

Furthermore, it should be noted that no member of the YWS Financing Group, no Dealer nor any other person makes any representation as to the suitability of the Sustainable Bonds to fulfil environmental, social, sustainability and/or sustainable criteria required by prospective investors. No member of the YWS Financing Group is responsible for any third party assessment of the Green Eligible Categories, Social Eligible Categories or Sustainability Eligible Categories. Nor is any Dealer responsible for (i) any assessment of the Green Eligible Categories, or (ii) any verification of whether the Eligible Green Investments fall within the Green Eligible Categories, or (iii) any assessment of the Social Eligible Categories, or (iv) any verification of whether the Eligible Social Investments fall within the Social Eligible Categories, or (v) any assessment of the Sustainability Eligible Categories, or (vi) any verification of whether the Eligible Sustainability Investments fall within the Sustainability Eligible Categories, or (vii) the monitoring of the use of proceeds. Investors should refer to the Kelda Group's website (www.keldagroup.com), the Yorkshire Water Sustainable Finance Framework and the relevant External Review for further information. The External Review provider(s) have been appointed by YWS and the Issuer.

CHAPTER 5
DESCRIPTION OF THE YW FINANCING GROUP

In 2009, the YW Financing Group was established as a ring-fenced financing group separating (so far as practicable) YWS financially and operationally from the rest of the Kelda Group.

Chapter 3 "*Overview of the Financing Structure*" contains a structure chart showing the YW Financing Group.

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

YWS

Operational and Financial Overview

YWS treats and supplies approximately 1.3 billion litres of drinking water and collects, treats and returns approximately 1 billion litres of wastewater safely back to the environment every day.

Based on YWS's condensed interim report and financial statements for the six months ended 30 September 2018, the value of YWS's Appointed Business earning a return on investment (known as "regulatory capital value" or "RCV") was £6,621.9 million (31 March 2018: £6,446 million), making it the fifth largest of the 10 regulated water and sewerage companies in England and Wales by RCV.

To meet regulatory requirements and achieve its service objectives, YWS has a substantial capital investment programme extending throughout the current asset management period (the "AMP6 Period") and into subsequent AMP Periods.

YWS invests significant capital expenditure to add to and replace its plant and equipment. The price limits set by Ofwat every five years take into account the level of capital expenditure expected to be incurred during the relevant period and the associated funding costs and operating costs. For the year ended 31 March 2018, YWS made regulated capital expenditure (including infrastructure renewals expenditure) of £426.7 million (net of grants and contributions)) to protect and enhance the services YWS provides to its customers and improve the water environments in which YWS operates. YWS's continued investment in energy efficiency and renewable energy is proving its value, enabling operational cost savings and YWS's lowest ever operational carbon emissions. To ensure substantial further improvement, YWS has already commenced the construction of a £72 million sludge treatment and anaerobic digestion facility at its Knostrop treatment works in Leeds, with completion expected in 2019. YWS is also developing a framework contract for the supply of solar power to several of its sites.

Key Financial Data

Description	**Units**	**2017/18**	**2016/17**
Revenue			
- Regulated water and sewerage services	£m	1,013.4	992.4
- Non-regulated water services	£m	13.3	10.7
Total revenue	£m	1,026.7	1,003.1
Operating costs (before exceptionals)	£m	(745.6)	(717.3)
Exceptional operating costs	£m	(8.1)	31.5

Operating Profit (after exceptionals)	£m	273.0	317.3
Regulatory Capital Investment	£m	426.7	378.6
Regulatory Capital Value	£m	6,446	6,144
Average number of persons employed	No	2,681	2,605

Area of Appointment

Under the WIA, YWS has been appointed as a water and sewerage undertaker for a geographic area occupying approximately 14,700 square kilometres, encompassing the former county of Yorkshire and part of North Derbyshire, which broadly covers an area from Sheffield and Chesterfield in the south, to Skipton and Leyburn in the west, to Hull, Scarborough and Whitby on the east coast and Northallerton in the north. The estimated total population served by YWS within this region is approximately 5.0 million people.

Economic Regulation

YWS's business and results are affected by the regulated tariffs which YWS may charge its customers, as approved by Ofwat, as well as by drinking water quality and environmental regulations and the terms of its Instrument of Appointment. As part of each Periodic Review, Ofwat sets price limits every five years intended to enable water and sewerage companies in England and Wales to finance their operations and earn a reasonable return on capital. As part of this process, YWS submits a five-year business plan to Ofwat for approval prior to the start of each Periodic Review Period, after which a final determination ("Final Determination") is made by Ofwat. The AMP6 Period relates to the period from 1 April 2015 to 31 March 2020, and the corresponding Final Determination was published by Ofwat on 12 December 2014. Where unexpected costs or savings occur during the period relating to a Final Determination, mechanisms do exist to facilitate interim adjustments, although such adjustments are subject to stringent conditions. Therefore, in practice, unexpected costs or savings are more commonly only reflected in the prices set for the next AMP Period.

Economic Regulation - AMP6 and beyond

The general characteristics of Ofwat's revised approach to price limits are described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

The 2014 Final Determination was issued on 12 December 2014. This set average domestic bill reductions, and allowed a total expenditure programme of £3.7 billion with a WACC of 3.6 per cent.

In respect of the retail non-household market, Ofwat published its final determinations for PR16 in December 2016, setting out business retail price limits which will apply for the three year period from market opening in April 2017. These revise the PR14 business retail price limits to ensure that they do not create barriers to entry to the market or expansion.

Ofwat has started consulting on its approach for the next price limit period (PR19) and also commissioned a review of the accounting treatment of water and wastewater and water-only companies' business units for bio-resources and water resources. Further details are described in Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales*".

Strategy

YWS is a regulated water and waste water company that provides some of life's most essential services and the company is a custodian of the region's natural environment and critical infrastructure. YWS is regulated by three main authorities to act in the best interests of the society that YWS serves: the Office of Water Services ("Ofwat"), the Environment Agency ("EA") and the Drinking Water Inspectorate ("DWI").

Company vision and six strategic business objectives

Yorkshire Water's vision is 'taking responsibility for the water environment for good' and this vision, together with the associated six strategic business objectives ("SBO's") captures YWS's ambition to go beyond its regulatory requirements and its commitment to long-term sustainability. The essence of YWS's vision is doing what is right for its customers, colleagues, partners, the environment and its investors, both in the short and long-term. This holistic and integrated approach is critical to the sustainability of YWS's essential water and waste water services and of YWS's business.

YWSs new long term business strategy - 'Not Just Water'

YWS has recently consulted with its customers and stakeholders over the company's new long term strategy - 'Not Just Water'. YWS has spoken with over 26,000 of its customers and stakeholders to ensure that its plans are closely aligned to their long-term aspirations.

YWS has set out to find out more about the company's impact on the Yorkshire region and its people; to better understand the company's diverse customer base and the part that water plays in their lives. YWS has also looked carefully at wider trends such as the impact of a growing population and changes to the climate. YWS's new long term strategy sets the context for the company's detailed business plan for the next five-year investment cycle from 2020 to 2025, known as Asset Management Period 7 ("AMP7").

YWS - Five Big Goals

YWS's new strategy includes Five Big Goals that will shape everything that the company will do in the future. To measure the company's progress in working towards these Five Big Goals the company is in the process of agreeing a new set of Performance Commitments that its customers, stakeholders and regulators want Yorkshire Water to prioritise beyond 2020. The Five Big Goals are:

1. CUSTOMERS: YWS will develop the deepest possible understanding of its customers' needs and wants and ensure that YWS develops a service tailored and personalised to meet those needs.

2. WATER SUPPLY: YWS will always provide its customers with enough safe water, will not waste water and always protect the environment.

3. ENVIRONMENT: YWS will remove surface water from its sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.

4. TRANSPARENCY: YWS will be a global benchmark for openness and transparency.

5. BILLS: YWS will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying their bill. YWS will not waste money.

Resilience and sustainability are imperatives within our new strategy

Central to YWS's new long term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, Yorkshire Water knows that there are major challenges to the resilience of the company's essential water and waste water services. These include climate change, population growth and resource constraints. To help the company make sure that its decision-making addresses with these challenges, the company is using the concept of 'the six capitals'.

YWS is working to apply the six capitals to enhance the company's resilience and sustainability by informing its risk management, decision making and investment choices. Considering positive and negative impacts and dependencies across all the capitals, rather than just thinking about financial capital, improves the company's understanding of how to make decisions that result in a balanced impact and which also takes into account risk and value, so that more long term sustainable approaches can be targeted.

Base statistics 2017/18

Water Service

Area of supply	14,394km^2
Population served	5.045m
Properties served	2.305m
– residential	2.163m
– business	0.142m
Length of potable mains	31,633km
Number of water treatment works	48
Number of service reservoirs	368
Number of water towers	28
Number of impounding reservoirs	47
Number of water reservoirs	133

Sewerage Service

Population Served	5.148m
Properties served	2.162m
– residential	2.057m
– business	0.105m
Length of "legacy" public sewers	30,703km
Length of formerly private sewers and lateral drains (s105A sewers)	21,560km
Number of sewage treatment works	611
Number of combined sewer overflows	2,113

Ofwat performance measures – Agreed Outcomes, Performance Commitments and Outcome Delivery Incentives

The agreed outcomes are described in YWS's appendix to the 2014 Final Determination are:

- to provide customers with water that is clean and safe to drink;
- to make sure customers always have enough water;
- to protect and improve the water environment;
- to understand YWS's impact on the wider environment and act responsibly;
- to take care of customers' wastewater and protect customers and the environment from sewer flooding;
- to provide the level of customer service customers expect and value; and
- to keep customers' bills as low as possible.

These agreed outcomes are supported by 26 measures (Performance Commitments), of which there are 14 measures with an associated financial reward, penalty or both (Outcome Delivery Incentives or ODI's).

YWS's 26 Performance Commitments are in both its wholesale and household retail businesses and include commitments relating to drinking water quality, leakage, sewer flooding and customer satisfaction. These Performance Commitments will be monitored during the AMP6 Period and the rewards and / or penalties associated with the ODI's will apply to revenues and the RCV from 1 April 2020.

YWS's Performance Commitments and ODI's are set out in detail in the 2014 Final Determination and in particular in the Yorkshire Water company-specific appendix of the 2014 Final Determination (http://webarchive.nationalarchives.gov.uk/20150624091829/https://www.ofwat.gov.uk/pricereview/pr14/det_pr20141212yky.pdf) on pages 110 to 155, together with a corrigendum (http://webarchive.nationalarchives.gov.uk/20150624091829/https://www.ofwat.gov.uk/pricereview/pr14/pap_pos201502pr14fdcorryky.pdf).

YWS's fourteen ODI's are as follows:

1. Drinking water quality compliance
2. Drinking water quality contacts
3. Stability and reliability – water quality
4. Leakage
5. Water supply interruptions
6. Stability and reliability factor – water networks
7. Pollution incidents (minor)
8. Stability and reliability factor – waste water networks
9. Working with others
10. Land conserved and enhanced
11. Length of river improved
12. Internal flooding incidents

13. Stability and reliability factor – waste water quality

14. Service incentive mechanism ("SIM")

Business performance

Abnormal weather conditions have placed considerable pressure on YWS's water production and distribution network. Unprecedented dry and hot weather has meant that YWS has had to manage water resources very carefully and ensure that the company's treatment works have maximised water production to meet very high levels of demand over prolonged periods. For example, the unprecedented dry and hot weather experience throughout July 2018 led to an increase in water demand by between 150 and 200 mega litres per day - equivalent to the daily demand of a city the size of Leeds. The skill and expertise of YWS's colleagues in managing its assets to ensure that they performed to meet the very high demand throughout the summer was outstanding.

The hot and dry weather also caused pressure on YWS's leakage performance as the drying of the soil and subsequent earth movements caused pipes to fracture. The substantial new resource of more than 200 people which YWS has added to meet its leakage targets are now fully trained and deployed. YWS is starting to steadily reduce leakage rates. The increasing numbers of water pipe bursts due to the dry weather has also increased the volume of customer supply interruptions and has subsequently caused YWS's response times to lengthen. Again, YWS is committing resources to improve this position in line with its targets of upper quartile performance and response times have started to shorten.

On the waste water side, YWS is starting to see some improvements in its performance on internal sewer flooding, which is pleasing, but the level of pollution incidents remains challenging.

In September 2018, following its guilty plea, YWS was sentenced in Leeds Crown Court to charges brought by the Health and Safety Executive which resulted from the tragic death of Michael Jennings at YWS's Tadcaster Sewage Treatment Works in 2015. Since then, YWS has implemented an extensive health and safety improvement plan involving significant changes to both its working practices and workplace culture. Colleagues and trade union partners have shown great determination to achieve the levels of improvement targeted and YWS remains committed to its overall objective of everyone going home safe and well at the end of every working day.

In summary, if YWS looks across the calendar year to take into account the demands of the freeze-thaw period in February and March, its colleagues have been working through unprecedented demands for an extended period of time. The directors and executives of YWS are all clearly aware of just how much hard work and commitment has been put in to ensure that its customers continue to receive uninterrupted service regardless of the weather.

Business transformation plan

The way in which YWS provides services to its customers is a key feature of the company's transformation plan. During the year, Yorkshire Water has spent a significant amount of time talking to its customers and getting their views on the service that the company provides both now and in the future. It was clear from this engagement that although YWS's customers are broadly content with the current service they receive, they believe that YWS's performance could be much improved in areas which mean the most to them – these being in the areas of leakage, minor pollution incidents and sewer flooding instances.

Although YWS's customers like the company's performance on interruptions to supply, where the company is one of the leaders in the sector, they still think Yorkshire Water could do better. Based on this, YW announced, in November 2017, the commencement of a multimillion pound investment plan to become an upper quartile operating business including the re-investment of the company's total expenditure (Totex) outperformance of over £200 million. A new 'Service Delivery' operating model has been implemented to improve performance across the areas of leakage, water supply interruptions, pollution incidents and internal sewer flooding and the implementation of new 'Systems, Applications and Products' based business processes are on course to be delivered next year. These new processes will give the company a strong foundation to significantly enhance its performance across AMP7 and beyond. This additional investment aims to:

(i) reduce leakage levels by 40% by 2025;

(ii) reduce minor (category three) pollution incidents by 40%;

(iii) reduce sewer flooding by 70% by 2021; and also

(iv) minimise average per property minute interruption time to two minutes by 2021.

These new commitments have not only been promoted by YWS's customers but have also been strongly supported by its stakeholders such as the Yorkshire Forum for Water Customers.

YWS has already started to implement these transformation plans with significant recruitment of front-line leakage inspectors already being made. Yorkshire Water is also using new leakage detection technologies, including the use of satellite technology, to locate leaks in the areas of Halifax, Keighley and Shipley, the deployment of 600 new network listening devices in the Huddersfield area and via the use of drones on the York to Selby trunk main.

YWS's performance against its Performance Commitments has been strong in the first three and a half years of AMP6 with the company projecting to meet or exceed almost all of its twenty-six Performance Commitments by 31 March 2020. YWS's latest available published performance against its 26 Performance Commitments, for the twelve months to 31 March 2018, are shown in the table below. The table also shows performance against the 14 Performance Commitments that that have an associated ODI.

Outcome	Performance Commitment	Unit	Target	2017-18 Performance	ODI?	Commitment met?
We provide you with water that is clean and safe to drink	Drinking water quality compliance	%	100%	99.953%	Yes	No
	Drinking water corrective actions	Nr	≤ 6	4	No	Yes
	Drinking water quality contacts	Nr	≤ 6,108	8,100	Yes	No
	Stability and reliability - water quality	Classification	Stable in 2020	Stable	Yes	Yes
We make sure that you always have enough water	Leakage	Ml/d	≤ 297.1	300.3	Yes	No
	Water use	Litres per head per day	≤ 141.5	135.9	No	Yes
	Water supply interruptions	Time	< 12 minutes	6 minutes, 58 seconds	Yes	Yes
	Stability and reliability factor - water networks	Classification	Stable in 2020	Stable	Yes	Yes
We take care of your waste water and protect you and the	Internal flooding	Nr	≤ 1,919	1,682	Yes	Yes
	External flooding	Nr	≤ 10,487	9,296	No	Yes
	Pollution incidents - serious	Nr	≤4	3	No	Yes

environment from sewer flooding	- minor	Nr	≤ 211	202	Yes	Yes
	Stability and reliability factor - waste water networks	Classification	Stable in 2020	Stable	Yes	Yes
We protect and improve the water environment	Bathing water quality	Nr	≥ 15	18	No	Yes
	Working with others	Nr	≥ 3	12	Yes	Yes
	Visitor satisfaction	Survey	Published annually	96%	No	Yes
	Land conserved and enhanced	Hectares	≥ 11,689 by 2020	11,479	Yes	Yes
	Length of river improved	km	≥ 440 by 2020	Programme commenced	Yes	Yes
	Stability and reliability factor - waste water quality	Classification	Stable in 2020	Stable	Yes	Yes
We understand our impact on the wider environment and act responsibly	Waste diverted from landfill	%	≤ 95%	99.4%	No	Yes
	Renewable energy generation	%	≤ 12%	11.4%	No	No
We provide the level of customer service you expect and value	SIM	Score	Year-on-year improvement	84.3	Yes	Yes
	Overall customer satisfaction	%	Average 2015-20 performance to be better than average in 2010-15	94% (water) 89% (waste water)	No	Yes
	Service commitment failures	Nr	Average 2015-20 performance to be less than average last 3 years of 2010-15	12,203	No	Yes
We keep your bills as low as possible	Number of people who we help to pay their bill	Nr	Published annually	28,853	No	Yes
	Cost of bad debt to customers	%	≤ 3.16%	3.10%	No	Yes
	Value for money	%	Average 2015-20 performance to be better than average last 3 years of 2010-15	76% (water) 79% (waste water	No	Yes

The four areas where YWS fell short of its Performance Commitments during 2017/18 were in the areas of drinking water quality compliance, drinking water quality contacts, leakage and renewable energy generation. Details of how Yorkshire Water is investing to improve performance in all four of these areas are provided below.

(i) Drinking water quality compliance

Ensuring the quality of Yorkshire Water's drinking water supply is at the highest quality is consistently ranked as the number one priority by the company's customers and the DWI has set the company the highest possible target of achieving 100% compliance. Yorkshire Water's approach to improving water supply runs from source to tap and the company is continuing its long-term catchment management initiatives for improving the quality of raw water entering Yorkshire Water's water treatment works. Yorkshire Water also works closely with landowners and the farming community to reduce the level of pesticides entering rivers from which the company abstracts some of the water it treats and supplies.

At the end of 2017, Yorkshire Water brought into service a fully upgraded treatment process at its site at Rivelin Water Treatment Works which is improving and securing the drinking water supply to the City of Sheffield. Yorkshire Water has also been undertaking proactive replacement of lead pipework and the long-term trend in the levels of this key health parameter in water continues to drop. However, for other parameters, a small increase in issues within private pipework in customers' properties has led to a minor deterioration in the overall compliance figure to 99.953%.

(ii) Drinking water quality contacts

Overall, Yorkshire Water's customer contacts relating to drinking water quality have reduced compared to the previous year with a total 2017/18 figure of 8,100 (2016/17: 9,093). This outcome represents an approximate 18% reduction since the beginning of AMP6. Whilst this improvement wasn't enough to meet Yorkshire Water's extremely challenging Performance Commitment, the company's ongoing initiatives continue to reduce the number of contacts that it receives.

(iii) Leakage

Leakage is the amount of water lost from Yorkshire Water's network including when water is transported between the treatment works and customer homes and businesses. Yorkshire Water actively measures, monitors and reduces leakage levels as it is the dominant source of water waste. The company has almost halved its leakage levels since 1995 but narrowly missed its Performance Commitment for this year which was to ensure that leakage is no higher than an average of 297.1 million litres a day throughout the year.

The company was on track to meet its leakage target until December 2017. The extreme cold weather conditions in the latter part of 2017/18 resulted in a rise in leakage and, despite the company deploying significant additional resources during this period, Yorkshire Water narrowly missed this Performance Commitment.

(iv) Renewable energy generation

Electricity accounts for approximately 64% of Yorkshire Water's operational carbon emissions and is one of the company's main operating costs. Yorkshire Water works hard to minimise its electricity consumption and to maximise the amount of energy that the company generates. In 2017/18, Yorkshire Water supplied 11.4% of its energy needs through self-generated energy. This was a two year high compared with 2015/16 and 2016/17 where the company's self-generation was 11.3% and 10.4% respectively. However, this year's performance fell marginally short in achieving the company's Performance Commitment of generating 12% of its energy needs from renewable sources.

Yorkshire Water expects to meet its 12% target in 2018/19 and continues to grow its long-term energy generation capacity and the company's aim is to achieve 17% by 2020. Yorkshire Water has already commenced the construction of a £72 million sludge treatment and anaerobic digestion facility at its Knostrop treatment works in Leeds, with completion expected in 2019. Yorkshire Water is also developing a framework contract for the supply of solar power to several of its sites.

Water Resources

Water resources fall into two basic categories: (i) surface water (primarily sourced from reservoirs and rivers), and (ii) groundwater (principally from aquifers or other underground sources). Abstractions from these sources are made pursuant to abstraction licences issued by the Environment Agency.

Treatment Infrastructures

Abstracted water is treated at water treatment works prior to distribution to customers through water mains and service pipes. Following treatment, water is stored in one of 419 enclosed service reservoirs and water towers which serve to balance the rates of production and demand. Water from groundwater sources can be of such good quality that only disinfection is necessary while surface water, particularly that from upland sources, requires more advanced treatment often involving at least three stages.

Distribution

YWS distributes treated water through its trunk and distribution mains. These mains are of differing age and condition. YWS also has 526 treated water pumping stations. At the centre of the network is the integrated Yorkshire "Grid" which is a large diameter (raw and treated water) trunk main system connecting 99 per cent. of the Yorkshire supply area. The Grid provides flexibility and resilience in managing raw water and meeting customer demand.

Supply and Demand Management

To ensure that there is sufficient water to supply YWS's customers, both now and in the future, YWS needs to manage its water resources, treatment and distribution efficiently and effectively. This is assessed through the water resources management plan (the "Water Resources Management Plan") which is reviewed and revised every five years and shows how YWS plans to maintain a secure supply of water to all YWS customers. The Draft Water Resources Management Plan 2019 was published following consultation on 5 September 2018 and can be found at https://www.yorkshirewater.com/resources#ls4. The final version of this plan will be published in 2019 following instruction from Defra.

The Draft Water Resources Management Plan 2019 shows that there is a forecast supply/demand deficit from 2034/34 onwards. This deficit will be met through planned leakage reduction during the remainder of AMP6 and AMP7.

In relation to measures and strategies to contain and manage the demand for water from customers, YWS has a comprehensive water efficiency strategy in place. This includes promotion of water efficiency to customers through advice and practical measures. The aim of these initiatives is to raise customer awareness of the need to use water more conservatively. YWS provides customers with water saving advice and access to water saving products and supports relevant research.

YWS is also working to reduce water use at its own operational sites.

YWS seeks to maintain a level of service equivalent to one hosepipe ban (now called temporary use bans) every 25 years. As of the date of this Prospectus, YWS has not implemented a hosepipe ban for over since 1996.

Drinking Water Quality

YWS has continued to maintain a high level of compliance with mandatory EU and UK drinking water quality standards. This high level of compliance has been largely achieved as a result of ongoing investment improving drinking water quality throughout previous AMP Periods.

Leakage Control and Security of Supply

The Economic Level of Leakage was established as part of the Water Resources Management Plan 2004. This has developed over subsequent water resources management plans into the sustainable economic level of leakage ("SELL") which considers all the financial, social and environmental costs and benefits of leakage management SELL has been used to determine annual regional leakage targets since 2009. The current leakage target for YWS is 297Ml/d.

Current leakage performance is at the lower end of UK water industry performance. Customers require YWS to reduce leakage, particularly when provided with information about performance in comparison to other water companies. There are clear government and regulatory signals about the need for the industry as a whole to reduce leakage. Therefore, although a supply/demand deficit is not forecast until 2024/35, YWS plan to reduce leakage by 40% by 2025, from 297Ml/d to 175Ml/d. Feasible options to deliver this reduction have been identified and quantified and when implemented will reduce leakage below the SELL. This will have a positive impact of the resilience of future water supplies and reduce the impact of YWS on the water environment.

YWS continues to invest in pressure management, real-time flow and pressure data monitoring equipment throughout its network, which will benefit future leakage reduction activities.

Wastewater Treatment Works

The largest wastewater treatment works are found at Knostrop (Leeds), Blackburn Meadows (Sheffield) and Hull, each serving population equivalents of over 500,000 people.

Service Incentive Mechanism

Overall customer satisfaction is the key performance measure for YWS and is reported via SIM. SIM comprises two components – a quantitative score that measures the number of complaints and unwanted telephone contacts that the company receives, and a qualitative score that measures, using Ofwat's independent research, how satisfied customers are with the quality of service they receive. Quantitative and qualitative scores are weighted 25:75 to produce the combined SIM consumer experience measure, using a starting level of 2014/15 (4.62).

YWS's SIM performance is required to increase year-on-year during the AMP6 Period. If SIM performance is below target, it will lead to a penalty investment financed by shareholders, with no RCV addition. However, if SIM performance is above target, it will lead to a reward by year 1 revenues in the AMP7 Period.

For 2017/18 the combined SIM score, measuring performance against target, for YWS was 84.3 out of 100. It is YWS's business priority to continue to improve its SIM score and relative performance, striving to be first in SIM by 2020.

Customer Charges

Charges for water supply and sewerage services are calculated separately based on the average costs of providing each service for each class of customer. Customers with unmetered supplies are billed primarily in advance on an annual basis, with payment being annually, semi-annually or by instalments. For supplies of metered water, non-domestic customers are billed periodically, depending on the volume of their consumption, and domestic customers are normally billed quarterly, in arrears.

YWS has a small number of Existing Bulk Water Supply Contracts, which are determined on an individual basis, as are charges for some larger trade effluent customers. Trade effluent from industrial users is normally charged on a formulaic basis taking account of the volume of wastewater, its strength and costs of removal and treatment.

Separate charges are made for water supply and sewerage services, and the combined average water supply and sewerage services bill for both metered and unmetered domestic customers in the 2017/18 billing period was approximately £373 (2016/17: £366).

Metering Customers

YWS has placed metered charge bases on all new properties and those properties which have been converted into flats since 1989. YWS is also entitled to place metered charges on domestic customers who have certain categories of non-essential water use (for example, customers having a swimming pool or a garden irrigation system). In addition, all domestic customers can opt to have a meter fitted, where practicable, without incurring a charge.

In respect of non-domestic use, almost all commercial customers pay for water usage by volume, the only exceptions being in cases where metering has proved impractical or uneconomic.

Bad Debts

Under the WIA, regulated water and waste water companies are legally prevented from disconnecting household customers from their water supply for failure to pay bills. Retail non-household customers, however, may be subject to a number of actions, including disconnection where persistent failure to settle charge occurs. YWS, through the use of a dedicated billing call centre (which is operated by Loop Customer Management Limited), contacts customers who are in arrears and arranges payment plans wherever possible.

YWS's debt prevention and management strategy focuses on targeted collection strategies for different groups of customers ranging from customers who cannot pay to those who will not pay. This targeted approach uses information held by YWS and data sourced from credit reference agencies. YWS was the first water company in the United Kingdom to start sharing data with credit reference agencies. Access to credit reference agency data allows access to a wide range of data improving the accuracy of YWS's collections decisions targeting either enforcement or hardship strategies to the most appropriate customers.

The total household outstanding debt as a percentage of total household turnover in 2017/2018 was 9.89 per cent. (2016/17: 9.50 per cent.). The majority of this debt was less than one-year-old.

In December 2015, Ofwat published its Affordability and Debt report. This report outlined the hypothetical amount added to annual bill of every household customer in England and Wales by cost of recovering and writing off water debt was £21. Using the same calculations, the amount added to an average YWS bill was £12 in 2017/18.

In 2018/19, YWS plans to support around 24,000 of their most financially vulnerable customers and keep the cost of bad debt at no greater than 3.16 per cent. of the average household bill.

The bad debt charge (as a percentage of revenue) is an alternative performance measure. The level of bad debt provisions recognised by YWS is based on a management estimate of the impact of the level of historic and current cash collections, the effect of cancelling billings on expected debt recovery (for example, where the property occupier has moved without informing YWS or where YWS was unable to invoice for a period of time when the property was unoccupied) and the levels of debt due to be collected on behalf of YWS (for debtors in relation to YWS's water business only). This judgment at 31 March 2018 for the 2017/18 period was reviewed by both YWS's internal audit & risk review committee and YWS's external auditor, Deloitte LLP. It is included in this Prospectus to allow potential Bondholders to better assess YWS's performance and business.

Outsourcing

The principal activities that YWS outsources relate to its customer services activities, capital investment programme and several of its day-to-day maintenance operations. This is a common and long-standing practice among the water and sewerage undertakers in the UK. YWS has controls and processes in place to ensure appropriate risk assessment and management is applied when entering into outsourcing contracts and in selecting partners. Framework contracts exist with those partners engaged in delivering the largest capital schemes and all new capital projects are subject to a consistent review and authorisation process.

There is a contract currently in place between YWS and Three Sixty, which requires Three Sixty to provide all non-household retail services to the business customers of YWS. This arrangement has remained in place for market opening and will continue through to the point when YWS chooses to exit. For further detail see Chapter 3 "*Risk Factors*" under "*Competition in the Water Industry – Retail non-household*".

During 2017/18, YWS entered into an IT framework agreement with a number of IT providers. This framework covers various workstreams and will provide the company with access to a range of expertise to meet its future IT requirements.

Insurance and Risk Management

YWS maintains insurance as part of the Kelda Group insurance programme. The insurance coverage is reviewed and placed by an independent insurance advisor with the result that YWS's insurances: (i) are consistent with principles of Good Industry Practice; (ii) have regard to the risk being covered; and (iii) address the interests of YWS and each Finance Party that provided financing to YWS.

Pensions

Employees in YWS participate in the Kelda Group Pension Plan (the "KGPP") and the Kelda Stakeholder+ arrangement (the "Stakeholder+ Arrangement"), each of which is funded by both employer and employee contributions. The KGPP has a number of "defined benefit" categories and two "defined contribution" sections. From 30 September 2007, the KGPP closed to new members and all new YWS employees since that date have been invited to participate in the Stakeholder+ Arrangement, which is a "defined contribution stakeholder" scheme. However, since 1 July 2013, all new employees and those who had not joined a pension scheme, who have met the qualifying criteria, have been automatically enrolled into the Stakeholder+ Arrangement in order to satisfy the new requirements of Section 3 ("*Automatic Enrolment*") of the Pensions Act 2008.

The pension arrangements are of the group "multi-employer scheme" nature, such that YWS's pension scheme assets and liabilities are included with those of other companies in the Kelda Group. The fair value of the scheme as at 31 March 2016 was a surplus of £58.1 million (2015: £87.5 million deficit).

The latest formalised actuarial valuation of the KGPP was undertaken as at 31 March 2015 using assumptions that are consistent with the requirements of the new statutory funding regime. This shows a deficit of £151 million and a recovery plan is in place to eliminate this by 2022. The market value of the assets used in the valuation was £1,308.7 million. YWS is not anticipating any material unfunded liabilities during the next 5 years.

Following the valuation undertaken as at 31 March 2015, YWS's regular rate of contribution was changed (with effect from 1 April 2016) to 17 per cent. of pensionable pay to meet the cost of the on-going pension accrual in the KGPP. In addition, monthly lump sums (from all Kelda companies combined) are payable at the following rates: £1,778,561 from 1 April 2015 to 31 March 2016; £1,072,300 from 1 April 2016 to 31 March 2022, subject to annual RPI increases, to recover the shortfall in KGPP's assets as compared to its funding target. The next actuarial valuation, as at 31 March 2018, is presently underway as of the date of this Prospectus.

The KGPP is subject to the UK statutory funding regime, with contributions subject to agreement between the KGPP principal employer and trustees and the body which acts as "Independent Body" of the KGPP. The UK Pensions Regulator has the power to impose a schedule of contributions and recovery plan should it not be possible to reach agreement on the KGPP's contributions (which has never occurred).

For additional information regarding YWS's pension commitments, see the section of this Chapter entitled "*Ring-fencing and the YW Financing Group – Ongoing Trading Relationships with other Kelda Group companies – Pension Scheme*".

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which YWS is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of YWS.

Claim from Personal Search Companies

On 1 September 2016 YWS, together with several other water and sewerage companies ("WaSCs"), received a letter of claim on behalf of six PSCs relating to a claim for historic fees that they have each paid to Yorkshire Water SafeMove for CON29DW reports (i.e. water and drainage reports obtained when buying a house). In total the claim amounts to approximately £14 million. Briefly, the PSCs state that the historic fees should not have been paid to Yorkshire Water SafeMove as the information should have been freely available under the Environmental Information Regulations 2004. The PSCs have sent letters of claim to a significant number of other water and sewerage companies. On 16 December 2016 YWS received a further letter of claim on behalf of a further forty PSCs. The claim is framed in similar terms to the above claim. To date this set of claimants has not specified an amount claimed. On the basis of the significant value of the claims, Water UK has been involved, a consortium of water and sewerage companies have instructed DAC Beachcroft solicitors to deal with the claims and the consortium has taken preliminary advice from Nigel Pleming QC. The present position is that water and sewerage companies have required the claimants to plead their case in full so that we can fully understand the claimants' case.

On 21 February 2018, YWS received a letter of claim from the Index Property Group. The value of the claim against YWS from this group of claimants is stated to be £106,622.22. The letter of claim is sufficiently detailed to require a response.

Between 6 July 2018 and 15 August 2018, the consortium of WaSCs and Index Property Group exchanged correspondence relating to the claim. The present position is that the consortium of WaSCs have stated that they would be prepared to meet with Index Property Group to discuss the claim provided that the Index Property Group provide full and constructive responses on certain key issues in the dispute.

In the meantime, the consortium of WaSCs have entered into a standstill agreement with Index Property Group which has the effect of preventing the limitation period for the claimants from continuing to run and which will prevent them from issuing legal proceedings and incurring, at this stage, unnecessary costs.

Ring-Fencing and the YW Financing Group

As part of its obligations as a Regulated Company, YWS is subject to certain ring-fencing measures under its Instrument of Appointment.

The ring-fencing measures are intended to ensure (i) that YWS has the means to conduct its Appointed Business separately from the Kelda Group, and (ii) that all dealings between the Kelda Group and the YW Financing Group are on an arm's length basis.

The main elements comprising the regulatory and structural ring-fencing of the YW Financing Group from the other Kelda Group companies are set out below.

Regulatory ring-fencing is common, in differing degrees, to each of the Regulated Companies in England and Wales pursuant to their respective instruments of appointment. Under Instrument of Appointment Condition F, as supplemented by RAG 5, YWS must ensure that transactions between it and its associated companies in the Kelda Group are on an arm's length basis to prevent cross-subsidisation of activities.

Under Instrument of Appointment Condition K.3.1, YWS must ensure at all times, so far as reasonably practicable, that if a Special Administration Order was made in respect of it, YWS would have available to it sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purposes of such order could be achieved.

As part of Ofwat's "future regulation" programme it has set up an advisory panel to assist in Ofwat's review of the way in which the industry is regulated. Alongside this programme Ofwat publish "focus reports" which are aimed at informing customers and stakeholders about Ofwat's latest thinking around a particular issue. One of the areas on which Ofwat plans to publish a focus report is regulatory ring-fencing.

Ring-fencing provisions in YWS's Instrument of Appointment

The ring-fencing provisions contained in YWS's Instrument of Appointment are broadly similar to those contained in the licences of all other Regulated Companies. The most important of these provisions are:

- **Transactions between YWS and its associated companies:** Any transaction between YWS and its associated companies (being its subsidiaries and any affiliated companies) must be conducted at arm's length, such that there is no cross-subsidy of the associated company by YWS (or vice versa).

- **Restrictions on Dividend Payments:** YWS is required to only pay dividends in accordance with a policy that complies with the following principles: (i) such payments will not impair the ability to finance its regulated activities; and (ii) the payment of such dividends is to reward efficiency and the management of economic risk.

- **Adequate Resources:** YWS is required at all times to act in a manner "best calculated" to ensure that it has adequate financial resources and facilities and also management resources to carry out its regulated activities (including necessary investment programmes). The directors of YWS are required to certify on an annual basis that this requirement will continue to be met for the subsequent 12 month period. The basis on which such a view is formed must also be disclosed to Ofwat. As soon as the directors become aware of a reason why YWS cannot be expected to comply with this obligation, they are to file a report to this effect to Ofwat in accordance with the provisions of its Instrument of Appointment.

- **Conducting the Appointed Business of YWS:** YWS (and its directors) is required to operate the Appointed Business as though it were substantially YWS's sole business and YWS was a separate public limited company. In particular, YWS should:

  - have an independent board of directors (the "Board") which will act independently of the parent company/controlling shareholders and exclusively in the interests of YWS;

  - ensure that all directors disclose any conflicts of interest both to YWS and Ofwat, and that YWS's articles of association prohibit a director from voting in any matter in which he has an interest;

  - ensure that, where a potential conflict between YWS and its corporate group arises, YWS and its board of directors has exclusive regard to YWS's interests as a regulated water and sewerage undertaker;

  - notify Ofwat of all changes in board membership and their responsibilities; and

  - adopt a dividend policy to be adopted by the Board (as defined above) as outlined above.

Additional restrictions in YWS's Instrument of Appointment

- **Limits on the transfer of certain assets to associated companies:** Save with the express consent of Ofwat, YWS is not permitted to transfer certain rights or assets (being those which a Special Administrator would require if a Special Administration Order were made in order to operate the Appointed Business) to an associated company.

- **Restrictions on other transactions:** Save with the express consent of Ofwat, YWS must not (i) give any guarantee of any liability of any associated company, (ii) make to any associated company a loan, or (iii) enter into an agreement or incur a commitment incorporating a cross default obligation (whether with an associated company or otherwise). There are limited exceptions relating to existing cross-default obligations.

- **Publishing of financial information:** YWS is required to publish such information about its annual and interim financial results as is required by the Listing Rules as if YWS were listed on the London Stock Exchange.
- **Maintenance of a financial instrument listed on the London Stock Exchange:** YWS, is required to maintain a financial instrument and shall use all reasonable endeavours to retain its listing on the London Stock Exchange.
- **Adequate systems of planning and internal controls:** YWS must, at all times, act in a manner best calculated to ensure that it has adequate systems of planning and internal control to enable it to secure the carrying out of the Appointed Business. Such systems of planning and internal control are to comply with such guidance as Ofwat may specify from time to time. Further, the modified Instrument of Appointment Condition also provides that compliance with the requirement for adequate resources, systems of planning and internal control, must not be dependent on the discharge by any other person of any obligation under, or arising from, any agreement or arrangement under which that other person has agreed to provide any services to YWS in its capacity as a Regulated Company. As YWS is required to do in relation to its financial and management resources, YWS's directors will be required to certify to Ofwat on an annual basis that this new requirement will continue to be met for the subsequent 12 month period.
- **Investment grade credit rating**: YWS (or any associated company) will be required to maintain an Investment Grade issuer credit rating. The issuer rating will reflect the financial capacity of the Appointed Business and therefore its ability to raise capital or maintain access to liquidity in the future. Any significant adverse changes to the rating will act as an early signal that the ability of the Appointed Business to raise future finance is at risk
- **Cash lock-up:** A cash lock-up provision was introduced into Instrument of Appointment Condition F which prohibits, subject to certain limited exceptions, save with the express consent of Ofwat, the transferring, leasing, licensing or lending of any sum of cash or other assets to an associated company when YWS (i) no longer holds an Investment Grade rating, or (ii) holds a rating at the minimum Investment Grade level and that rating has been put under review for possible downgrade or is assigned a negative outlook.
- **Conducting the Appointed Business of YWS:** YWS (and its directors) is required to have regard to the FCA's Principles of Good Governance and Code of Best Practice required by the Listing Rules from time to time.

In relation to the second paragraph (*Restrictions on other transactions*) above, as part of its obligations under the Security Agreement, YWS gives guarantees and security in respect of the obligations of the other Obligors and there are also cross-default provisions applicable to YWS in relation to certain events occurring in respect of the other Obligors. Details of the guarantee and security package are set out in Chapter 7 "*Overview of the Financing Agreements*". YWS has obtained consent from Ofwat that such arrangements are permitted to subsist within the YW Financing Group.

Ultimate Controller Undertakings

Condition P (which came into effect on 6 October 2008) requires that YWS secures legally enforceable undertakings from its Ultimate Controller and, when such Ultimate Controller is not the UK Holding Company, from its UK Holding Company, that it (and each of its subsidiaries, other than YWS and its subsidiaries), will:

- give YWS all such information as may be necessary to enable YWS to comply with its obligations under the WIA or with the conditions of the Instrument of Appointment;

- refrain from any action which might cause YWS to breach any of its obligations under the WIA or the Instrument of Appointment; and
- ensure that at all times the board of directors of YWS contains not less than three independent non-executive directors, who must be persons of standing with relevant experience and who collectively have connections with and knowledge of the areas within which YWS provides water and sewerage services and an understanding of the interests of the customers of YWS and how these can be respected and protected.

YWS must inform Ofwat immediately in writing if it becomes aware that the undertakings have ceased to be legally enforceable, or that there has been any breach of their terms. Further, save with the written consent of Ofwat, YWS must not enter (directly or indirectly) into any contract or arrangement with its Ultimate Controller or any associated company (other than subsidiaries of YWS) at a time when no such undertaking exists or there is an unremedied breach of such undertaking.

For the purposes of the amended Condition P, "Ultimate Controller" means any person (including, without limitation, a corporate body) who or which (alone or jointly with others and whether directly or indirectly) is (in the reasonable opinion of Ofwat) in a position to control, or to exercise material influence over, the policy or affairs of the Appointed Business or of any Holding Company of the Appointed Business.

In October 2008, Ofwat decided to modify Condition P to require Yorkshire Water to maintain not less than three independent non-executive directors on its board and to secure undertakings from its "Ultimate Controller", and when this is not the UK holding company, from its UK holding company.

As at the date of this Prospectus:

- RREEF pan-European Infrastructure Fund LP is a holder of 23.37 per cent. of the shares in the equity of Kelda Holdings Limited and has provided a Condition P undertaking in similar terms to the other members of the consortium.
- State Infrastructure Holdings 1 Pty Limited is a holder of 12.75 per cent. of the shares in the equity of Kelda Holdings Limited, acquiring the same from Citi Infrastructure Investors and Infracapital Partners LP. The ultimate investor is SAS Trustee Corporation.

  In view of the size of this minority holding, YWS informed Ofwat in writing following completion of the acquisition that it did not believe that a Condition P undertaking was required from State Infrastructure Holdings 1 Pty Limited or its holding company, SAS Trustee Corporation. As at the date of this Prospectus, Ofwat has not challenged that belief nor asked for a Condition P undertaking from either SAS Trustee Corporation or State Infrastructure Holdings 1 Pty Limited.
- GIC is a holder of 33.56 per cent. of the shares in the equity of Kelda Holdings Limited and has provided a Condition P undertaking in similar terms to the other members of the consortium.
- Gateway UK Water LP, Gateway UK Water II LP and Gateway Infrastructure Investments LP (the "Gateway Entities") together hold 30.32 per cent. of the shares in the equity of Kelda Holdings Limited. The Gateway Entities are managed by Corsair Capital LLC as investment advisor.

  Corsair Infrastructure Management, L.P. ("CIM"), an affiliate of Corsair Capital LLC, formally entered into an investment management agreement with Citi Infrastructure Investments LLP ("CII"), an affiliate of Citigroup Inc. and the general partner of Citi Infrastructure Partners, L.P. (together with its associated investment vehicles, the "CIP Fund"). Under that agreement, CII granted CIM a power of attorney, which became effective upon receipt of necessary approvals, including the consent of the CIP Fund's limited partners, to act on behalf of CII in respect of the CIP Fund. In connection with the agreement, Corsair will retain most members of the CIP team. Through the power of attorney granted by CII to CIM, CIM has discretion and control over the management of the CIP Fund's assets (except with respect to certain retained authority), including discretion and control over the management of the CIP Fund's investment in Kelda Holdings Limited. The power of attorney became effective late on 13 March 2015 (US time), upon the receipt of necessary approvals.

CIM provided a Condition P Ultimate Controller undertaking to Ofwat on 13 March 2015. The undertaking provided by CII remains in effect.

Ongoing Trading Relationships with Other Kelda Group Companies

Pension Scheme

The ring-fencing programme does not segregate YWS pension arrangement from those of the Kelda Group. However, YWS's contributions to the KGPP and the Stakeholder+ Arrangement are made in respect of YWS's employees only. The statutory funding regime that applies to the KGPP provides for an allocation of liabilities attributable to each employer which participates in the KGPP and the rules of the KGPP set out the contribution obligations of each participating employer, including YWS. In the event of other Kelda Group companies becoming unable to meet the liabilities for their employees within the KGPP, YWS may become responsible for some or all of those liabilities as well as the liabilities for its own employees, or on a "last man standing" basis.

Southern Pennines Rural Regeneration Company Limited

Southern Pennines Rural Regeneration Company Limited ("SPRRCL") was incorporated in England and Wales as a company limited by guarantee with registered number 5432174 on 21 April 2005. YWS is a member of SPRRCL and, in the event of SPRRCL being wound up, has agreed to guarantee SPRRCL in the amount of £1.

SPRRCL trades as Pennine Prospects Ltd, and is owned by the key local authorities, water companies, Natural England and the voluntary/community sector SPRRCL develops community projects, promotes access to the uplands and waterways and connects people with their landscape. Specific funding for projects carried out by SPRRCL is sought from various sources using established open bidding procedures. To date, SPRRCL has attracted over £5 million of national lottery and European funding to deliver a wide range of projects aimed at promoting, protecting and enhancing the built, natural and cultural heritage of the South Pennines area and its work has been recognised by National and European Awards. YWS are currently working with SPRRCL on a proposed Kite festival, a lottery funded woodland heritage project and addressing resilience issues primarily in Calderdale as well as supporting a major organisational review utilising HLF funding that will establish a structure that is fit for future purposes.

YWS's only current liability in respect of SPRRCL is the annual "subscription fee" paid to provide funding for the staff and assets. In 2017/18, the net subscription fee was £7,000. YW also supports specific SPRRCL projects but this is only where that support has followed normal internal approval processes.

Removal of Subsidiaries Incorporated in the Cayman Islands

As part of YWS's commitment to transparency and good governance, the company issued a public commitment in October 2017 to remove its Cayman Islands incorporated Subsidiaries, notwithstanding that they were tax resident in the UK. These subsidiaries were Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited and Yorkshire Water Services Odsal Finance Holdings Limited (the "Former Cayman Subsidiaries"). Following consent from Ofwat, HMRC clearance and credit ratings confirmations, consent was requested from the relevant Secured Creditors, which was confirmed on 20 June 2018.

On 2 July 2018, a new UK incorporated financing subsidiary, Yorkshire Water Finance plc (the Issuer), was established as a wholly-owned subsidiary of Kelda Group Ltd. The Issuer was transferred to YWS on 16 August 2018, when the Issuer was substituted as the issuer and principal debtor in respect of approximately £3 billion of listed bonds and private notes that had been previously issued by the Former Cayman Subsidiaries. On 17 August 2018, the Former Cayman Subsidiaries were transferred by YWS to Kelda Group Limited in preparation for their liquidation.

The primary impact of the changes set out above is to change the issuer under this Programme and principal debtor to a UK incorporated company and to simplify the corporate structure of the YW Financing Group for improved transparency. These changes have no material impact on the performance, credit ratings or terms of financing of the YW Financing Group.

Board Composition and Activities of the YW Financing Group

YWS

Company Details

YWS is a private limited company which was incorporated in England and Wales on 1 April 1989 under the Companies Act with registered number 02366682. The registered office and headquarters of YWS are at Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ. YWS's allotted and issued share capital is £10,000,000 divided into 20,000,000 ordinary shares of £0.50 each. All ordinary shares have been issued and have been fully paid-up. YWS is a wholly-owned subsidiary of YWH. The business address of the directors of YWS is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ, and the telephone number is +44 (0)1274 691 111**.**

Auditor of YWS

The Auditor of YWS is Deloitte LLP. Deloitte LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

Board Composition and Corporate Governance

YWS operates under the overall direction of the Board which is responsible for policy and strategic matters. In connection with the acquisition of Kelda Group plc (now Kelda Group Limited) by the Saltaire Consortium, a shareholder agreement was entered into between the members of the Saltaire Consortium prior to the acquisition of Kelda Group plc, giving members of the Saltaire Consortium certain rights in respect of appointing directors to the board of any Kelda Group company, subject to any order, direction or other instruction given by Ofwat.

The composition of the Board is influenced by the requirements of the Instrument of Appointment. Specifically, Instrument of Appointment Condition P, as of 6 October 2008, requires YWS to maintain at least three independent non-executive directors on the Board

Under its memorandum of association, YWS's primary objects are, amongst other things, to carry on the business of a water and sewerage undertaker. It is also empowered to act as a holding company of the Issuer, and YWSF. YWS's independence from its ultimate holding company is enhanced by the inclusion of the provision in YWS's articles of association that no YWS director shall vote on any contract or arrangement or any other proposal in which he has an interest by virtue of other directorships. The directors of YWS support high standards of corporate governance and have particular regard to the UK Corporate Governance Code issued by the Financial Reporting Council. Internal corporate governance procedures are in place and regularly reviewed and updated to ensure compliance. YWS is also subject to the provisions of the Companies Act.

The Board currently consists of an independent non-executive chairman, four executive directors, three investor non-executive directors and three independent non-executive directors.

Executive Directors of YWS

Richard Flint. Chief Executive of the Kelda Group and Chief Executive of YWS with effect from 1 April 2010 and previously was the Chief Operating Officer of YWS (2008-2010) and Director of the company's water business unit (2003-2008). Previously, he held a number of senior operational positions in YWS. He was appointed to the boards of Kelda Holdings Limited and Kelda Eurobond Co Limited in March 2010. He was also appointed as a director of Kelda Water Services Limited in January 2005, KeyLand Developments Limited in May 2010, Three Sixty Water Limited in December 2015 and Loop Customer Services Limited in May 2016, and serves as Chairman of these companies.

Elizabeth (Liz) Barber. Appointed as Group Finance and Regulation Director in November 2010, now Group Finance, Regulation and Markets Director. Liz joined YWS from Ernst & Young where she held a number of senior roles, including leading the firm's national water team and the assurance practice across the North of England. She had been with Ernst & Young since 1987 and in that time worked with a number of water companies and the regulators in England, Wales and Scotland. Liz is a Fellow of the Institute of Chartered Accountants in England and Wales. She was appointed to the boards of Kelda Holdings Limited and Kelda Eurobond Co Limited in November 2010. She was also appointed a director of Kelda Water Services Limited in December 2010, Loop Customer Services Limited in May 2016 and Three Sixty Water Limited in November 2016.

Pamela Doherty. Director of Service Delivery. Pamela joined Yorkshire Water in 2002 and was appointed Head of Human Resources in June 2010 having previously developed her career in the electricity supply and retail industries. She was appointed as director of Human Resources and Health and Safety on 27 April 2011 and was an executive director of the company between April 2011 and March 2015. Pamela stepped down from the Board on 31 March 2015 following her appointment as Managing Director of Kelda Water Services. She subsequently succeeded Charlie Haysom as Director of Service Delivery on 1 September 2017. Pamela has since decided to pursue other opportunities and will leave Yorkshire Water in the near future.

Nevil Muncaster. Director of Asset Management (previously Director of the Asset Delivery Business Unit). Nevil joined YWS in 2013 from Veolia Water where he worked for more than 20 years and held the roles of Managing Director of Veolia Water Southeast Limited (formerly Folkestone and Dover Water) and Veolia Water East Ltd (formerly Tendring Hundred Water).

Non-Executive Directors of YWS

Chairman: **Anthony Rabin**. Appointed to the boards of Kelda Holdings Limited and Kelda Eurobond Co Limited in September 2016. Anthony was appointed as interim, and then permanent Chairman on 9 September 2016. Previously, he was appointed to the Board as a non-executive with effect from 1 August 2013 and to the role of Senior Independent Director in March 2015.

Anthony has previously held roles at Balfour Beatty plc, including as Executive Director for 10 years, Chief Financial Officer for six years and Deputy Chief Executive for four years. He has held a number of previous executive roles within Cooper & Lybrand (Partner, Structured Finance Group, Morgan Grenfell & Co (Senior Assistant Director) and Arthur Andersen & Co (Tax Compliance and Consultancy).

Raymond (Ray) O'Toole. Senior Independent Director. Appointed to the Board as an independent non-executive director in June 2014 following a successful career in the transport sector. Ray stood down from the main board of National Express plc in 2010 after ten years as Group Chief Operating Officer and UK Chief Executive. At National Express he was at one time responsible for a fleet of 20,000 buses and coaches, nine rail franchises and 40,000 staff, with operations in Spain, the USA, Canada and the UK. He started his non-executive career whilst at National Express as a member of the board of the British Transport Police Authority (BTPA). From 2011, he served as a non-executive director and member of the Safety Committee of the Office of Rail and Road until he was appointed as Chief Executive of Essential Fleet Services Limited from July 2015 until February 2017. Ray joined the board of Stagecoach Group Plc as a non-executive director on 1 September 2016. Ray has a background in mechanical engineering in addition to bringing his skills in safety and strategy. Ray was appointed as Senior Independent Director on 1 July 2017.

Julia Unwin. Appointed to the Board as an independent non-executive director in January 2017. Julia served as Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust from 2007 until the end of 2016. She is also a council member of the University of York and a non-executive director of Mears Group Plc and was also appointed to the Board of the Financial Reporting Council on 1 April 2018. Julia has held several public service appointments across the voluntary, housing and social care sectors, and through her engagement with consumers, regulation and public policy, brings a deep understanding of the interests of customers and individual communities.

Andrew Wyllie CBE. Appointed to the Board as an independent non-executive director in September 2017. Andrew is Chief Executive of Costain Group Plc and was a Non-Executive Director of Scottish Water from April 2009 to April 2017. He is a Chartered Engineer, a Fellow of the Royal Academy of Engineering and a Vice President of the Institution of Civil Engineers. Prior to joining Costain as Chief Executive in 2005, Andrew worked for Taylor Woodrow where he was the Managing Director of the construction business and a member of the Group Executive Committee.

Scott Auty. Appointed to the Board as an investor non-executive director in September 2017. He was appointed as a non-executive director to the board of Kelda Holdings Limited, the ultimate parent of Yorkshire Water, on 30 September 2010. Scott is a Director of Deutsche Asset Management's infrastructure business, Europe, based in London and is responsible for the origination and execution of infrastructure investment opportunities as well as the ongoing management of the acquired assets. He is a member of the Investment Committee for the two European infrastructure funds managed by Deutsche AM. Prior to joining Deutsche AM's infrastructure business in 2005, Scott started his career at N M Rothschild & Sons' investment banking division where he was a specialist in the Utilities and Natural Resources sectors.

Mike Osborne. Appointed to the Board as an investor non-executive director in September 2017. He was appointed as a non-executive director to the board of Kelda Holdings Limited, the ultimate parent of Yorkshire Water, on 31 January 2013. Mike is a Principal at Corsair Infrastructure Management, a business unit of Corsair Capital. He is also a director of Itínere Infraestructuras, S.A., a toll road operator in Spain. Mike has 15 years of experience in infrastructure finance at Ernst & Young, Citi and Corsair.

Andrew Dench. Appointed to the Board as an investor non-executive director in September 2017. He was appointed as a non-executive director to the board of Kelda Holdings Limited, the ultimate parent of Yorkshire Water, on 30 September 2015. Andrew is a Senior Vice President in GIC's Infrastructure team, based in London. He is responsible for the ongoing management of GIC's global infrastructure portfolio and is also a non-executive director on boards for TIGF (Gas Transportation and Storage, France), Duquesne Light and Power (Electricity Transportation and Distribution, US) and Greenko (Renewal Generation, India).

Prior to joining GIC, Andrew was CFO of Electricity North West and Deputy CEO / CFO Veolia Water, UK, Ireland & Northern Europe. While at Veolia, he was a non-executive director of Affinity Water (formerly Veolia Water). Andrew started his career in the investment banking division of Morgan & Stanley where he was focused on project finance, M&A, utilities and the natural resources sector.

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

The business address of the directors of YWS is Western House, Halifax Road, Bradford BD6 2SZ.

Company Secretary of YWS

The Company Secretary is Kathy Smith.

Kathy Smith was appointed as YWS Company Secretary and Group Company Secretary on 22 August 2018. Kathy's most recent role was Company Secretary and director of risk at KCOM Group plc, having earlier been director of internal audit and risk management. Kathy trained at Deloitte and is both a qualified accountant and chartered company secretary.

The Issuer

The Issuer is a public limited company which was incorporated in England and Wales on 2 July 2018 under the Companies Act with registered number 11444372. The registered office and headquarters of the Issuer are at Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ. The Issuer's allotted and issued share capital is £50,001 divided into 50,001 ordinary shares of £1 each. All ordinary shares have been issued and have been fully paid-up. The Issuer is a wholly-owned subsidiary of YWS. The business address of the directors of the Issuer is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ, and the telephone number is +44 (0)1274 804 106**.** The Issuer has no direct subsidiaries.

Directors and Company Secretary of the Issuer

The directors of the Issuer are Richard Flint, Liz Barber and Kathy Smith.

The biographies of Richard Flint, Liz Barber and Kathy Smith are described in "*Directors and Company Secretary of YWS*" above.

Richard Flint and Liz Barber have been directors of the Issuer since the date of its incorporation. Kathy Smith became a director of the Issuer on 8 October 2018.

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

The Company Secretary is Kathy Smith.

The business address of the directors of the Issuer is Western House, Halifax Road, Bradford BD6 2SZ.

The Activities of the Issuer

The Issuer has no employees nor does it own any physical assets. Administration and treasury functions are conducted on its behalf by YWS. It is intended to be the principal financing vehicle for YWS. Pursuant to the 2018 Reorganisation, the Issuer entered into all documents incidental to the Programme. The rights and obligations of Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited under the DSR Liquidity Facility Agreement dated 7 April 2011, as amended and restated on 23 September 2011 and as further amended and restated on 26 September 2012 (as may be further amended and restated from time to time) were transferred to the Issuer pursuant to the 2018 Reorganisation. This DSR Liquidity Facility was renewed on 29 March 2018. The Issuer may also enter into Hedging Agreements from time to time in accordance with the Hedging Policy. See Chapter 7 "*Overview of the Financing Agreements*".

The Issuer has the power, under its memorandum and articles of association, to enter into the transaction documents to which it is a party and its directors have authority, under the Issuer's articles of association and pursuant to resolutions passed at meetings of the board of directors of the Issuer held on 2 July 2018 to exercise that power on its behalf.

The Auditor of the Issuer is Deloitte LLP. Deloitte LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

YWSF

YWSF was incorporated in England and Wales on 14 January 2003 as a public limited company with registered number 04636719 and was re-registered as a private limited company with the same registered number on 17 December 2008.

YWSF is a wholly-owned subsidiary of YWS. Its allotted share capital is £50,000 divided into 50,000 ordinary shares of £1 each. The shares have all been issued and are fully paid up in the amount of £1 per share. YWSF has no other equity or debt capital, save for as disclosed in the section "*The Activities of YWSF*" below.

YWSF has its registered office at Western House, Halifax Road, Bradford BD6 2SZ and its telephone number is +44 (0)1274 804 106.

Directors and Company Secretary of YWSF

The directors of YWSF are Richard Flint, Liz Barber and Kathy Smith.

The biography of Richard Flint, Liz Barber and Kathy Smith are set out in in "*Directors and Company Secretary of YWS*" above.

Richard Flint became a director of YWSF on 4 August 2016. Liz Barber became a director of YWSF on 2 November 2010. Kathy Smith became a director of YWSF on 8 October 2018. There are no conflicts of interest between any duties to YWSF of its directors and their private interests or duties.

The Company Secretary is Kathy Smith.

The business address of the directors of YWSF is Western House, Halifax Road, Bradford BD6 2SZ.

The Activities of YWSF

YWSF has not engaged in any activities other than those incidental to its formation and the authorisation of the issue of the YWSF Bonds. YWSF has no subsidiaries. YWSF may enter into Hedging Agreements in accordance with the Hedging Policy and may also enter into DSR Liquidity Facilities, the proceeds of which will be on-lent by YWSF to YWS pursuant to the YWSF/YWS Loan Agreements as required pursuant to the CTA. On 7 April 2011 YWSF entered into the DSR Liquidity Facility Agreement, which was amended and restated on 23 September 2011 and as further amended and restated on 26 September 2012 (as may be further amended and restated from time to time). This DSR Liquidity Facility was renewed on 29 March 2018.

The activities of YWSF are restricted in the CTA. See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

The Auditor of YWSF is Deloitte LLP. Deloitte LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

YWH

YWH was incorporated in England and Wales on 10 February 2009 as a private limited company with registered number 06815156.

YWH is a wholly-owned direct subsidiary of Kelda Finance (No.2) Limited. Its allotted share capital is £100 divided into 100 ordinary shares of £1 each. Two ordinary shares have been issued and are fully paid-up.

YWH has its registered office at Western House, Halifax Road, Bradford BD6 2SZ and its telephone number is +44 (0)1274 804 106.

Directors and Company Secretary of YWH

The directors of YWH are Richard Flint, Liz Barber and Kathy Smith.

The biographies of Richard Flint, Liz Barber and Kathy Smith are set out in "*Directors and Company Secretary of YWS*" above.

Richard Flint became a director of YWH on 1 April 2010. Liz Barber became a director of YWH on 2 November 2010. Kathy Smith became a director of YWH on 8 October 2018.

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

The Company Secretary is Kathy Smith.

The business address of the directors of YWH is Western House, Halifax Road, Bradford BD6 2SZ.

The Activities of YWH

YWH has o employees nor does it own any physical assets other than its shares in YWS. Administration and treasury functions are conducted on its behalf by YWS.

The principal activity of YWH is to hold the shares of YWS and to enter into documents incidental to the Programme. YWH has no direct subsidiaries other than YWS.

YWH is empowered under its memorandum and articles of association to enter into the Finance Documents to which it is a party and its directors have authority under YWH's articles of association to exercise that power on its behalf.

The activities of YWH are restricted in the CTA. See Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

The Auditor of YWH is Deloitte LLP. Deloitte LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

CHAPTER 6
REGULATION OF THE WATER AND WASTEWATER INDUSTRY IN ENGLAND AND WALES

Water and Wastewater Regulation Generally

Background

The structure of the water and wastewater industry in England and Wales dates from 1989, when the Water Act 1989 was enacted. As at December 2018, Ofwat recognised 65 companies providing water and sewerage services in England and Wales (including the eleven large regional water and sewerage companies, six large regional water only companies, nine local companies providing water or sewerage or both, and thirty-nine water supply licensees offering retail water services to non-household customers, and one infrastructure provider). The provisions of the Water Act 1989 are now contained mainly in the consolidating WIA which itself has been substantially amended by the Water Industry Act 1999, the Water Act 2003, the FWM Act 2010, the Water Act 2014 and to a lesser extent by various other statutory provisions. References in this section to statutes are to the WIA, as amended, unless otherwise stated. The Water Act 2014 introduces a new, more liberalised market structure, vests more powers and responsibilities in Ofwat and makes a number of changes to water resources and environmental regulation. Under the Water Act 2014, the non-household retail market opened to competition in April 2017. This new market structure provides a choice for owners of any (not just large) non-household premises to choose their provider as far as a retail service (for both water supply and sewerage) is concerned. These providers, or "water supply licensees", comprise not only the original 12 licensees that served large-use customers before April 2017, but also new entrants.

Regulatory Framework

The activities of Regulated Companies are principally regulated by the provisions (as amended) of the WIA and the regulations made under these Acts and the conditions of their instruments of appointment (also referred to as licences). Under the WIA, the Secretary of State has a duty to ensure that at all times there is an appointee for every area of England and Wales. Appointments may be made by the Secretary of State or in accordance with a general authorisation given to Ofwat.

Ofwat is the economic regulator for water and wastewater in England and Wales and is responsible for, *inter alia*, setting price limits and monitoring and enforcing licence obligations. Regulated Companies are required by their licences to make an annual return to Ofwat (including accounts and financial information) to enable Ofwat to assess their activities.

The two principal quality regulators are the Drinking Water Inspectorate ("DWI") (the DWI is appointed by the Secretary of State for Environment, Food and Rural Affairs) and the Environment Agency ("EA"). The EA is an executive non-departmental public body, sponsored by the Department for Environment, Food and Rural Affairs ("DEFRA"). The DWI's principal task is to ensure that Regulated Companies in England and Wales are fulfilling their statutory requirements under the WIA and the water quality regulations for the supply of wholesome drinking water. The DWI is part of DEFRA and acts as a technical assessor on behalf of the Secretary of State in respect of the quality of drinking water supplies. The DWI carries out technical audits of each water undertaker. This includes an assessment of the quality of water supplied, arrangements for sampling and analysis, and progress made in delivering schemes to improve water quality. The EA's duties include the management and regulation of water abstraction from, and discharges to, controlled waters (which include rivers, coastal waters, territorial waters extending three miles from shore, inland freshwaters and groundwater).

The WIA, as amended by the Water Act 2003, introduced the independent consumer council for water consumers (known as the "CC Water"), whose role is to provide information of use to consumers and to promote the interests of all water consumers.

There are also specific requirements for development, and requirements for the protection and management of nationally and internationally important wildlife and natural habitats (either on land owned by YWS or on land affected by YWS's wider operations) regulated by Natural England, DEFRA and the EA.

Duties of Ofwat and the Secretary of State

Each of the Secretary of State and Ofwat has a general duty under the WIA to exercise and perform certain of its powers and duties under the WIA in the manner it considers best calculated to:

- further the consumer objectives which is to protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- secure that the functions of Regulated Companies are properly carried out throughout England and Wales;
- secure that Regulated Companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of those functions;
- secure that the activities authorised by the licence of a water supply licensee or sewerage licensee and any statutory functions imposed on it in consequence of the licence are properly carried out; and
- further the resilience objective, which is to secure the long-term resilience of water supply and sewerage systems and that Regulated Companies take steps to enable them, in the long term, to meet the need for water supplies and sewerage services.

House of Commons Report

On 9 October 2018, the House of Commons (Environment, Food and Rural Affairs Committee) published its Eighth Report of Session 2017-19 entitled "Regulation of the water industry" setting out a number of recommendations to (i) increase supply through abstraction and water transfers; (ii) reduce demand, including through compulsory metering; (iii) improve performance, including by streamlining complaints processes, reviewing the changes implemented on financial engineering, dividend policies and executive bonuses, modifying licence conditions and revisiting the Environment Agency's powers and resources to enforce reductions in sewage overflows); and (iv) increase competition and efficiency in the retail market, including through annual reviews. The report also invited the Government to commission an independent review of whether the water industry and regulation are "fit to meet future needs such as drought resilience, as well as delivering value for money for customers" and whether price review cycles should be extended to allow long-term planning in the industry. The report recommended to commence such review immediately "so that it can influence the 2024 price review". On 18 December 2018, the Government confirmed in its response that it had commissioned the National Infrastructure Commission to conduct a review of economic regulation in the water, energy and telecom sectors, to ensure necessary levels of investment and innovation whilst maintaining affordability.

Instrument of Appointment

General

Under the WIA, each Regulated Company holds a licence and is regulated through the conditions of such licence as well as the WIA. Each licence specifies the geographic area served by the company and imposes a number of conditions on the licence holder that relate to limits on charges, information reporting requirements, various codes of practice, and other matters. In addition to the conditions regulating price limits (see the section "*Economic Regulation*" below), each licence also contains conditions regulating infrastructure charges and the making of charges schemes, and imposes prohibitions on undue discrimination and undue preference in charging. Other matters covered by conditions in each licence include: accounts and the provision of accounting information; codes of practice for customers and relations with CC Water; codes of practice and procedure on debt recovery; code of practice and procedure on leakage; levels of service and service targets; "ring-fencing" of assets and restrictions on disposal of land; underground asset management plans; the provision of information to Ofwat; fees; provision of combined and water operations supplies; payments to customers for supply interruptions because of drought; and customer transfer protocol. Ofwat is responsible for monitoring compliance with licence conditions and, where necessary, enforcing compliance through procedures laid down in the WIA.

Termination of an Instrument of Appointment

There are certain circumstances provided for in the WIA under which a Regulated Company could cease to hold a licence for all or part of its area:

- a Regulated Company could consent to the making of a replacement appointment or variation, which changes its appointed area, in which case Ofwat has the authority to appoint a new licence holder;
- under Condition O of a licence, where the Secretary of State has given the Regulated Company at least 25 years' notice and that period of notice has expired;
- under the provisions of the Special Administration regime, the Special Administrator may transfer the business and licence to a successor (see the section "*Special Administration Orders*" below); or
- by the granting of an "inset" appointment (or "NAV") over part of a Regulated Company's existing appointed area to another Regulated Company (see "*Competition in the Water Industry*" below).

Before making an appointment or variation replacing a Regulated Company, Ofwat or the Secretary of State must consider any representations or objections made by the existing Regulated Company. Where the Secretary of State or Ofwat makes such an appointment or variation, in determining what provision should be made for the fixing of charges by the new Regulated Company, it is the duty of the Secretary of State or Ofwat (as applicable) to ensure, so far as may be consistent with their duties under the WIA, that the interests of the members and creditors of the existing Regulated Company are not unfairly prejudiced as regards the terms on which the new Regulated Company could accept transfers of property, rights and liabilities from the existing Regulated Company.

Modification of an Instrument of Appointment

Regulatory landscape

Conditions of a licence may be modified in accordance with the procedures laid down in the WIA. Subject to a power of veto in certain circumstances by the Secretary of State, Ofwat may modify the conditions in a licence with the consent of the Regulated Company concerned. Before making the modifications, Ofwat must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections which Ofwat must consider. In the absence of consent or primary legislation, Ofwat can secure a modification through a modification reference to the CMA. To date, Ofwat has never used its power to refer a licence amendment to the CMA. It is also possible for primary legislation to confer on Ofwat the power to modify the licences of a Regulated Company (without the consent of the Regulated Company) albeit that this is usually a time limited power and any licence modification must usually be made in accordance with, and as a direct consequence of, a provision of such primary legislation. To date, changes permitted pursuant to primary legislation have only occurred in relation to Conditions R and S. A modification reference may also be required in the event of a direction from the Secretary of State to the effect that, *inter alia*, in his view, the modifications should only be made, if at all, following a reference to the CMA.

A modification reference requires the CMA to investigate and report on whether matters specified in the reference operate, or may be expected to operate, against the public interest and, if so, whether the adverse public interest effect of those matters could be remedied or prevented by modification of the conditions of the licence. In determining whether any particular matter operates or may be expected to operate against the public interest, the CMA is to have regard to the matters in relation to which duties are imposed on the Secretary of State and Ofwat.

If there is an adverse finding, the CMA's report will state whether any adverse effects on the public interest could be remedied or prevented by modification of the licence. If the CMA so concludes, Ofwat must then make such modifications to the licence as appear to it necessary to remedy or prevent the adverse effects specified in the report whilst having regard to the modifications specified therein and after giving due notice and consideration to any representations and objections.

If it appears to the CMA that the proposed modifications are not requisite for the purpose of remedying or preventing the adverse effects specified in its report, the CMA has the power to substitute its own modifications which are requisite for the purpose.

Under section 13 of the WIA, Ofwat is able to modify the conditions of a company's licence if the company agrees to the modification proposed by Ofwat. In the Water Act 2014, section 55 allows Ofwat to modify the conditions of Regulated Companies and licensees, within two years of the coming into force of the relevant provision of the Water Act 2014, where such modifications are considered necessary or expedient as a consequence of amendments made by the Water Act 2014.

In May 2018 in a consultation titled "Change of control – general policy and its application to Thames Water", Ofwat identified some areas of the financial ring fencing framework which can be strengthened. Oftwat intends to follow this up with a consultation on a more specific set of licence modifications to provisions currently found in Conditions F, K and P.

In July 2018, Ofwat launched a consultation under section 13 of the WIA on two proposed modifications of the licence conditions of 17 water companies, including YWS. The first proposed modification would prohibit water companies from showing undue preference towards or undue discrimination against themselves, other water companies (including NAVs), water supply and/or sewerage licensees or unlicensed third parties in relation to the provision of certain water and sewerage services. The second proposed modification would place restrictions on the circumstances in which water companies could externally disclose or internally use information they were provided with in relation to the submission of bids to provide certain services or agreements for the adoption of infrastructure.

In September 2018, Ofwat published a consultation under section 13 of the WIA on proposed modifications to simplify various conditions of all 17 water companies' licences. A large number of conditions are affected but the purpose of the modification is to improve the clarity of conditions and remove redundant aspects. The proposed modification does not aim to change any underlying purpose or requirement. The most significant changes are to Condition F (accounting information only) and Conditions G, H & I which are largely combined into a new Condition G. Conditions R1 and R2 are being deleted as they ceased to have effect.The CMA (and the Secretary of State in certain circumstances) also has, among others, the power to modify the conditions of the licence after an investigation under its merger or market investigation powers under the Enterprise Act if it concludes that matters investigated in relation to water or sewerage services broadly were anti-competitive or, in certain circumstances, against the public interest.

In November 2018, following a consultation in March 2018, Ofwat made three modifications to the standard licence conditions that apply to water supply licences and sewerage licences. Two of these modifications ensure that the standard licence conditions apply to sewerage only licences and licences limited to self-supply. The third modification provides that Ofwat may only request an additional certificate to the annual certificate of adequacy to be submitted by 1 April each year if there is a material change of circumstances not anticipated at the time the annual certificate was submitted.

Enforcement Powers

The general duties of Regulated Companies as water or wastewater undertakers are enforceable by the Secretary of State for the Environment or Ofwat or both. The conditions of the Instrument of Appointment (and other duties) are enforceable by Ofwat alone whilst other duties, including those relating to water quality, are enforceable by the DWI. Other duties, such as those in respect of water abstractions and discharges, are enforceable by the EA.

Where the Secretary of State (via the DWI) or Ofwat is satisfied that a Regulated Company is contravening, or has contravened and is likely to do so again, or is likely to contravene, a condition of its licence or a relevant statutory or other requirement, either the Secretary of State or Ofwat (whichever is the appropriate enforcement authority) must make a final enforcement order to secure compliance with that condition or requirement, save that, where it appears to the Secretary of State or Ofwat that it would be more appropriate to make a provisional enforcement order, that party may do so. In determining whether a provisional enforcement order should be made, the Secretary of State or Ofwat shall have regard to the extent to which any person is likely to sustain loss or damage as a consequence of such breach before a final enforcement order is made. The Secretary of State or Ofwat will confirm a provisional enforcement order if satisfied that the provision made by the order is needed to ensure compliance with the condition or requirement that has been breached. There are exemptions from the Secretary of State's and Ofwat's duty to make an Enforcement Order or to confirm a provisional enforcement order where:

- the contraventions were, or the apprehended contraventions are, of a trivial nature;
- the company has given, and is complying with, a Section 19 Undertaking to secure or facilitate compliance with the condition or requirement in question; or
- duties in the WIA preclude the making or confirmation of the order.

Section 19 Undertakings create obligations that are capable of direct enforcement under section 18 of the WIA. Accordingly, the main implication of a Regulated Company assuming such an undertaking is that any future breach of the specific commitments contained in the undertaking is enforceable in its own right (without the need for further grounding on general statutory or licence provisions).

The WIA also confers powers on Ofwat or the Secretary of State to impose financial penalties on Regulated Companies and the licensees introduced by the Water Act 2003. Ofwat and the Secretary of State have the power to fine such a company up to 10 per cent. (for each respective breach) of its turnover in the business year if it has failed or is continuing to fail to comply with its licence conditions, standards of performance or other obligations. The penalty must also be reasonable in all the circumstances. The time limit for imposing such financial penalties has recently been extended by the Water Act 2014 from 12 months to 5 years. A penalty may not be imposed later than five years from the contravention or failure except when a notice under section 22A(4) of the WIA (indicating the amount of the proposed penalty and the circumstances giving rise to a penalty) or under section 203(2) of the WIA (requiring the Regulated Company to provide information in relation to the contravention or failure) is served during that period. Where a final or provisional order has been made in respect of a contravention or failure, a penalty cannot be imposed unless a notice under section 22A(4) is served within 3 months of the final order or confirmation of the provisional order, or within 6 months of the provisional order if it is not confirmed.

As at the date of this Prospectus, neither Ofwat nor the Secretary of State has imposed any such financial penalties on YWS.

On the basis of a consultation launched in March 2016, Ofwat published an updated enforcement strategy in January 2017. Ofwat confirmed that its approach to enforcement is risk-based and aimed at securing companies' compliance with their licence and statutory obligations. Ofwat stated that although it is willing to use all powers vested in it under relevant legislation to secure compliance, where it finds that a company has breached its licence or a statutory obligation, it may consider not opening a formal enforcement case if the company has taken appropriate steps to provide redress to customers or it may start formal proceedings but agree to reduce the penalty.

Special Administration Orders

(a) Circumstances

The WIA contains provisions enabling the Secretary of State or Ofwat to secure the general continuity of water supply and wastewater services. In certain specified circumstances, the Court may, on the application of the Secretary of State or, with his consent, Ofwat, make a Special Administration Order in relation to a Regulated Company and appoint a Special Administrator. These circumstances include:

- where there has been, or is likely to be, a breach by a Regulated Company of its principal duties to supply water or provide wastewater services or of a final or confirmed provisional enforcement order and, in either case, the breach is serious enough to make it inappropriate for the Regulated Company to continue to hold its licence;
- where the Regulated Company is, or is likely to be, unable to pay its debts;
- where, in a case in which the Secretary of State has certified that it would be appropriate, but for section 25 of the WIA, for him to petition for the winding-up of the Regulated Company under section 124A of the Insolvency Act, it would be just and equitable, as mentioned in that section, for the Regulated Company to be wound up if it did not hold a licence; and
- where the Regulated Company is unable or unwilling to adequately participate in arrangements certified by the Secretary of State or Ofwat to be necessary by reason of, or in connection with, the appointment of a new Regulated Company upon termination or variation of the existing Regulated Company's licence.

In addition, on an application being made to Court, whether by the Regulated Company itself or by its directors, creditors or contributories, for the compulsory winding-up of the Regulated Company, the Court would not be entitled to make a winding-up order. However, if satisfied that it would be appropriate to make such an order if the Regulated Company were not a company holding a licence, the Court shall instead make a Special Administration Order.

(b) Special Administration Petition Period

During the period beginning with the presentation of the petition for Special Administration and ending with the making of a Special Administration Order or the dismissal of the petition (the "Special Administration Petition Period"), the Regulated Company may not be wound up, no steps may be taken to enforce any security except with the leave of the Court and, subject to such terms as the Court may impose, no other proceedings or other legal process may be commenced or continued against the Regulated Company or its property except with the leave of the Court.

Once a Special Administration Order has been made, any petition presented for the winding-up of the company will be dismissed and any receiver appointed, removed. Whilst a Special Administration Order is in force, those restrictions imposed during the Special Administration Petition Period continue with some modification: an administrative receiver can no longer be appointed (with or without the leave of the Court) and, in the case of certain actions which require the Court's leave, the consent of the Special Administrator is acceptable in its place. See the section "*Restrictions on the Enforcement of Security*" below.

(c) Special Administrator powers and the Transfer Scheme

Special Administrators have extensive powers similar to those of administrators under the Insolvency Act, but with certain important differences. They are appointed for the purposes of transferring to one or more different Regulated Companies as a going concern, so much of the business of the Regulated Company as is necessary to ensure the proper carrying out of its water supply or sewerage functions as the case may be and, pending the transfer, of carrying out those functions. During the period of the order, the Regulated Company is managed for the achievement of the purposes of the order and in a manner which protects the respective interests of members and creditors. However, the effect of other provisions of the WIA is ultimately to subordinate members' and creditors' rights to the achievement of the purposes of the Special Administration Order.

Were a Special Administration Order to be made, it is for the Special Administrator to agree the terms of the transfer on behalf of the existing appointee, subject to the provisions of the WIA. The Transfer Scheme may provide for the transfer of the property, rights and liabilities of the existing Regulated Company to the new Regulated Company(ies) and may also provide for the transfer of the existing Regulated Company's licence (with modifications as set out in the Transfer Scheme) to the new Regulated Company(ies). The powers of a Special Administrator include, as part of a Transfer Scheme, the ability to make modifications to the licence of the existing Regulated Company, subject to the approval of the Secretary of State or Ofwat, as well as the power to exercise any right the Regulated Company may have to seek a review by Ofwat of the Regulated Company's charges pursuant to an interim determination of a price limit or a Substantial Effects Clause. To take effect, the Transfer Scheme must be approved by the Secretary of State or Ofwat. In addition, the Secretary of State and Ofwat may modify a Transfer Scheme before approving it or at any time afterwards with the consent of the Special Administrator and each new Regulated Company.

The WIA also grants the Secretary of State, with the approval of Her Majesty's Treasury, the powers: (i) to make appropriate grants or loans to achieve the purposes of the Special Administration Order and to indemnify the Special Administrator against losses or damages sustained in connection with the carrying out of his functions; and (ii) to guarantee the payment of principal or interest and the discharge of any other financial obligations in connection with any borrowings of the Regulated Company subject to a Special Administration Order.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land except with the specific consent of, or in accordance with a general authorisation given by, the Secretary of State. A consent or authorisation may be given on such conditions as the Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge. Condition K of YWS's Instrument of Appointment sets a threshold of £1 million for requiring permission from Ofwat to dispose of Protected Land or £500,000 in respect of a disposal to an associated company. All land disposals are reported to Ofwat in the annual return.

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

- was transferred to a water and sewerage company (under the provisions of the Water Act 1989) on 1 September 1989, or was held by a water only company at any time during the financial year 1989/90;
- is, or has at any time on or after 1 September 1989 been, held by a company for purposes connected with the carrying out of its regulated water or wastewater functions; or
- has been transferred to a company in accordance with a scheme under Schedule 2 to the WIA from another company, in relation to which the land was Protected Land when the transferring company held an appointment as a water or sewerage undertaker.

Unless a specific consent is obtained from the Secretary of State, all disposals of Protected Land must comply with Condition K of the licences of the Regulated Companies. This condition seeks to ensure (i) that, in disposing of Protected Land, the Regulated Company retains sufficient rights and assets to enable a Special Administrator to run its business if a Special Administration Order was made (ii) that the best price is received from disposals of land. Where such proceeds were not taken into account when price limits were set, they are shared equally as between customers and shareholders. To this end there are certain procedures for and restrictions on the disposal of Protected Land and special rules apply to disposals by auction or formal tender and to disposals to certain associated companies. These include a restriction on the disposal (except with the consent of Ofwat) of Protected Land required for carrying out the Appointed Business. In addition, Ofwat can impose conditions on disposals of Protected Land including conditions relating to the manner in which the proceeds of a sale are to be used.

Given the purposes of the WIA (in particular, the purposes of the Special Administration regime and the restrictions on enforcement of security thereunder) and of Condition K of its licence, a Regulated Company would not expect to obtain the consent of the Secretary of State or Ofwat to the creation of any security over its Protected Land.

Security

Restrictions on the granting of Security

A Regulated Company's ability to grant security over its assets and the enforcement of such security are restricted by the provisions of the WIA and its licence. For example, the WIA and the licence restrict a Regulated Company's ability to dispose of Protected Land (as explained in the section "*Protected Land*" above). Accordingly, its licence restricts a Regulated Company's ability to create a charge or mortgage over Protected Land.

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

(a) to ensure, so far as is reasonably practicable, that if a Special Administration Order were made in respect of it, it would have sufficient rights and assets (other than financial resources) to enable the Special Administrator to manage its affairs, business and property so that the purpose of such an order could be achieved; and

(b) to act in the manner best calculated to ensure that it has adequate: (a) financial resources and facilities; and (b) management resources, to enable it to carry out its regulated activities.

These provisions have the indirect effect of further limiting the ability of a Regulated Company to grant security over its assets, in particular assets required for carrying out the Appointed Business, and by limiting in practice the ability to enforce such security.

Restrictions on the enforcement of Security

Under the WIA, the enforcement of security given by a Regulated Company in respect of its assets is prohibited unless the person enforcing the security has first given 14 days' notice to both the Secretary of State and Ofwat. If a petition for Special Administration has been presented, leave of the Court is required before such security is enforceable or any administrative receiver can be appointed (or, if an administrative receiver has been appointed between the expiry of the required notice period and presentation of the petition, before the administrative receiver can continue to carry out his functions). These restrictions continue once a Special Administration Order is in force with some modification (see the section "*Special Administration Orders*" above).

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

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

Within three months of the making of a Special Administration Order or such longer period as the Court may allow, the Special Administrator must send a copy of his proposals for achieving the purposes of the order to, *inter alios*, the Secretary of State, Ofwat and the creditors of the company. The creditors' approval of the Special Administrator's proposal is not required at any specially convened meeting (unlike in the conduct of a conventional administration under the Insolvency Act). The interests of creditors and members in a Special Administration are still capable of being protected since they have the right to apply to the Court if they consider that their interests are being prejudiced. Such an application may be made by the creditors or members by petition for an order on a number of grounds, including either: (i) that the Regulated Company's affairs, business and property are being or have been managed by the Special Administrator in a manner which is unfairly prejudicial to the interests of its creditors or members; or (ii) that any actual or proposed act of the Special Administrator is or would be prejudicial. Except as mentioned below, the Court may make such order as it thinks fit, and any order made by the Court may include an order to require the Special Administrator to refrain from doing or continuing an act about which there has been a complaint. The exception referred to above is that the Court may not make an order which would prejudice or prevent the achievement of the purposes of the Special Administration Order.

Enforcement of Security over Shares in Regulated Companies

Under the WIA, the enforcement of security over, and the subsequent sale of, directly or indirectly, the shares in a Regulated Company would not be subject to the restrictions described above in relation to the security over a Regulated Company's business and assets. Notwithstanding this, given Ofwat's general duties under the WIA to exercise and perform its powers and duties, *among other things*, to ensure that the functions of a Regulated Company are properly carried out, the expectation is that any intended enforcement, either directly or indirectly, of security over, and subsequently any planned disposal of, the shares in a Regulated Company to a third party purchaser would require consultation with Ofwat. In addition, depending on the circumstances, the merger control provisions could apply in respect of any such disposal.

Economic Regulation

Overview

Economic regulation of the water industry in England and Wales has been based on a system of five-year single price caps imposed on the amounts which a Regulated Company can charge to its customers. This was replaced with effect from 1 April 2015 with a system of four (three for water-only companies) price limits covering water operations, wastewater operations, retail household and retail non-household. The system retains its incentive based properties and each price limit will operate for five years as with the previous regime, with the exception of retail non-household. The general features of each of the Ofwat's determinations are described further below. YWS specific information relating to the 2014 Final Determination is set out in Chapter 5 "*Description of the YW Financing Group*".

The next price review is currently in preparation and will run from 1 April 2020 to 31 March 2025. The 2019 Final Determination (to be published in December 2019) will set out price controls, service commitments and the wider incentive framework for six separate binding controls: water resources; water network plus; wastewater network plus; bioresources; residential retail; and business retail. Ofwat decided in its Final Methodology for the 2019 Price Review (December 2017) to revert to a five-year price control for business retail activities.

Key features of the AMP6 price limit framework

A key feature of the AMP6 price limit framework is Ofwat's ambition to set allowances independently of companies' Business Plans based on economic models of the costs of an efficient water company. This places the onus on companies to manage their business in such a way that is sustainable over the long term. Ofwat is moving to an 'outcome based' regulatory model and hence has put in place outcomes, commitments and ODIs which affect all price limits. These have been developed during the price review for each price limit following extensive customer engagement and review by Ofwat. The outcomes apply at the Regulated Company and describe the outcomes that customers wish to be delivered. The YWS outcomes are set out in Chapter 5 "*Description of the YW Financing Group*".

For each outcome a series of appropriate commitments are established that set out the levels of performance that will be targeted in the current price limit period. To incentivise delivery of these commitments, ODIs, either financial or reputational, are developed for each commitment. Where financial incentives apply, the unit rate of reward or penalty, and the bands in which the incentive applies, are also established. Companies will report on their performance against all incentives (financial and non-financial) on an annual basis.

In addition to the company-specific ODIs, Ofwat has retained in AMP6 the industry wide Service Incentive Mechanism that was introduced in AMP5. However, Ofwat has made a number of modifications to the AMP5 scheme. The main change is that the weighting of the qualitative score has been increased to 75 per cent. (from 50 per cent.) and the weighting of the quantitative score has consequently decreased to 25 per cent. (from 50 per cent).

Wholesale price limits

The two wholesale controls – water and wastewater – share a number of common features which are described below.

K factor: The wholesale controls are revenue caps with the amount of revenue that can be collected, in each control, limited to the previous year's revenue cap increased by the sum of the percentage movement in the RPI plus K, a company and price limit specific adjustment factor.

More specifically the wholesale price limit shall consist of, in each charging year:

- the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Retail Prices Index between the published for the month of November in the prior year and that published for the immediately preceding November; and
- a number, "K", which may be a positive number or a negative number or zero

which together shall be expressed as a percentage, and which shall limit the change in the revenue allowed to the Appointed Business in each charging year in respect of the wholesale activities concerned.

For the purpose of this price limit, the revenue in respect of the wholesale activities concerned includes capital contributions such as cash receipts from connection and infrastructure charges (including requisitions and self-lay).

For each charging year starting on or after 1 April 2016 the revenue allowed to the Appointed Business in respect of the wholesale activities concerned will be the produce of the following formula:

Rt = Rt-1 x (1 + (RPI + Kt)/100)

Where:

Rt = Revenue allowed to the Appointed Business in charging year;

Rt-1 = Revenue allowed to the Appointed Business in the prior year;

RPI + Kt = a number which is the sum of:

(i) the percentage change (expressed, in the case of an increase, as a positive number, in the case of a decrease, as a negative number, and, in the case of no change, as zero) in the Retail Prices Index between that published for the month of November in the prior year and that published for the immediately preceding November; and

(ii) a number, "Kt" for charging year t, which may be a positive number or a negative number or zero.

Specific values for YWS for price limits for years 2015 to 2020 are set out in Chapter 5 "*Description of the YW Financing Group*".

Regulatory Capital Value: Under the methodology developed by Ofwat, the regulatory capital value (RCV) of Regulated Companies is a critical parameter in the calculation of the wholesale price limits set at Periodic Reviews. It represents the value of the capital base of the relevant price limit for the purposes of calculating the return on the capital element of the determination of K. The value of the regulatory capital value to investors and lenders is protected against inflation by adjusting the value each year by RPI. In addition, Ofwat's projections of regulatory capital value take account of the assumed net RCV additions in each year of a Periodic Review Period which are a function of the total expenditure over the period and the pay-as-you-go ("PAYG") ratio. The PAYG ratio is established for each price limit in the Final Determination and reflects the proportion of total expenditure that is remunerated in the current price limit period the remaining non-PAYG totex added to the RCV to be remunerated in future periods. The remuneration of the RCV occurs through the RCV run-off, where the RCV is reduced by the RCV run-off that is included within the revenue cap.

Totex Menu: The totex menu is a mechanism that provides an incentive on Regulated Companies to reduce their wholesale costs and improve efficiency. Companies make a choice for each of their wholesale controls, following the Final Determination using the menu published by Ofwat, that determines three factors – the level of allowed expenditure, the level of additional income and a totex sharing rate. These factors operate together to provide an incentive to maximise totex efficiency. The menu choice is essentially the ratio of expected expenditure over the price limit period to Ofwat's estimated baseline expenditure. Once this choice is made the published menu will determine the level of allowed expenditure as the 25:75 interpolation between the two, the level of additional income and the totex sharing rate (the proportion of any over or under spend of totex that is shared with customers). The Final Determination includes an implied menu choice and so the menu choice does not affect revenues during the following AMP. Instead adjustments are made, as appropriate, in the adjustments that flow into the next price limit.

Wholesale Revenue Forecasting Incentive Mechanism ("WRFIM"): Ofwat has introduced a WRFIM, which replaces the previous revenue correction mechanism and provides an incentive to set tariffs so as to closely recover the allowed revenue whilst also providing a protection mechanism so that any over or under recovery of revenue can be carried forward to the next year. The WRFIM allows a deadband where revenue forecasting errors of between + 2 per cent. of allowed revenue attract no penalties. Should forecasting errors exceed 2 per cent., a penalty interest rate is applied to the amount of the error and this interest charge will be deducted from allowed revenue at the price review in 2019. In the case where forecasting errors exceeded 6 per cent. of allowed revenue, YWS would have to furnish an explanation to Ofwat in addition to incurring the penalty interest rate charge.

Retail Household Price Limit

The retail household control is materially different in structure to the wholesale controls. The retail household control does not have an RCV or K factor, and is not indexed to RPI. Instead the control is based on an overall average cost to serve limit, which is a weighted average of the average cost to serve for a number of customer types i.e. meter or unmetered and whether water, wastewater or both. The limit is set for each year of the control and is set in nominal terms.

Retail Non-Household Price Limit

The retail non-household control is different to both the wholesale control and the retail household control. It does not contain an RCV or K factor, and is not indexed to RPI. It also does not have an overall limit on average prices. Instead the control consists of limits on the average revenue allowed in each year for specific customer types. These limits are added to the wholesale charges to provide default tariffs, which are the maximum that can be charged for each customer type, which vary according to customer volumes, in three volume bands. Prices for customers falling within the low volume band (0-5 megalitre per year, Ml/y) will continue to be regulated with default tariffs. Prices for customers in the higher volume bands (5-50 Ml/y and 50+ Ml/y) will be subject to gross margin caps. As the only appointee that has not exited the non-household retail market, YWS is the only company that has submitted a PR19 business plan to set default tariffs for its business customers for 2020 to 2025. In accordance with Ofwat's final PR19 methodology, the revenues for this price control have been determined by effectively rolling forward the prices set at PR16 with adjustments for input price inflation and with the allowed increases in the gross margin caps for the larger customer groups. The default tariff-setting process for customers of other companies who have exited the market and transferred their customers to a licensee (WSSL) retailer is outside the PR19 process, and is governed by a different process defined in the Retail Exit Code ("REC").

Restrictions on the charging

Under the WIA, Regulated Companies must charge for water supplied, or sewerage services provided, to dwellings in accordance with a charges scheme and must comply with any requirements prescribed by the

Secretary of State. Regulated Companies are prohibited from disconnecting dwellings and certain other premises for non-payment of charges for water supply.

Bulk Supply and special agreement charges

Bulk supplies, special agreements and access prices are special price terms that fall outside the standard tariffs that are outlined in our YWS's schemes.

Bulk supplies are a supply of water (potable or non-potable) and/or sewerage services from one appointed company to another. They can be from:

- an incumbent water undertaker to another incumbent undertaker (also referred to as a "bulk transfer" or "water trade"); or
- an incumbent undertaker to an appointee under a new appointment and variation (NAV) arrangement that serves a new development or large non-household user (a NAV is also referred to as an inset appointment).

Special agreements are made between non-household customers and a supplier where the relevant large user tariff is not in place. These include trade effluent agreements.

Where a party applies to Ofwat for the bulk supply to be made or determined, Ofwat may order a supplier to enter into a bulk water supply agreement, under such terms and conditions as Ofwat specifies. Ofwat can only make an order if it is satisfied that the bulk supply is necessary for securing the efficient use of water resources and where it is satisfied that the parties are unable to come to any agreement themselves.

Interim Determination of a Price Limit

Under certain circumstances both the Regulated Company and Ofwat have the opportunity to apply for an interim determination between Periodic Reviews. An application for an interim determination can be made in respect of the following:

(a) Notified Item

The terms of what items and costs are reasonably recoverable (including thresholds for triviality and materiality) are set out in detail in Condition B of the regulated company's licence.

A Notified Item is any item formally notified by Ofwat to the Regulated Company as not having been allowed for (either in full or at all) in determining a price limit. Ofwat only provided for one general notified item in the determination of price limits for the Regulated Companies in the AMP6 Period, which was to allow for increases in wholesale water business rates following the 2017 revaluation.

(b) Relevant Changes of Circumstance

Relevant Changes of Circumstance are defined in the licences. Such changes include:

(i) the application to the Regulated Company of any new or changed legal requirement including any legal requirement ceasing to apply, being withdrawn or not being renewed (to the extent that the legal requirement applies to the Regulated Company in its capacity as a water or wastewater undertaker);

(ii) any difference in value between actual or anticipated proceeds of disposals of Protected Land and those allowed for at the last Periodic Review or interim determination; and

(iii) where, on an interim determination of a price limit, allowance has been made for taking steps to secure compliance or facilitate compliance with a legal requirement or achieve a service standard and the Regulated Company has failed to take those steps and (a) as a result, failed to spend the full amount which it was assumed would be spent taking into account savings which may have been achieved by prudent management and (b) the stated purpose has not otherwise been achieved.

(c) Substantial Effects Clause

In addition, under the Substantial Effects Clause in the licence of a Regulated Company, the Regulated Company or Ofwat is permitted to request price limits to be reset if its Appointed Business either: (i) suffers a substantial adverse effect which could not have been avoided by prudent management action; or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action. For this purpose, the financial impact is calculated in the same way as for the materiality threshold above except that the 10 per cent. materiality threshold is replaced by a 20 per cent. materiality threshold. YWS has a Substantial Effects Clause in its Instrument of Appointment.

Ofwat can respond to applications for interim determinations by other Regulated Companies such as YWS by considering the substantial favourable effects mechanism.

Changes to Indexation

For PR19, Ofwat announced a move from RPI to CPIH indexation of prices because RPI is a more volatile measure of inflation than CPIH. CPIH indexation will apply to 100 per cent. of revenue from the beginning of AMP7 (1 April 2020). From the beginning of AMP7, CPIH indexation will apply to 50 per cent. of the existing RCV at 1 April 2020 plus all new RCV additions from then onwards. The remaining 50 per cent. of the RCV at 1 April 2020 will continue to be indexed to RPI. To accommodate the use of different price indices, Ofwat has calculated a nominal WACC, which is then converted into a RPI stripped WACC and CPIH stripped WACC which are then applied to the two different elements of RCV that are indexed to RPI and CPIH respectively to determine the return on RCV element of revenue: (i) a real RPI stripped WACC (2.3 per cent) is applied to the RPI indexed part of the RCV, and (ii) a real CPIH stripped WACC (3.3 per cent) is applied to the CPIH indexed part of the RCV

References to the CMA

If Ofwat fails within specified periods to make a determination at a Periodic Review or in respect of an interim determination or if the Regulated Company disputes its determination, the Regulated Company can require Ofwat to refer the matter to the CMA for determination by it after making an investigation. The CMA must make its determination in accordance with any regulations made by the Secretary of State and with the principles which apply, by virtue of the WIA, in relation to determinations made by Ofwat. The decisions of the CMA are binding on Ofwat.

Financial Structure Monitoring Regime

During 2015 Ofwat introduced a "financial structure monitoring regime". The purpose of the framework is to enhance visibility and transparency of financial and capital structures in the sector, assess industry financial resilience and the risks to customers posed by companies' financial structures, and identify financial, structural and systemic risk which may impact on service delivery over time and prove harmful to customers. Ultimately, Ofwat can use the framework to identify whether it would be appropriate to intervene in the interests of customers.

PR14 Reconciliation Rulebook

On 4 October 2016, Ofwat issued its final amended reconciliation rulebook, which forms part of the price review process which concluded in December 2014. The reconciliation rulebook sets out how Ofwat proposes to reconcile incentives which were set as part of the 2014 Final Determination, and reconcile company performance at the price review in 2019. The rulebook also sets out the reconciliation approach to those factors not reconciled from the 2009 price review.

The rulebook includes provisions as to how Ofwat will manage:

- ODIs, which provide companies with rewards for achieving stretching performance targets and compensate customers if performance is below performance targets;
- wholesale total expenditure (totex) sharing, where company over performance- and underperformance is shared with customers;
- wholesale revenue forecasting incentive mechanism, which provides financial incentives for companies to provide accurate forecasts, and ensures underrecovery and overrecovery is reconciled;
- PR09 reconciliation (capital incentive scheme, blind year adjustments); and
- household retail, where the total revenue allowance is adjusted for actual customer numbers.

PR19

Ofwat's final determination for PR19 will set out Regulated Companies' price controls, service commitments and the wider incentive framework for six separate binding controls: water resources; water network plus; wastewater network plus; bioresources; residential retail; and business retail. The price controls under PR19 will apply from 1 April 2020 until 31 March 2025.

Ofwat published its final methodology for determining price controls under PR19 in December 2017 (subject to any subsequent amendments and clarifications). Under Ofwat's timetable for PR19, Regulated Companies must submit business plans for the period 2020–2025 with Ofwat reaching its final determination for the price controls for each Regulated Company by December 2019.

There are a number of themes and building blocks that are common across the price controls under PR19, including the assessment of efficient costs and customer engagement, as well as the specification of outcomes that will be delivered for customers and the environment. Regulatory Capital Value (RCV): Under PR19, the regulatory capital value of Regulated Companies will remain an important parameter underlying price controls set at Periodic Reviews. Under PR19, the indexation of RCV will switch, in part, from RPI to CPIH. CPIH will apply to 50 per cent. of the existing RCV from the beginning of AMP7, as well as to all new RCV additions from then onwards. The remaining part of the RCV from 2020 will continue to be indexed to RPI.

Initial assessment of business plans: Ofwat will conduct an initial assessment of the Regulated Companies' business plans, against nine test areas (engaging customers; addressing affordability and vulnerability; delivering outcomes for customers; securing long-term resilience; targeted controls, markets and innovation; securing cost efficiency; aligning risk and return; accounting for past delivery; and securing confidence and assurance) and three key characteristics (quality, ambition, and innovation) and will categorise Regulated Companies' business plans into four categories (significant scrutiny, slow-track, fast-track, or exceptional).

Regulated Companies with exceptional and fast-track business plans will receive a permitted financial uplift over the price review period. For both categories, the Regulated Companies will decide whether to take the incentive payment as additional revenue or as an uplift to their RCV. In either case, Regulated Companies will need to decide how to split this reward between the water network plus, water resources and, where relevant, wastewater network plus price controls. Regulated Companies whose plans are assessed to need significant scrutiny will be subject to financial penalties over the PR19 price review period.

Adjustments to revenue to reflect performance: The PR19 price control methodology will also introduce a revised system for incentivising performance service by YWS. The ODIs will encourage YWS to meet its performance commitments, rewarding the company if it exceeds its commitment and penalising it if it fails to achieve them. Ofwat has set an expectation that Regulated Companies' ODI proposals will drive an expected range of ODI out/underperformance of ±1-3 per cent. of return on regulated equity ("RoRE") (from PR14 level of ±1 per cent. to ±2 per cent.). This range is not capped, but Ofwat expects Regulated Companies to propose approaches to protect customers in case their ODI payments turn out to be much higher than their expected RoRE range.

Initial submission of business plan: YWS submitted its draft business plan to Ofwat on 3 September 2018. YWS's Board has been integral to the development of the PR19 plan and own the delivery of the plan. The plan is based on understanding of the needs and wants of customers and stakeholders, including the duties and responsibilities that YWS must meet.

YWS has reinvested about £230 million to kick start the PR19 plan for leakage, supply interruptions, internal sewer flooding and pollution incidents. The plan for 2020-25 regulatory period includes a commitment from 2018 to:

- reduce leakage by 40 per cent;
- reduce internal sewer flooding by 70 per cent;
- reduce pollution incidents by more than 50 per cent; and
- reduce interruptions to supply from 7 minutes to 2 minutes or less.

Environmental Regulation

Principal UK Law

The water industry is subject to numerous regulatory requirements concerning human health and safety and the protection of the environment. Non-compliance with many of these requirements may potentially constitute a criminal offence.

The issuance and subsequent application of these guidelines by the courts has led to increases in record fines for large utility companies (including water companies) in the UK over the past four years. This has in turn driven an increased focus on compliance with environmental laws and environmental permit conditions. It has also increased focus on environmental compliance issues at a senior management and boardroom level.

Despite the above, the Regulatory Enforcement and Sanctions Act 2008 (as amended) ("RESA") allows the Secretary of State to confer powers on the regulators to impose civil penalties (such as fixed monetary penalties) on businesses as an alternative to criminal prosecution in relation to a number of environmental offences. Through the Environmental Civil Sanctions (England) Order 2010 the Secretary of State conferred these powers on the EA. One particularly common sanction is the use of enforcement undertakings, which is a voluntary agreement offered by entities which have committed an environmental offence. The undertaking contains measures to restore any environmental harm done as well as steps to make sure of future compliance. Whilst the risk that adverse publicity related to court hearings may therefore be lessened, the EA will be required to publish details of any sanctions imposed. According to the 2017 summary of the water and seweage companies' performance, published by the EA in July 2018, the EA launched 16 prosecution cases and accepted 15 enforcement undertakings in 2017.

The EA, in its report on "The state of the environment: water quality" dated February 2018, expressed its view that there "are still far too many serious pollution incidents" in the UK. Its ambition is to create a cleaner, healthier and better managed water environment. As part of this strategy, the EA's expectation is that water companies continue to reduce pollution incidents from sewer systems and sewage treatment works.

Environmental Permitting Regime

The Environmental Permitting (England and Wales) Regulations 2016 (the "**Environmental Permitting Regime**") came into force on 1 January 2017. The Environmental Permitting Regime states that operators require an environmental permit in order to operate a regulated facility or cause or knowingly permit a water discharge activity or groundwater activity.

Under the Environmental Permitting Regime, it is a criminal offence for a person to cause or knowingly permit any poisonous, noxious or polluting matter or trade or sewage effluent to enter controlled waters (including most rivers and other inland and coastal waters) other than in accordance with the terms of an environmental permit.

Abstraction Licensing

As noted above, YWS is dependent on abstraction licences issued by the EA to enable it to abstract water from surface and groundwater.

Under the Water Resources Act 1991 ("**WRA**"), water abstractions must be carried out in accordance with a licence granted by the EA. It is a criminal offence to abstract water without a licence or in breach of the conditions of an abstraction licence. The maximum penalty is an unlimited fine. Existing abstraction licences may be revoked or varied where the Secretary of State believes that revocation or variation is necessary to protect any waters or underground strata, any flora and fauna dependent on them, from serious damage and as from 15 July 2012, such variations and revocations can be made without compensation being payable.

Water Abstraction Reform

The UK Government has raised concerns about the UK's current approach to managing water abstraction. Specifically, it has raised concerns about older abstraction licences which allow abstraction which may cause damage to the environment, the fact that the current regulatory regime is not flexible enough to cope with increasing demand and pressures from climate change, and the outdated, paper-based nature of the abstraction service. In January 2016, DEFRA published the Government response to its consultations on water abstraction reform. The proposals, which will not be implemented until 2020 at the earliest, include the incorporation of the water abstraction regime into the environmental permitting regime set out in the Environmental Permitting Regime. The headline objectives of these reforms are to:

(a) improve flexibility to address short-term water availability issues; and

(b) improve long-term sustainable management supporting growth and investment.

On 29 May 2018, DEFRA published its water abstraction plan which sets out its approach to managing water abstraction going forwards. The plan is centred around three key pillars:

(a) making full use of existing regulatory powers to address unsustainable abstraction. Specifically, the EA will use its powers to amend abstraction licences, commencing with changes to those licences which have the greatest impact. The aim is to be in a position to ensure 90% of surface water bodies and 75% of groundwater bodies achieve DEFRA's water abstraction sustainability standards by 2021;

(b) develop a stronger catchment focus, which will ensure sufficient protection from unsustainable abstraction in key catchment areas; and

(c) supporting reform to water abstraction regulation by modernising the abstraction system.

Principal EU Law

The activities of Regulated Companies are affected by the requirements of EU Directives which provide a common framework for stewardship of the environment and social considerations, and legislation and regulation at the national and local level. The European Court of Justice (the "ECJ") has held that EU law has priority over national law. EU Directives are known as secondary law. They are binding as to the results to be achieved, but the means of implementation and transposition into national laws are a matter for each EU Member State. Such EU Directives include the Water Framework Directive (2000/60/EC) (the "Water Framework Directive"), the Urban Waste Water Treatment Directive (91/271/EEC) (the "UWWTD") and the Industrial Emissions Directive (2010/75/EU) (the "IED") which are discussed below. Despite the result of the June 2016 referendum, until any of the following EU directives are repealed or the UK formally leaves the EU, having undergone the process set out in Article 50 of the Treaty of Rome, EU law remains in full force and effect in the UK.

Water Framework Directive

The Water Framework Directive rationalises existing EU water legislation to provide a framework for the protection and improvement of ground, inland and coastal waters and to promote sustainable water consumption. The Water Framework Directive was transposed into English and Welsh law by the Water Environment (Water Framework Directive) (England and Wales) Regulations 2003 which came into force on 2 January 2004. The Water Framework Directive is set out over three 'six year' planning cycles, the first of which commenced in December 2009 and the updated plan was adopted in December 2015. The plans (River Basin Management Plans) include lists of measures that Regulated Companies and other parties and sectors will need to protect and improve the quality of our water environment.

The EA is responsible for monitoring and reporting on the objectives of the Water Framework Directive on behalf of government. The EA will work with Ofwat, local government, non-governmental organisations (NGOs) and a wide range of other stakeholders including local businesses, water companies, industry and farmers in order to achieve the objectives under the Water Framework Directive.

There are 11 river basin districts ("RBDs") in England and Wales. The Environment Agency manages the 7 RBDs in England. A RBD covers an entire river system, including river, lake, groundwater, estuarine and coastal water bodies. All of YWS's activities fall within the Humber Basin and the Humber River Basin Management Plan, (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500465/Humber_RBD_Part_1_river_basin_management_plan.pdf).

Specific measures to deliver the Water Framework Directive have been agreed with the EA through the Periodic Review process for 2015-20 and the final River Basin Management Plans published in February 2016. The YWS measure included both delivery schemes and investigation to understand the company's impact to inform future price reviews. Schemes were progressed where there was a need clearly attributed to the company and where there were effective, technically feasible and cost beneficial solutions.

Across England and Wales, water companies will be investing £3.5 billion in environmental improvements between 2015 and 2020. This equates to, when forecast over a 37-year period, a total of approximately £520 million being invested in the Humber River Basin District.

Significant investment will go into addressing point source impacts from sewage treatment works and discharges from the sewer network. This will reduce pollutants such as ammonia and nutrients that disturb the natural ecological balance of water bodies and cause excessive growth of vegetation and algae.

Further investment will deal with abstraction and flow pressures. This includes reducing the amount of water that can be taken or measures to enhance habitants to compensate for damage caused by abstraction.

Habitat improvement schemes are planned to reduce the impact of physical modifications caused by water company operations and action is planned to deal with invasive non-native species on water company land. Further measures will lead to water intakes to be screened to prevent eels and other fish from being drawn out of the river into drinking water treatment works.

There are some catchment and habitat improvement schemes, including measures to reduce pesticide pollution of drinking water.

Overall the WFD is expected to have a significant impact on Regulated Companies in the longer term as knowledge and data improve. For example, it may result in increased limitations on abstraction licences and a restriction on discharge consents, particularly in terms of additional stringent consent limits for trace chemicals, such as pharmaceutical residues, that are not easily or adequately removed by current treatment processes. This could cause Regulated Companies to incur material expenditure.

The EA introduced the concept of managing uncertainty as part of the development of the National Environment Programme (NEP) in PR14. The main purpose of the approach was to take account of the timeline differences between the water industry PR14 and river basin management planning for the Water Framework Directive ("WFD"). This will be developed further in PR19 to provide sufficient information to water companies on the scope and scale of likely action required to meet WFD status objectives, at a catchment level, to enable them to make informed cost allowance within business plans

To comply with the Water Framework Directive, Member States should have ensured that all their waters achieve at least "good status" or "good ecological potential" by 2015, or, on the grounds that achieving a "good status" is either disproportionately costly or technically unfeasible, set out alternative standards and or a timetable for the achievement of these by no later than 2027. Current achievement (around 20 per cent. of water bodies) and a modest programme for 2015-20 implies, if not long-term non-compliance for the UK, then either a substantial relaxation of objectives or a massive investment programme starting 2020 for the relevant sectors.

Industrial Emissions Directive and H4 Odour Guidance

The Industrial Emissions Directive ("IED") came into force on 6 January 2011 and has been implemented through the Environmental Permitting Regulations regime in England and Wales. To date the Government has continued with its view that anaerobic digestion plants with a capacity of less than 100 tonnes of waste per day at waste water treatment works are exempt from IED. If this approach were to change, then it is probable that anaerobic digestion plants would require a bespoke Environmental Permit, with attendant cost and additional requirements.

Even if anaerobic digestion plants are not subject to elevated requirements under the IED, it is possible that they could be regulated as a waste operation. Although sewage treatment is excluded, anaerobic digestion may be viewed by the EA as a separate 'waste' activity and therefore captured under general waste legislation, again requiring a bespoke permit. The H4 guidance introduces, in any event more stringent odour requirements and management plans for existing sites that have Environmental Permits). Under the H4 guidance, operators of sites with Environmental Permits are required to assess the level of odour emanating from their sites based on their frequency, intensity and duration, as well as the sensitivity of receptors. On the basis of such assessment, an operator must implement control measures to minimise the odour and suggested control measures are set out in the guidance. If the odour levels are unreasonable (despite having used appropriate measures), further action may be required or the operator may be required to cease operations.

Floods Directive

In September 2007, Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks ("EU Floods Directive") was adopted by the European Council. The aim of the EU Floods Directive is to reduce and manage the risks that floods pose to human health, the environment, cultural heritage and economic activity. The EU Floods Directive required Member States to first carry out a preliminary flood risk assessment by 2011 to identify areas at risk of flooding. For such areas they would then need to draw up flood risk maps by 2013 and establish flood risk management plans focused on prevention, protection and preparedness by 2015. In March 2016, the EA published flood risk management plans for the 11 river basin districts wholly or mainly in England. The EU Floods Directive applies to inland waters as well as all coastal waters across the whole territory of the EU. The EU Floods Directive shall be carried out in coordination with the Water Framework Directive, notably by flood risk management plans and river basin management plans being coordinated, and through coordination of the public participation procedures in the preparation of these plans. All assessments, maps and plans prepared shall be made available to the public.

The EU Floods Directive was enacted into UK law through the Flood Risk Regulations 2009 and the Flood and Water Management Act 2010 ("FWMA"). The key areas within the FWMA are the requirement for the Environment Agency to create a National Flood and Coastal Erosion Risk Management Strategy, which a number of organisations will have to follow; the requirement for leading local flood authorities to create local flood risk management strategies; the facilitation of the Environment Agency and local authorities to carry out flood risk management works; the introduction of a more risk-based approach to reservoir management; changes to the arrangements that would apply should a water company go into administration; an increased ability for water companies to control non-essential uses of water, such as the use of hosepipes; an ability for water companies to offer concessions to community groups for surface water drainage charges; the requirement to use sustainable drainage systems in certain new developments, and the introduction of a mandatory building standard for sewers.

Priority Substances Directive

The Priority Substances Directive 2008/105/EC (the "Environmental Quality Standards Directive"), which is a daughter directive of the Water Framework Directive, sets environmental quality standards for the substances in surface waters (rivers, lakes, transitional and coastal). This directive was subsequently amended by Directive 2013/39/EU to include additional parameters. These were transposed in English law by the Water Environment (Water Framework Directive) (England and Wales) (Amendment) Regulations 2015, which came into force on 14 September 2015. It continues to represent a compliance (and hence investment) risk in that full compliance might only be achieved by the installation of the equivalent of drinking water treatment at the sewage treatment works. One specific requirement of the new regulations, stated in the new Regulation 10A, is the need for laboratories to develop and demonstrate technical capability to measure the compounds recently added to the priority substances list by December 2018. This is required to enable the continuation of water quality monitoring

The extent of potential investment is further complicated by the proposed revision of the Environmental Quality Standards Directive. If the revisions as currently proposed are adopted, it will potentially represent a step change in investment needs, as some of the parameters it seeks to regulate are pharmaceutical residues. There is no clear means to regulate these substances before disposal to sewer and hence if they require removal, the only option is to do so by treatment at the sewage treatment works. However, conventional treatment processes are insufficient to ensure adequate removal and additional processes – in essence, those used to produce potable water – will need to be deployed.

Competition in the Water Industry

General

Each Regulated Company currently effectively holds a geographic monopoly within its appointed area for the provision of water operations and sewerage services although there is some limited competition. Ofwat has stated that it will use its powers under the Competition Act to investigate and prohibit anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry.

Ofwat has a duty to consider whether the exercise of its powers under the Competition Act is more appropriate before using its powers under the WIA to promote competition.

The current main methods for introducing competition are:

(i) since 1 April 2017, all non-household customers are able to choose their water and/or sewerage supplier;

(ii) new appointments and variations (NAVs) - where one company can replace another as the statutory undertaker for water and/or sewerage services in a specified geographical area within the other Regulated Company's appointed territory. A NAV can be granted to a company seeking to provide water and/or sewerage services on an unserved site, or in respect of a site with water and/or sewerage services within an existing Regulated Company's area where at least 50 megalitres of water are supplied or likely to be supplied to particular premises wholly or mainly in England in any 12 month period or where the incumbent Regulated Company consents to the variation. The NAV mechanism continues alongside the regime for licensing new entrants under the Water Act 2014;

(iii) facilitating developers, or their contractors, to provide new water mains and service pipes instead of asking Regulated Companies to do the work ("self-lay"). The Water Act 2003 introduced a statutory framework for self-lay (see below);

(iv) water supply licence (retail) - the Water Act 2003 introduced a statutory framework to a water supply licensee to purchase wholesale water from the existing water undertaker and supply this water to a premises (i.e. premises that currently uses at least 5 megalitres per annum);

(v) water supply licence (combined) - the Water Act 2003 introduced a statutory framework to allow water supply licensees to introduce water into the undertaker's supply system in order to supply water to its customer's eligible premises (also known as "common carriage"). All Regulated Companies maintain network access codes[1] which set out the conditions, including indicative access prices, under which licensees may introduce water into their networks. A water supply licensee may challenge the terms of access, in particular access prices to the Regulated Company's network under the Competition Act;

(vi) cross-border supplies (raw/treated water and sewage/bio-resource) where a customer in an area adjacent to a neighbouring Regulated Company's territory can connect to another Regulated Company's network and receive a supply;

(vii) private suppliers or private sewers including on-site water and effluent treatment; and

(viii) Competition Act – Ofwat has concurrent powers with the CMA to apply UK/EU competition law on anti-competitive practices and abuses of a dominant position to ensure a level playing field in the industry. In March 2017, Ofwat published guidance on its approach to applying the Competition Act and the corresponding provisions in Articles 101 and 102 of the Treaty on the Functioning of the European Union in the water and wastewater sector in England and Wales; and

(ix) from 2020, emerging markets in water resources, bio-resoruces, leakage detection and demand management.

The Water Act 2014 allowed the Secretary of State to repeal the 5 megalitre minimum threshold which applies to water supply licences for non-household supplies in England. The Government exercised its discretion to do

[1] From 1 April 2017 onwards, there appears to be a new "Condition S", which removed the current obligations on companies to have an access code in relation to the retail water supply market, but retains the current obligations to have an access code in relation to the wholesale water supply market: https://www.ofwat.gov.uk/wp-content/uploads/2017/04/Notice-of-Reasons-Condition-S-mods.pdf

so as part of new water and wastewater retail market arrangements enabled by the Water Act 2014. As a result, all eligible non-household customers, irrespective of their consumption level, are able to choose their preferred water supplier as of April 2017.

Water Act 2014

The Water Act 2014 aims to implement the legislative changes to strengthen the water sector's ability to respond to the challenges of a growing population. It also aims to offer consumers more choice by enabling them to easily switch water and sewerage suppliers through the removal of existing regulatory barriers for new entrants to the market.

The Water Act 2014 is intended to modernise Ofwat's regulatory powers to allow it to continue to regulate the industry in the interests of consumers. It will extend the scope of the Environmental Permitting regime (overseen by the EA) to include water abstraction and impounding licences, and to align the frequency of drought planning to a five year cycle as with other water planning cycles.

The Water Act 2014 includes market reform measures that are intended to increase competition in the water sector. In particular, it introduces a revised water supply licensing regime to open up retail and wholesale competition in relation to supply to all non-household customers in England. The Water Act 2014 further includes provisions for, among other things:

(i) facilitating bulk supply agreements and mains connection agreements, by revising the rules relating to bulk charges;

(ii) extending the scope of the EA's Environmental Permitting regime to include water abstraction and impounding licences and to align the frequency of drought planning to a five year cycle so it aligns with other water planning cycles;

(iii) expanding the water supply licensing regime to introduce sewerage licences and wholesale (non-retail) supply licences, and to facilitate the creation of a cross-border retail market between England & Wales and Scotland; varying some disincentives to water company mergers;

(iv) adding a new duty to Ofwat's primary duties to further the resilience objective to secure the long-term resilience of water companies' water supply and wastewater systems; and to secure that they take steps to enable them, in the long term, to meet the need for water supplies and wastewater services;

(v) enabling the Secretary of State to pass regulations setting out standards of performance for water companies and for the payment of compensation to customers where they fail to meet these standards;

(vi) allowing penalties to be imposed on water companies for licence breaches for 5 years (rather than 12 months) after the breach;

(vii) allowing Ofwat to amend water companies' licence conditions to reflect the reforms in the Water Act 2014 (subject to consultation with affected water companies and the Secretary of State); and

(viii) reforming the special water merger regime by introducing exceptions to the obligation on the CMA to refer water mergers to a second phase investigation and enabling the CMA to accept undertakings in lieu of a reference.

Merger Regime

The WIA imposes a duty on the CMA to refer completed and anticipated water mergers for a Phase II investigation. In determining whether such a merger operates, or may be expected to operate, against the public interest, the CMA must assess whether the merger prejudices Ofwat's ability to make comparisons between different water companies. Remedies may be structural (i.e. the total or partial prohibition of a proposed merger;

or the total or partial divestiture of the acquired water enterprise; divestiture of another water company held by the acquiring company) or behavioural, such as amendments to a Regulated Company's licence or a requirement to maintain separate management. In deciding on remedies, the CMA may have regard to any relevant customer benefits in the form of lower prices, higher quality, greater choice or innovation, of the merger under consideration. The CMA takes the final decision on remedial action and this decision can be appealed to the Competition Appeal Tribunal by any person sufficiently affected by the decision. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU merger regime. In such circumstances, the CMA may still be able to investigate the effect of the merger, in order to protect the UK's legitimate national interests.

In cases of an acquisition of a Regulated Company by a company which is not already a Regulated Company or where the special water merger regime does not otherwise apply, general merger control rules apply. These may call for discussion with the CMA as well as Ofwat. The CMA has the power to investigate any merger within the jurisdiction of the United Kingdom. The CMA must refer the transaction for a Phase II investigation if the transaction could be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services. In its investigations, the CMA will consult with Ofwat.

In certain limited circumstances, the Secretary of State may also refer a merger to the CMA for a Phase II investigation into whether the arrangement could be expected to operate against the public interest. Depending on the size of the parties involved, such mergers may require notification to the European Commission under the EU merger regime.

The Water Act 2014 introduced, with effect from 18 December 2015, amendments to the current water special merger regime. In addition to the £10 million threshold discussed above, the CMA has an enhanced discretion not to refer water mergers to a second phase investigation and, in the event that it determines a water merger should be referred for a second phase investigation, may accept undertakings in lieu of a reference. Before making a first phase decision, the CMA must consult with Ofwat. Furthermore, the Water Act 2014 also imposes a new duty on the CMA to keep under review and advise the Secretary of State on both the £10 million threshold and the conditions under which the CMA must refer water mergers. As of July 2017, one merger (Severn Trent Plc / Dee Valley Group plc) has taken place under this new regime with the remaining mergers of water companies having been reviewed by the CMA under the general merger regime.

Regulatory Developments

Water 2020

Ofwat issued the PR19 Final Methodology in December 2017. The methodology presented the framework within which plans were to be submitted by companies for the PR19 period (2020 to 2025). The methodology contained four key themes that all companies are required to consider:

- Delivering great customer service
- Affordable bills
- Ofwat's publication titled 'Resilience in the round'
- Innovation

The methodology confirmed the following key items:

(i) **Indexation**: Wholesale revenues will be indexed by CPIH from 1 April 2020. 50 per cent. of the RCV as at 1 April 2020 will be indexed going forward by RPI. The remainder of the RCV as at 1 April 2020 and all additional RCV accrued on and after 1 April 2020 will be indexed by CPIH.

(ii) **Weighted average cost of capital ("WACC")**: Ofwat provided an early view of the WACC within their PR19 final methodology issued in December 2017. Their early view of total company WACC was 5.47% on a nominal basis, which equates to an equivalent RPI stripped WACC of 2.40% (assuming a long term RPI of 3.0%), or a CPIH stripped WACC of 3.40% (assuming a long term CPIH of 2.0%). The final WACC for the PR19 period will be confirmed in the final determination, due in December 2019. The RPI stripped WACC will be applied to the 50% of the existing RCV at 1 April 2020 indexed by RPI. The CPIH stripped will be applied to the 50% of the existing RCV at 1 April 2020, plus the additional RCV accrued on or after 1 April 2020 which will be indexed by CPIH.

(iii) **Bioresources**: Ofwat amended all water company licences to create a binding price limit for bioresources (bio-resources, a by-product of wastewater treatment which is increasingly being seen as a resource), separate from the wastewater transport and treatment price limit ("network plus") and to ensure information is provided and shared to enable and incentivise the development of bioresource markets. Pre-2020 RCV is protected through the design of the regulatory framework for bioresource treatment and disposal in the PR19 process and no explicit mechanism is needed. The new bioresource price limit will reflect the relevant proportion of its RCV. RCV will be allocated to the new bioresource price limit on a focused basis.

(iv) **Water resources**: Ofwat amended licences to create a binding price limit for water resources, separate from the water operations transport and treatment price limit ("network plus"). The water resource price limit differentiates between revenue for pre- and post-2020 water resource capacity. The latter will be exposed to utilisation risk, the former will not. The total revenue control will constitute two elements: (a) a fixed element (e.g. £X million per annum); and (b) a mechanistic in-period adjustment factor that allows for bilateral market entry. As with bioresources, RCV will be allocated to this new price limit. This has been done on an unfocused basis, meaning that instead of a methodology required to value the relevant constituent parts of the business, it will be for each water company in making its PR19 application to develop and justify the allocation of RCV for its water resource price limit. In addition to these changes, the licence change ensures that basic information for supply-demand deficits and water resource costs in a consistent format is available and to require water companies to allow reasonable commercial and non-commercial use of this public data.

(v) **Direct procurement**: Ofwat expected all incumbent water undertakers to use direct procurement for suitable discrete enhancement schemes with a whole-life totex guideline value of more than £100 million.

A Better Deal

On 30 November 2015, the Government announced in "*A Better Deal: boosting competition to bring down bills for families and firms*" that it intends to introduce household retail competition to the water sector in England. It asked Ofwat to provide an assessment, by summer 2016, of the costs and benefits of extending retail competition to household customers. Ofwat submitted its final assessment in September 2016 which concluded that evidence suggests that a net positive outcome of introduction of competition to the residential retail water market is more likely than not, with Ofwat noting that there are potential benefits worth around £2.9 billion over 30 years if competition is extended to household customers. It is now up to the Government to decide if and when retail competition should be extended to household customers. However, given the current political focus on Brexit as at the date of this Prospectus and with parliamentary time at a premium, the prospect of legislative changes being made to enable household competition being introduced in the immediate future looks remote as at the date of this Prospectus.

Exit Regulations

The Water and Sewerage Undertakers (Exit from Non-household Retail Market) Regulations 2016 (the "Exit Regulations"), came into force on 3 October 2016, and provide for water and sewerage undertakers whose areas are wholly or mainly in England to apply to the Secretary of State for permission to exit the non-household retail market in their area of appointment when the retail market for non-household customers opened in April 2017.

YWS notified the Secretary of State that YWS would not be exiting its non-household retail activities on 1 April 2017 and would be deferring its exit until after the opening of the non-household retail market. All other undertakers exited the non-household retail market at market opening or shortly thereafter, leaving YWS as the only water and sewerage undertaker in England which has not yet exited the non-household retail market. A contract currently exists between YWS and Three Sixty (a sister company of YWS), which requires Three Sixty to provide all non-household retail services to the business customers of YWS and is a key part of ensuring appropriate separation between the non-household retail and wholesale parts of the business. This contract will remain in place and continue through to the point when YWS exits the retail market.

YWS is required in the meantime to operate its non-household retail activities entirely separately from the wholesale and household retail business, and the wholesale business is required to treat the YWS non-household retail business in the same way as all other retailers. YWS have re-introduced the brand 'Yorkshire Water Business Services' ("YWBS"), to distinguish the non-household retail part of the business from the rest of Yorkshire Water.

PR19

Ofwat has confirmed its approach to the next price limit period (PR19), in a set of documents dated 13 December 2017. This set of documents confirms Ofwat's approach to remunerating returns in the wholesale and retail price controls, including setting the cost of capital by reference to a notional capital structure.

The published methodology follows the direction of travel flagged in Ofwat's Water 2020 Paper save for the proposal to amend retail price controls from five years to three years. Ofwat is promoting four key themes – great customer service, resilience, affordability and innovation. It will set stretching performance targets (upper quartile) and use more powerful ODIs for all companies. Outcomes were first introduced as part of the PR14 and are considered as being one of the key elements of the PR19. Ofwat expects a further step change in customer engagement. Specific proposals included in the published methodology include:

- detail in relation to the expected AMP7 price control framework: further disaggregation of price controls (bioresources and water resources) to facilitate markets; 14 common performance commitments; increased focus on relative performance and reputational impact; more powerful ODIs with greater financial and reputational impact; totex menus replaced by cost sharing incentive for network plus and water resources controls to encourage submission of efficient plans; use of forecast data for benchmarking wholesale efficiency; and a contractual approach to DPC;

- enhancements to the measure of customer service: the existing SIM system will be replaced in AMP7 with a new measure of customer service protection, WaterworCX. WaterworCX is to be comprised of two new mechanisms – Customer Measure of Experience ("C-MeX") and Developer Services measure of Experience ("D-MeX"). C-MeX is the new customer experience measure which will include higher potential financial rewards than SIM, while D-Mex is a financial and reputational incentive for developer services customers; and

- amendments to the regulatory capital value framework: protective adjustments to regulatory capital value, which are currently made in line with RPI (see "*Regulatory Capital Value*" above), will be made in line with CPIH. Further, Ofwat's separation of price controls into network plus (for wholesasle water and waste water), water resources and bioresources means the RCV is to be allocated between the business units. For bioresources, companies take a focused approach using an economic asset valuation method; for water resources, an unfocused approach is used based on net modern equivalent asset value.

Ofwat has supplemented its methodology for PR19 with amendments and clarifications. In particular, Ofwat published "Putting the sector back in balance: summary of Ofwat's decision on issues for PR19 business plans" on 3 July 2018 setting out amendments and clarifications to the PR19 methodology relating, notably, to a proposal for Regulated Companies to share financial outperformance for gearing materially exceeding Ofwat's notional assumptions. Following the changes introduced by Ofwat, Regulated Companies will, in particular, be required to: (a) set out proposals to share benefits with customers where Regulated Companies have gearing that is materially above the notional level that underpins price controls; (b) explain in business plans how dividend policies in 2020-25 take account of how companies deliver for customers over the price control period; and (c) set out transparently in business plans for customers and wider society, how performance related executive pay will reward stretching delivery for customers. On 31 July 2018, Ofwat published "Putting the sector in balance: position statement on PR19 business plans" which confirmed Ofwat's changes to its 2019 price review methodology announced on 3 July 2018 and set out its final position on the consultation, a summary of issues raised by respondents, the detailed rationale for its decisions and an assessment of the likely impact.

Changes to the Regulatory Accounting Guidelines

The new Regulatory Accounting Guidelines were published by Ofwat in November 2017. These new guidelines seek to ensure that all water and sewerage companies include, in their regulatory accounts, charges between price controls. The main charges incorporated ensures that the waste price control included clean water charges and that the clean water business included waste water charges. This, in turn, ensures there was no price control which was subsidised.

The requirement for 14 additional tables within the Annual Performance report for year ending 2018 was an additional request from Ofwat showing more granular detail of the existing tables.

A further review of the guidelines and attendance at the regulatory accounting working group resulted in incorporating contractors in manpower details and the use of gross staff costs, as opposed to net staff cost, resulted in enhanced overhead allocations.

Bulk Supply and Discharge Pricing

In its November 2017 paper "New connections charges rules from April 2020 – England: Decision Document", Ofwat set out a new approach to:

- requisition charges (where Regulated Companies lay new infrastructure at developers' request);
- asset payments (where Regulated Companies pay for water mains laid by a developer);
- charges for new infrastructure laid by Regulated Companies to enable new inset appointees to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company;
- payments for new infrastructure laid by new inset appointees to enable them to take a bulk supply from, or make a bulk discharge to, an incumbent Regulated Company; and

- infrastructure charges (which are a one-off charge levied by Regulated Companies each time premises are connected to the water or sewerage network).

In order to provide a "level playing-field" between Regulated Companies, developers and new inset appointees, Ofwat will (as soon as primary legislation allows) set out rules whereby:

- deductions from the standard infrastructure charge will replace asset payments and payments for infrastructure laid by new inset appointees; and
- additions to the standard infrastructure charge will replace requisition charges and charges for infrastructure laid by Regulated Companies to facilitate new inset appointments.

These arrangements, which were confirmed in Ofwat's May 2018 paper "Bulk Charges for NAVs: Final Guidance" are likely to be implemented from April 2020. Their effect is to spread the current proportion of the overall cost of infrastructure for new development among all developers whomever they choose to deal with, whether Regulated Companies, new inset appointees, or self-lay providers. Ofwat's intention is to boost the market for self-lay and new inset appointees.

On 19 October 2017, Ofwat amended Condition C (Infrastructure Charges) of YWS's Conditions of Appointment, thereby removing the prescribed limit to the infrastructure charge to be applied from 1 April 2018 onwards, with a few exceptions.

The Retail Exit Code Consultation

In March 2018, Ofwat released a consultation titled "Retail Exit Code: Price protections beyond March 2020" (the "**REC Consultation**"). The REC sets out requirements for price and non-price terms in the default tariffs offered to non-household water and sewerage customers in England that have not yet engaged with the recently opened retail market. The price requirements are linked to PR16 which is due to expire at the end of March 2020. Ofwat is now reviewing the responses to its consultation on the appropriate framework and methodology for retail price protection after March 2020 for which Ofwat identified four options going forwards: (i) removal of price protections; (ii) specifying only that prices must be reasonable and non-discriminatory; (iii) maintaining a control based on PR16, possibly with some adjustments; or (iv) setting up a price control based on a new underlying model. The REC Consultation is not legally binding and Ofwat is reviewing the responses it has received from stakeholders on the proposals. The outcome of the REC Consultation and any subsequent modifications to the REC are currently unknown.

Updated Guidance on Trading and Procurement Codes

In May 2018, Ofwat released updated guidance on trading and procurement codes titled "Trading and procurement codes – guidance on requirements and principles". This guidance covers the requirements and principles that must be addressed in trading and procurement codes for water companies to claim water trading incentives for new trades. Ofwat has revised its guidance to reflect market developments and to provide greater clarity on the requirements for claiming incentives for new trades from 2020-2025. Ofwat has streamlined the approval process for new codes, which will now involve a four-week public consultation and, if no comments are received, automatic approval. However, Ofwat is not updating existing codes to align with the final guidance until June 2020.

Licence Fees for Water Companies and WSSL Licences

In June 2018, Ofwat published an information notice setting out changes to how, when determining the level of licence fees, Ofwat will allocate relevant costs between companies holding appointments as water and/or sewerage undertakers (appointed water companies) and water supply and/or sewerage licensees (WSSL licensees). Appointed water companies and WSSL licensees are required to pay licence fees to Ofwat, the Consumer Council for Water and the Competition and Markets Authority. Ofwat is simplifying the licence fee structure by calculating the flat fee element of licence fees by licence, rather than by licence holder, for both the Consumer Council for Water's and Ofwat's costs.

Customers' Interests

Service Incentive Mechanism

As described above in Chapter 5 "*Description of the YW Financing Group*", Ofwat introduced a performance assessment called the service incentive mechanism ("SIM") which replaced its overall performance assessment ("OPA") measure. The SIM is designed to focus on the quality of customer service and the customer experience of contact with companies.

Ofwat calculated incentives in the 2014 Final Determination based on average performance over the years 2011/12, 2012/13 and 2013/14. Ofwat will replace this mechanism with a new incentive mechanism, WarterworCX, as from AMP7. WaterworCX comprises C-MeX and D-MeX, which are both financial and reputational incentives to improve the satisfaction of Regulated Companies' residential and new connections customers, respectively.

Guaranteed Standards Scheme

The Guaranteed Standards Scheme ("GSS") is underpinned by regulations made under sections 38(2) to (4), 95(2) to (4) and section 213 of the WIA, which prescribe minimum levels of service in matters such as the keeping of appointments with customers, enquiries and complaints from customers, giving notice of interruption of supply, installation of meters and dealing with flooding from sewers.

If a Regulated Company does not meet any of the prescribed standards, the customer is entitled to compensation, normally in the region of £20 for domestic customers and £20 or £50 for business customers (although, in the case of sewer flooding, it can be up to £1,000) within 10 working days of the incident. The availability of such compensation is in addition to the availability of any other remedy the customer may have.

The Water Act 2014 extends guaranteed service standards (minimum service standards and payments for service failures) for household and non-household customers to all licensees operating in the retail market. For 2017/18 the combined SIM score for YWS was 84.3 out of 100. It is YWS's business priority to continue to improve its SIM score and relative performance, striving to be first in SIM by 2020.

In August 2018, Ofwat initiated a review of the GSS. The review is predominantly focused on whether the standards and payments for unplanned supply interruptions should be updated. Ofwat's initial call for evidence closed on 11 September 2018, and following its review of the evidence, it will make a recommendation to the Government to amend the GSS arrangements in line with its findings. Any changes to GSS will require the Government to amend the Water Supply and Sewerage Services (Customer Service Standards) Regulations 2017.

Abstraction Incentive Mechanism

In April 2016, Ofwat began to apply an Abstraction Incentive Mechanism ("AIM"), which is targeted at limiting the levels of abstraction at low flows from environmentally sensitive sites. The incentives are currently reputational, though Ofwat has decided the incentives will also be financial in PR19.

Code for Adoption Agreements

In its "Code for Adoption Agreements" of November 2017, Ofwat required Regulated Companies operating mainly in England to agree, in consultation with developers and self-lay providers, a standard set of arrangements for adopting water and sewerage infrastructure laid by developers. Among the detail of this Code was a requirement for companies to provide “redress” for failing to meet certain standards in the self-lay process. The detail of any redress has yet to be worked out, but it is fairly certain that some sort of monetary payment will be involved.

CHAPTER 7
OVERVIEW OF THE FINANCING AGREEMENTS

Security Trust and Intercreditor Deed

General

The intercreditor arrangements in respect of the YW Financing Group (the "Intercreditor Arrangements") are contained in the STID and the CTA. The Intercreditor Arrangements bind each of the Secured Creditors (subject in the case of the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee to the provisions set out under "*Non-Participating YWSF Bondholders*" below) and each of the Obligors.

The Secured Creditors will include the Senior Debt Providers that enter into or accede to the STID. Any new Authorised Credit Provider (or, in respect of Bondholders, any additional Bond Trustee, or in respect of the Participating YWSF Bondholders, any additional Participating YWSF Bond Trustee) will be required to accede to the STID and the CTA.

Unsecured creditors will not become parties to the Intercreditor Arrangements and, although ranking behind the Secured Creditors in an administration or other enforcement, will have unfettered, independent rights of action in respect of their debts. However, the aggregate amount of unsecured Financial Indebtedness will be restricted under the CTA.

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

The Intercreditor Arrangements also provide for the ranking in point of payment of the claims of the Secured Creditors, both before and after any enforcement of the Security, and for the subordination of all claims of Subordinated Secured Creditors, Subordinated Creditors or claims among the YW Financing Group (other than claims in respect of the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements and the YWSF/YWS Loan Agreements). Each Secured Creditor (other than the Security Trustee acting in such capacity and subject in the case of the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee to the provisions set out under "*Non-Participating YWSF Bondholders*" below) and each Obligor give certain undertakings in the STID which serve to maintain the integrity of these arrangements.

Non-Participating YWSF Bondholders

The Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee are Shared Secured Creditors (see "*Security Agreement*" below).

Pursuant to the STID, each Class of Non-Participating YWSF Bondholders are entitled to instruct the Non-Participating YWSF Bond Trustee to accede to the STID and agree to be bound by the terms of the CTA and the MDA on behalf of the Non-Participating YWSF Bondholders of each such Class and to act as their Secured Creditor Representative and Class A DIG Representative thereunder. At the meetings of each Class of Non-Participating YWSF Bondholders which were convened by YWSF in October 2009, the Non-Participating YWSF Bond Accession Resolutions were passed in respect of four Classes of the Non-Participating YWSF Bonds. As such, the Non-Participating YWSF Bond Trustee has acceded to the STID on behalf of such Classes and the Non-Participating YWSF Bondholders in respect of those Classes are entitled to vote in respect of certain limited matters which are defined as Non-Participating YWSF Bond Voting Matters.

Notwithstanding any other provision of the STID, the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee shall retain every right, power and discretion to take Independent Enforcement Action against YWSF and/or YWS (such rights, powers and discretions constituting "Non-Participating YWSF Bond Reserved Matters"), however, the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee will only be entitled to vote in the Class A DIG in respect of Non-Participating YWSF Bond Voting Matters for so long as they hold Non-Participating YWSF Bonds which form part of a Class of Non-Participating YWSF Bonds in respect of which no Independent Enforcement Action has been taken. Following the taking of any Independent Enforcement Action, the relevant Class of Non-Participating YWSF Bonds will cease to constitute Qualifying Class A Debt.

Furthermore, the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee in respect of a Class of Non-Participating YWSF Bonds in respect of which a Non-Participating YWSF Bond Refusal Date has occurred, shall have no entitlement to vote or direct the Security Trustee in relation to any matter following such date, however, such Non-Participating YWSF Bondholders and Non-Participating YWSF Bond Trustee shall remain Shared Secured Creditors.

In addition, Non-Participating YWSF Bondholders have certain limited entrenched rights (the "Non-Participating YWSF Bond Entrenched Rights") relating to the Shared Security, the entitlement to vote in respect of Non-Participating YWSF Bond Voting Matters and the Payment Priorities.

References in this Prospectus to the Non-Participating YWSF Bond Trustee acting in its capacity as Secured Creditor Representative and Class A DIG Representative and to the voting rights of the Non-Participating YWSF Bondholders of any Class shall only apply from the Non-Participating YWSF Bond Accession Date in respect of such Class.

Modifications, Consents and Waivers

Subject to the Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below) (which will always require the consent of all of the relevant Secured Creditors who are affected), the Security Trustee may (but is not obliged to) make modifications to the Finance Documents without the consent of any other Secured Creditor, if such modifications, consents or waivers:

(a) in the opinion of the Security Trustee, are:

 (i) to correct manifest or proven errors;

 (ii) to comply with mandatory provisions of law; or

 (iii) of a formal, minor or technical nature,

 (and in each case the Security Trustee may rely upon a certificate of an expert in relation thereto), or,

(b) subject to the proviso to this paragraph (b), would not, in the opinion of the Security Trustee (having regard to its obligations and duties as trustee to the Secured Creditors pursuant to the STID and subject to the standard of care ascribed to the Security Trustee pursuant to the STID) be reasonably likely to have a Material Adverse Effect on the ability of the Obligors to comply with their payment obligations in respect of the Qualifying Debt owed to the relevant Qualifying Debt Providers, provided that, in exercising discretion under this paragraph (b), the Security Trustee shall not concur with any proposed modification to, or give any consent or grant any waiver under or in respect of, any term of the STID or any other Finance Document to which the Security Trustee is a party or over which it has Security under the Security Documents, in respect of any proposed consent, waiver or modification that:

 (i) would change or would have the effect of changing any of the Trigger Events;

(ii) would change or would have the effect of changing any of the covenants set out in the Common Terms Agreement;

(iii) would change or would have the effect of changing the cash management provisions set out in Schedule 11 (*Cash Management*) of the Common Terms Agreement;

(iv) would relate to the waiver or amendment of any Event of Default or Potential Event of Default; or

(v) would relate to the waiver or amendment of any of the repeated representations under the Common Terms Agreement.

The Security Trustee shall also concur, without any requirement to obtain the consent or sanction of any other Secured Creditor other than those listed in the proviso below, with any proposed modification, amendment, consent or waiver to an Authorised Credit Facility (other than any Issuer/YWS Loan Agreement, YWSF/YWS Loan Agreement or Issuer/YWS Bond Loan Agreement), provided that (i) each Contracting Secured Creditor under the relevant Authorised Credit Facility (or, to the extent that the relevant Authorised Credit Facility requires only a specified majority of the relevant Contracting Secured Creditors to consent to or sanction the proposed modification, amendment, consent or waiver, at least the specified majority of the relevant Contracting Secured Creditors under the relevant Authorised Credit Facility) has provided written consent to such modification, amendment, consent or waiver; and (ii) the requested modification, amendment, consent or waiver does not impose additional obligations or liabilities on the Security Trustee.

The Security Trustee shall also concur (subject to the provisions of the STID) with any modifications to the Bond Trust Deed (including the Conditions), the Agency Agreement and the CP Agreement and any modification or supplement to the Master Definitions Agreement required for the purpose of enabling Bonds to be issued under the Programme within the United States in reliance on Rule 144A of the Securities Act, without the need to obtain the consent of any other Secured Creditor other than those party to the Bond Trust Deed and the Agency Agreement.

Additionally, the Security Trustee shall concur (subject to the provisions of the STID), without the consent or sanction of any other Secured Creditor, with any proposed modifications to the Issuer/YWS Bond Loan Agreements to the extent required to ensure that the economic effect of the Issuer/YWS Bond Loan Agreements taken as a whole will be such that the Issuer will have sufficient funds, on each Payment Date in respect of each Class of Class A Unwrapped Bonds issued by the Exchange Issuer, to make the payments due on such Bonds on such Payment Date in full, in each case plus any applicable fee or margin payable to the Issuer.

Other than as set out above and subject to Entrenched Rights and Reserved Matters (which will always require the consent of all of the relevant Secured Creditors who are affected), the Security Trustee shall only agree to any modification of or grant any consent or waiver under the Finance Documents or (subject to restrictions during a Standstill Period) take Enforcement Action with the consent of or if so instructed by the Majority Creditors provided that the relevant Quorum Requirement has been met.

The STID contains detailed provisions setting out the voting and instruction mechanics in respect of STID Matters, including provisions specifying the relevant decision periods within which votes must be cast (each a "Decision Period") (which period must not be less than 15 Business Days from notification to the Qualifying Debt Providers of a STID Matter). Pursuant to the terms of the STID, the "Quorum Requirement" for any STID Matter is one or more Qualifying Class A Debt Provider (or, following the repayment in full of all Qualifying Class A Debt, one or more Qualifying Class B Debt Provider) representing in aggregate at least 20 per cent. of the entire Outstanding Principal Amount of all Qualifying Class A Debt (or, following the repayment in full of all Qualifying Class A Debt, all Qualifying Class B Debt), **provided that**, if the Quorum Requirement is not met within the initial Decision Period (as specified in the STID), the Decision Period will be extended by a further period of seven Business Days and the Quorum Requirement shall reduce to zero at the end of such extended Decision Period.

Majority Creditors

Decisions of the Majority Creditors will be determined by votes on a "pound-for-pound" basis (based on the Outstanding Principal Amount of the Qualifying Class A Debt voted by the Class A DIG Representatives (or, following the repayment in full of all Qualifying Class A Debt, the Outstanding Principal Amount of the Qualifying Class B Debt voted by the Class B DIG Representatives)).

Subject to Entrenched Rights and Reserved Matters and provided that the relevant Quorum Requirement has been met, the Security Trustee will be entitled to act on the instructions of the Majority Creditors of those Class A DIG Representatives or, as the case may be, Class B DIG Representatives which have actually voted within the specified Decision Period or, if earlier, as soon as Class A DIG Representatives or, as the case may be, Class B DIG Representatives in respect of more than 50 per cent. of the Qualifying Class A Debt or, as the case may be, Qualifying Class B Debt have voted in favour of the relevant proposal.

Class A Debt Instructing Group

Both prior to and during any Standstill Period, after acceleration of the Secured Liabilities and upon any enforcement of the Security prior to repayment in full of the Qualifying Class A Debt, only the Class A DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class A Debt that they represent will be eligible to exercise the rights of the Majority Creditors. Following the taking of any Independent Enforcement Action by or on behalf of any Class A Debt Provider, the relevant Class A Debt will cease to constitute Qualifying Class A Debt.

Provided that the relevant Quorum Requirement has been met, decisions of the Majority Creditors will bind all of the Secured Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below).

The Class A DIG Representatives, which will together be entitled to vote on certain proposals as part of the "Class A Debt Instructing Group" or the "Class A DIG", will be comprised of the following representatives (each, a "Class A DIG Representative"):

(a) in respect of each Sub-Class of Class A Wrapped Bonds and the YWSF Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds;

(b) in respect of each Sub-Class of Class A Wrapped Bonds and the YWSF Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds and each Class of YWSF Unwrapped Bonds, the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee (**provided that**, unless:

    (i) a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice);

    (ii) such proposal is the subject of an Entrenched Right or a Reserved Matter of the Class A Bondholders or, as the case may be, the Participating YWSF Bondholders,

    the Class A Wrapped Bondholders (in respect of each such Sub-Class or Class of Class A Wrapped Bonds), the Participating YWSF Bondholders (in respect of such YWSF Wrapped Bonds), the Class A Unwrapped Bondholders (in respect of each Sub-Class of Class A Unwrapped Bonds) or, as the case may be, the Participating YWSF Bondholders (in respect of each Class of YWSF Unwrapped Bonds), shall each be entitled to participate directly in the Class A DIG and direct the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee to vote in respect of any STID Direct Voting Matters through the clearing system voting mechanics as described under "*Bondholder Voting*" below);

(c) (in respect of a Non-Participating YWSF Bond Voting Matter only) in respect of each Class of Non-Participating YWSF Bonds, the Non-Participating YWSF Bond Trustee, **provided that**:

(i) the Non-Participating YWSF Bond Trustee and the Non-Participating YWSF Bondholders of a Class of Non-Participating YWSF Bonds in relation to which a Non-Participating YWSF Bond Refusal Date has occurred shall have no entitlement to vote or direct the Security Trustee under the STID on any matter (including a Non-Participating YWSF Bond Voting Matter) following such date;

(ii) the Non-Participating YWSF Bond Trustee and the Non-Participating YWSF Bondholders of a Class of Non-Participating YWSF Bonds in relation to which no Non-Participating YWSF Bond Refusal Date has occurred shall have no entitlement to vote on or direct the Security Trustee in relation to any matter under the STID other than a Non-Participating YWSF Bond Voting Matter, a Non-Participating YWSF Bond Entrenched Right or a Non-Participating YWSF Bond Reserved Matter; and

(iii) (subject at all times to the other provisos contained in this paragraph (c)), unless

(A) a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice); or

(B) such proposal is the subject of an Entrenched Right or a Reserved Matter of the Non-Participating YWSF Bondholders,

the Non-Participating YWSF Bondholders (in respect of each Class of Non-Participating YWSF Bonds), shall each be entitled to participate directly in the Class A DIG and direct the Non-Participating YWSF Bond Trustee to vote in respect of any STID Direct Voting Matters (to the extent that such STID Direct Voting Matters are in respect of Non-Participating YWSF Bond Voting Matters) through the clearing system voting mechanics as described under "*Bondholder Voting*" below;

(d) in respect of the Existing Authorised Credit Facilities, the relevant Existing Authorised Credit Provider;

(e) in respect of each Finance Lease, the relevant Finance Lessor; and

(f) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (e) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class A DIG Representative.

Other Secured Creditors of Class A Debt that accede to the STID and the CTA after the Closing Date may appoint their own representative to act as their Class A DIG Representative.

Class B Debt Instructing Group

Following repayment in full of the Qualifying Class A Debt, the Class B DIG Representatives voting in respect of the Outstanding Principal Amount of Qualifying Class B Debt that they represent will be eligible to exercise the rights of the Majority Creditors. After repayment in full of the Qualifying Class A Debt, provided that the relevant Quorum Requirement has been met, decisions of such Majority Creditors will bind all of the Secured

Creditors in all circumstances, save for certain Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" below).

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

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

(b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default, has occurred and is continuing in respect of the relevant Financial Guarantor) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee (**provided that**, unless:

  (i) a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice); or

  (ii) such proposal is the subject of an Entrenched Right or a Reserved Matter of the Class B Bondholders,

  the Class B Wrapped Bondholders (in respect of each such Sub-Class or Class of Class B Wrapped Bonds) or the Class B Unwrapped Bondholders (in respect of each Sub-Class of Class B Unwrapped Bonds) shall each be entitled to participate directly in the Class B DIG and direct the Bond Trustee to vote in respect of any STID Direct Voting Matters through the clearing system voting mechanics described under "*Bondholder Voting*" below); and

(c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in relevant Accession Memorandum, as the Class B DIG Representative.

Bondholder Voting

Unless a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice (see the section "*Emergency Instruction Procedure*" below)) or a STID Matter is the subject of an Entrenched Right or a Reserved Matter of a Series, Class or Sub-Class of Bondholders or, as the case may be, a Class of Participating YWSF Bondholders, the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee shall not be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds or, as the case may be, Class of Participating YWSF Bonds to consider any STID Matter to be voted on by the Class A DIG or, as the case may be, the Class B DIG. However, in such circumstances:

(a) for so long as Qualifying Class A Debt remains outstanding, each Class A Unwrapped Bondholder, each Participating YWSF Bondholder in respect of YWSF Unwrapped Bonds and, if an FG Event of Default has occurred and is continuing in respect of a Financial Guarantor, each Class A Wrapped Bondholder in respect of the relevant Class A Wrapped Bonds and each Participating YWSF Bondholder in respect of the YWSF Wrapped Bonds; or

(b) following the repayment in full of all Qualifying Class A Debt and for so long as Qualifying Class B Debt remains outstanding, each Class B Unwrapped Bondholder and, if an FG Event of Default has occurred and is continuing in respect of a Financial Guarantor, each Class B Wrapped Bondholder in respect of the relevant Class B Wrapped Bonds, (each, a "Qualifying Bondholder") shall each be entitled to vote on the proposed STID Matter (a "STID Direct Voting Matter") within the specified Decision Period directly through the clearing systems.

The Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee will, upon receipt of notice of a STID Direct Voting Matter pursuant to the terms of the STID, distribute a copy of the STID Direct Voting Matter to the Qualifying Bondholders through the clearing systems. The Principal Paying Agent (in respect of Bearer Bonds), the Registrar (in respect of Registered Bonds) or, as the case may be, the YWSF Paying Agent (in respect of the Participating YWSF Bonds) will collect the votes cast by such Bondholders or, as the case may be, Participating YWSF Bondholders and will complete block voting instructions (which will be the only method of voting in respect of such matters) and will notify the Security Trustee, the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee and the Issuer or, as the case may be, YWSF accordingly. Only the Outstanding Principal Amount of Bonds or, as the case may be, Participating YWSF Bonds then owned by Bondholders or, as the case may be, Participating YWSF Bondholders that vote on (either for or against) a proposed STID Direct Voting Matter within the Decision Period will be counted towards the overall voting requirement of the Class A DIG or, as the case may be, the Class B DIG for the purposes of the definition of Majority Creditors (and such votes will be divided on a pound-for-pound basis between votes cast in favour and votes cast against, irrespective of whether a majority of a particular Sub-Class of Bonds or Participating YWSF Bonds have voted in favour or against). Votes cast in favour and votes cast against will then be aggregated by the Security Trustee with the votes cast by the other Class A DIG Representatives or, as the case may be, Class B DIG Representatives in order to determine whether the Majority Creditor requirement has been reached to pass the relevant STID Matter.

In respect of any STID Matter that is the subject of an Entrenched Right or Reserved Matter of a Series, Class or Sub-Class of Bondholders or, as the case may be, a Class of Participating YWSF Bondholders, the DIG Representative in respect of all Bonds and Participating YWSF Bonds will be the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee who will be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds or, as the case may be, any Class of Participating YWSF Bonds to consider any such STID Matter. In such circumstances, the relevant Decision Period shall end on such later date (not later than two months after notification of the STID Matter) as is requested of the Security Trustee by the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee should the Bond Trustee or the Participating YWSF Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders or, as the case may be, Participating YWSF Bondholders to seek directions.

In respect of any STID Matter following the occurrence of a Default Situation and for so long as a Default Situation is continuing (other than a STID Matter in respect of which the proposer has elected to utilise the Emergency Instruction Procedure), the DIG Representative in respect of all Unwrapped Bonds and YWSF Unwrapped Bonds and, following an FG Event of Default in relation to the relevant Financial Guarantor, the relevant Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds will be the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee who will be entitled to convene a meeting of any Series, Class or Sub-Class of Bonds or, as the case may be, any Class of Participating YWSF Bonds to consider any such STID Matter (provided that the Bond Trustee as DIG Representative of the Class B Bondholders in respect of the Unwrapped Bonds will only be entitled to vote on a STID Matter following the repayment in full of all Qualifying Class A Debt). In such circumstances, the relevant Decision Period shall end on such later date (not later than two months after notification of the STID Matter) as is requested of the Security Trustee by the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee should the Bond Trustee or the Participating YWSF Bond Trustee consider it necessary to convene a meeting of any one or more Series, Class or Sub-Class of Bondholders or, as the case may be, Participating YWSF Bondholders to seek directions.

Subject to Entrenched Rights and Reserved Matters, whilst a Default Situation is continuing, the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee shall not be entitled to convene a meeting of the

Bondholders or, as the case may be, the Participating YWSF Bondholders after the presentation of a valid Emergency Instruction Notice pursuant to the terms of the STID (see "*Emergency Instruction Proce*dure" below). However, the Unwrapped Bondholders, Participating YWSF Bondholders in respect of YWSF Unwrapped Bonds and, following an FG Event of Default in relation to the relevant Financial Guarantor, the relevant Wrapped Bondholders or, as the case may be, Participating YWSF Bondholders in respect of the YWSF Wrapped Bonds will be entitled to participate directly in the Class A DIG or, as the case may be, the Class B DIG in respect of any vote on any STID Matter the subject of an Emergency Instruction Notice.

Pursuant to the STID, from and including the Non-Participating YWSF Bond Accession Date in respect of any Class of Non-Participating YWSF Bonds (see "*Non-Participating YWSF Bonds*" above), the Non-Participating YWSF Bondholders will be entitled to participate directly in the Class A DIG in respect of Non-Participating YWSF Bond Voting Matters only pursuant to voting provisions on substantially similar terms to those described above in respect of Bondholders and Participating YWSF Bondholders (such voting provisions to be incorporated into the terms and conditions of such Non-Participating YWSF Bonds pursuant to the Non-Participating YWSF Bond Accession Resolution). Similarly, in respect of Non-Participating YWSF Bond Entrenched Rights and Non-Participating YWSF Bond Reserved Matters, the Non-Participating YWSF Bond Trustee shall be entitled to convene a meeting of the Non-Participating YWSF Bondholders (subject to a valid Emergency Instruction Notice during a Default Situation (as described above in respect of Bondholders and Participating YWSF Bondholders and under "*Emergency Instruction Procedure*" below).

Emergency Instruction Procedure

Whilst a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee, the Participating YWSF Bond Trustee or, as the case may be, Non-Participating YWSF Bond Trustee to convene Bondholder, Participating YWSF Bondholder or, as the case may be, Non-Participating YWSF Bondholder meetings. To cater for such circumstances, the Intercreditor Arrangements provide for an emergency instruction procedure (the "Emergency Instruction Procedure") which is subject to Entrenched Rights and Reserved Matters. In respect of any STID Matter during a Default Situation, the proposer must elect whether or not it wishes to utilise the Emergency Instruction Procedure in the event that the Bond Trustee, the Participating YWSF Bond Trustee or, as the case may be, the Non-Participating YWSF Bond Trustee convenes a Bondholder, Participating YWSF Bondholder or, as the case may be, Non-Participating YWSF Bondholder meeting and any such STID Matter will constitute a STID Direct Voting Matter for the purposes of Bondholder, Participating YWSF Bondholder or, as the case may, be Non-Participating YWSF Bondholder voting. The Security Trustee will be required to act upon instructions contained in an emergency instruction notice (an "Emergency Instruction Notice"). An Emergency Instruction Notice must be signed by DIG Representatives (the "EIN Signatories") representing $66^2/_3$ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or, following the repayment in full of all Qualifying Class A Debt, Qualifying Class B Debt (after excluding from the proportion of Qualifying Class A Debt or, as the case may be, Qualifying Class B Debt, the Outstanding Principal Amount of (a) the Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in relation to the relevant Financial Guarantor); (b) the Unwrapped Bonds; (c) the YWSF Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in relation to the YWSF Financial Guarantor); (d) the YWSF Unwrapped Bonds; and (e) the Non-Participating YWSF Bonds which constitute Qualifying Class A Debt in each case, in respect of which the relevant Bondholder, Participating YWSF Bondholder or, as the case may be, Non-Participating YWSF Bondholder has not voted through the clearing systems during the initial 15 Business Day Decision Period). The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take on or after the expiry of the initial 15 Business Day Decision Period and must certify that in the EIN Signatories' reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories would be materially prejudiced.

As described above, the Unwrapped Bondholders, Participating YWSF Bondholders in respect of YWSF Unwrapped Bonds and, following an FG Event of Default in relation to the relevant Financial Guarantor, the relevant Wrapped Bondholders or, as the case may be, Participating YWSF Bondholders in respect of the YWSF Wrapped Bonds and the Non-Participating YWSF Bondholders in respect of Non-Participating YWSF Bonds which constitute Qualifying Class A Debt, shall each be entitled to instruct the Bond Trustee through the clearing systems in accordance with the terms of the Bond Trust Deed, Participating YWSF Bond Trust Deed or, as the case may be, Non-Participating YWSF Bond Trust Deed (as amended pursuant to the relevant Non-Participating YWSF Bond Accession Resolution) to vote on its behalf as the DIG Representative of such Bondholder or Participating YWSF Bondholder or Non-Participating YWSF Bondholder (as the case may be) in relation to any STID Matter the subject of such Emergency Instruction Notice.

Hedge Counterparties

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

The Hedge Counterparties will not form part of the Class A DIG or the Class B DIG. However, all fees, interest and principal payable by the Issuer and/or YWSF and/or YWS (as the case may be) to the Hedge Counterparties will rank in the Payment Priorities senior to or *pari passu* with interest or principal payments on the Class A Bonds except in relation to certain amounts payable by the Issuer and/or YWSF and/or YWS under any Currency Hedging Agreement in relation to Class B Debt and except that termination payments due or overdue to a Hedge Counterparty under any Hedging Agreement which arise as a result of a default by such Hedge Counterparty or as a result of a downgrade in the credit rating of such Hedge Counterparty following any failure by the Hedge Counterparty to comply with the applicable downgrade provisions set out in the relevant Hedging Agreement shall be subordinated to payments in respect of Class B Debt. An Interest Rate Hedging Agreement may be designated at the time of accession of the relevant Hedge Counterparty to the STID in respect of such Interest Rate Hedging Agreement as a Super Senior Interest Rate Hedging Agreement (in which case scheduled amounts rank senior to interest on Class A Debt pursuant to the Payment Priorities) or a Pari Passu Interest Rate Hedging Agreement (in which case scheduled amounts rank *pari passu* with interest on Class A Debt pursuant to the Payment Priorities).

See the sections “*Cash Management*” and “*Hedging Agreements*” below.

Liquidity Facility Providers

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

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

Finance Lessors

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

Authorised Credit Providers

The Existing Authorised Credit Providers constitute Class A Debt Providers and form part of the Class A DIG.

Standstill

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

The Standstill is designed to reduce or postpone the likelihood of a Special Administration Order being made against YWS.

During the Standstill Period:

(a) none of the Secured Creditors will be entitled to give any instructions to the Security Trustee to take any Enforcement Action (but without prejudice to the ability of the Secured Creditors to demand payment) in relation to the Security granted by the Issuer, YWSF, or YWS;

(b) the Security granted by YWH may be enforced at any time by the Security Trustee at the direction of the Majority Creditors (provided that the relevant Quorum Requirement has been met and **provided further that** the Ring-fenced Secured Creditors may, without the prior consent of the Majority Creditors, accelerate their respective claims to the extent necessary to apply proceeds of enforcement of the share charges or any other Security provided by YWH but only to the extent that such accelerated claims would be discharged out of such proceeds pursuant to the Payment Priorities);

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

(d) any monies received by YWS, YWSF, or the Issuer and all monies credited to the Accounts, will be applied in accordance with the cash management provisions contained in the CTA (see the section "*Cash Management*" below) and in accordance with the Payment Priorities (see the section "*Cash Management – Debt Service Payment Account*" below),

provided that, none of the provisions described above shall prevent the Non-Participating YWSF Bondholders or the Non-Participating YWSF Bond Trustee on their behalf or for itself exercising any rights or taking any action, step or proceedings which are specified to be Non-Participating YWSF Bond Reserved Matters.

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

(i) an order is made for the Special Administration of YWS or any steps are taken to commence Insolvency Proceedings against the Issuer, YWSF, or YWS other than proceedings that are commenced by the Security Trustee;

(ii) (during the first 18 months of the Standstill Period) Class A DIG Representatives in respect of $66^{2}/_{3}$ per cent. or more of the aggregate Outstanding Principal Amount of the Qualifying Class A Debt or (following the repayment in full of the Class A Debt) Class B DIG Representatives in respect of $66^{2}/_{3}$ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class B Debt vote to terminate the Standstill Period (see the section "*Standstill Extension*" below); or

(iii) the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

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

Upon termination of a Standstill Period (except by virtue of the matters referred to in (iii) above), each Secured Creditor will be entitled to exercise all rights which may be available to it under any Finance Document to which it is a party (other than any Security Document) or, as the case may be, the Non-Participating YWSF Bonds including directing the Security Trustee to take Enforcement Action **provided that**, none of the provisions described above shall prevent the Non-Participating YWSF Bondholders or the Non-Participating YWSF Bond Trustee on their behalf or for itself exercising any rights or taking any action, step or proceeding which are specified to be Non-Participating YWSF Bond Reserved Matters.

Standstill Extension

The Standstill Period shall automatically be extended beyond 18 months:

(a) for a further 120 days unless Class A DIG Representatives in respect of 50 per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 120 day period to terminate the Standstill Period;

(b) following the period referred to in sub-paragraph (a), for a further 60 days unless Class A DIG Representatives in respect of $33^1/_3$ per cent. or more of the aggregate Outstanding Principal Amount of Qualifying Class A Debt vote at any time prior to the commencement of or during such further 60 day period to terminate the Standstill Period; and

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

None of the Bond Trustee, the Participating YWSF Bond Trustee or the Non-Participating YWSF Bond Trustee shall form part of the Class A DIG in respect of any vote to terminate the Standstill Period, unless directed or requested to vote in such manner (i) by an Extraordinary Resolution of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Wrapped Bonds) or, as the case may be, the YWSF Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the YWSF Financial Guarantor), or Class A Unwrapped Bonds or, as the case may be, YWSF Unwrapped Bonds or, as the case may be, Non-Participating YWSF Bonds; or (ii) in writing by Bondholders or, as the case may be, Participating YWSF Bondholders, holding not less than 25 per cent. of the Outstanding Principal Amount of the relevant Sub-Class of Class A Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the relevant Financial Guarantor of such Sub-Class of Wrapped Bonds) or, as the case may be, the YWSF Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the YWSF Financial Guarantor) or Class A Unwrapped Bonds, as the case may be, YWSF Unwrapped Bonds.

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

The Standstill Period in respect of any Event of Default will terminate upon the date of the waiver or remedy of the relevant Event of Default giving rise to the Standstill Period.

Enforcement

Following an Event of Default and for so long as it is continuing, the Majority Creditors (provided that the relevant Quorum Requirement has been met) may direct the Security Trustee to enforce the Security created by

YWH; following the termination of a Standstill Period (except under (iii) of "*Standstill*" above), the Majority Creditors (provided that the relevant Quorum Requirement has been met) may direct the Security Trustee to enforce the Security created by YWS, YWSF, and the Issuer.

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

Excluded Accounts

Although pursuant to the Security Agreement, YWS, the Issuer and YWSF have created first fixed charges over the Excluded Accounts in favour of the Security Trustee, the Security Documents provide that on and following an Acceleration of Liabilities (other than a Permitted Lease Termination, Permitted Hedge Termination, Permitted EIB Compulsory Prepayment Event or Permitted Share Pledge Acceleration), all monies held in any Swap Collateral Account, the O&M Reserve Accounts, the Debt Service Reserve Accounts, the Non-Participating YWSF Bond Reserve Account and any Cash Cover Account of YWS will be held by the Security Trustee on trust for the relevant Hedge Counterparty or guarantor thereof that has provided collateral for its obligations or, as the case may be, the relevant Liquidity Facility Providers whose commitments have been drawn to fund the O&M Reserve Accounts, the Debt Service Reserve Accounts or, as the case may be, the Non-Participating YWSF Bond Reserve Account or, as the case may be, the relevant Issuing Bank or relevant Authorised Credit Provider. The trust held by the Security Trustee over amounts in the O&M Reserve Accounts, the Debt Service Reserve Accounts or the Non-Participating YWSF Bond Reserve Account will be in the proportions that the relevant Liquidity Facility Providers' respective drawn amounts under the relevant O&M Reserve Facility Agreement or, as the case may be, DSR Liquidity Facility Agreement bear to the balance on the relevant O&M Reserve Account, the relevant Debt Service Reserve Account or, as the case may be, the Non-Participating YWSF Bond Reserve Account.

Accession of Additional Secured Creditors

The STID requires that, to the extent that YWS and/or the Issuer wishes any Authorised Credit Provider (or, in respect of Bonds, its Secured Creditor Representative) or other person to obtain the benefit of the Security, such Authorised Credit Provider or other person (other than Bondholders) must sign an Accession Memorandum whereby it agrees to be bound by the terms of the STID and the CTA, including those provisions which prohibit individual Secured Creditors from taking action without the consent of the Majority Creditors.

Subordinated Creditors

The STID also contains provisions restricting the rights of Subordinated Creditors in respect of any Subordinated Debt of an Obligor from time to time. The STID contains mechanics requiring any creditors in respect of Subordinated Debt to accede to the STID as a Subordinated Creditor.

Entrenched Rights and Reserved Matters

As described above, modifications, consents and waivers will be agreed by the Security Trustee, in accordance with votes of the Majority Creditors (provided that the relevant Quorum Requirement has been met), subject to Entrenched Rights and Reserved Matters. Such modifications, consents and waivers will be binding on all of the Secured Creditors, subject to Entrenched Rights and Reserved Matters. No Entrenched Right or Reserved Matter will operate to override the provisions contained in the CTA which allow YWS (following a Periodic Review or as a result of any material change in the regulation of the water and wastewater industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default **provided that** the Security Trustee (acting on the instructions of the Majority Creditors) agrees and the relevant ratings set out in the definition of Rating Requirement (in relation to the Bonds) have been affirmed by all

Rating Agencies then rating the Bonds (**provided that** in circumstances where a Rating Agency is not willing to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, YWS has certified in writing to the Security Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with YWS this opinion is based on consultation with such Rating Agency) such amendment would not cause the ratings of the Bonds to be downgraded below the relevant ratings set out in the definition of Rating Requirement by such Rating Agency).

Lists of Entrenched Rights and Reserved Matters are contained in the section "*Entrenched Rights*" and "*Reserved Matters*" below.

Entrenched Rights

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

The Entrenched Rights of the Class A Debt Providers include any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

(a) the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;

(b) (i) would release any of the Security (unless at least equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document; (ii) would adversely alter the rights of priority of, or the enforcement by, the relevant Class A Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein; (iii) would, in respect of a Class A Debt Provider, decrease the amount of that Class A Debt Provider's share of the Secured Liabilities which are secured by means of the Security; or (iv) would, in respect of a Class A Debt Provider, deprive such Class A Debt Provider of its status as a Secured Creditor;

(c) (i) would adversely change or would have the effect of adversely changing the Payment Priorities (including by amending any of the defined terms referred to in the Payment Priorities if to do so would have the aforementioned effect); (ii) would adversely change or would have the effect of adversely changing the ranking of the claims of the relevant Class A Debt Provider; or (iii) would change or would have the effect of changing any requirement set out in any Finance Document that certain payments, applications or distributions should be made in accordance with the Payment Priorities;

(d) would change or would have the effect of changing (i) the Entrenched Rights or the Reserved Matters (including by changing any relevant definitions) or the existence thereof; (ii) (where applicable) the relevant Class A Debt Provider's Entrenched Rights or Reserved Matters (including by changing any relevant definitions); (iii) any statement in any provision of any Finance Document that such provision is subject to an Entrenched Right or Reserved Matter; or (iv) the manner in which such Entrenched Rights or Reserved Matters may be exercised or the consequences of exercising such Entrenched Rights or Reserved Matters (in each case including any supplement to the Entrenched Rights of an Additional Secured Creditor as specified in the relevant Accession Memorandum);

(e) would change or would have the effect of changing (i)(a) the definitions of "Authorised Credit Facility", "Authorised Credit Provider", "Class A Debt Provider", "Class A DIG", "Class A DIG Representatives", "DIG Proposal", "DIG Directions Request", "DIG Representatives", "Existing Authorised Credit Facility", "Existing Authorised Credit Provider", "Finance Documents", "Majority Creditors", "Non-Participating YWSF Bond Voting Matters", "Qualifying Class A Debt", "Qualifying Class A Debt Provider", "Quorum Requirement", "Restricted Payment", "Restricted Payment Condition", "Secured

Creditor", "Secured Liabilities", "STID Proposal" or "Voted Qualifying Class A Debt", or (b) the use of the relevant defined terms referred to above in any Finance Document in a manner which would affect the rights or interests of any Class A Debt Provider; (ii) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors or the Security Trustee, (iii) the percentages of aggregate Outstanding Principal Amount of Qualifying Debt required to terminate a Standstill or (iv) in the case of the EIB, the definitions of "EIB Authorised Credit Facilities", "EIB Authorised Credit Finance Contracts", "EIB Amendment Agreement" or "Permitted EIB Compulsory Prepayment Event";

(f) would or would be likely to have the effect of (i) delaying the date fixed for payment of, or amounts in the nature of, principal, interest or Make-Whole Amount in respect of the relevant Class A Debt Provider's Class A Debt or of any fees or premia in respect of such principal, interest or Make-Whole Amount; or (ii) reducing the amount of, or amount in the nature of, principal, interest or Make-Whole Amount payable in respect of such Class A Debt or the amount of any fees or premia in respect of such principal, interest or Make-Whole Amount;

(g) in respect of a modification, consent or waiver proposed during a Default Situation only (i) would bring forward the date fixed for payment of, or payment of amounts in the nature of, principal, interest or Make-Whole Amount in respect of any Class A Debt or any fees or premia in respect of such principal, interest or Make-Whole Amount; or (ii) would increase the amount of, or amount in the nature of, principal, interest or Make-Whole Amount payable on any date in respect of any Class A Debt or any fees or premia in respect of such principal, interest or Make-Whole Amount;

(h) would result in the exchange of the relevant Class A Debt Provider's Class A Debt for, or the conversion of such Class A Debt into, shares, bonds or other obligations of any other person;

(i) would change or would have the effect of changing the currency of payment due under the relevant Class A Debt Provider's Class A Debt (other than due to the United Kingdom joining the euro);

(j) (subject to (k) below) would change or would have the effect of changing any Event of Default or the consequences of an Event of Default as set out in the CTA or any Trigger Event relating to financial ratios (excluding any change permitted by the CTA following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom (see the section "*Common Terms Agreement — General*" below)) or any of the Trigger Event consequences or any of the financial ratios or the Restricted Payments Condition;

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

(l) would change or would have the effect of changing the rights of the relevant Class A Debt Provider to receive any sums owing to it for its own account in respect of fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class A Debt Provider);

(m) would change or would have the effect of changing any existing obligation of an Obligor to gross up any payment in respect of the relevant Class A Debt Provider's Class A Debt in the event of the imposition of withholding taxes;

(n) would change or would have the effect of changing (i) the voting procedures under any Finance Document; (ii) the representation of the relevant Class A Debt Provider by a Class A DIG Representative under or in connection with any voting procedures; or (iii) any other matters requiring the consent of the relevant Class A Debt Provider under or in relation to any Finance Document;

(o) would approve an assignment of any rights or a transfer of any obligations of an Obligor under the STID or any other Common Agreement;

(p) would change or would have the effect of changing Clause 8.1.1 of the STID; or

(q) would change or would have the effect of changing the governing law or the dispute resolution clauses of any Finance Document,

where "adversely" means, in respect of any change to the Payment Priorities or other rights of priority, a change which has the effect of changing the priority of the Class A Debt Providers or any of them: (x) relative to each other, or (y) relative to any amount owed to any creditor ranking pari passu with or in priority to the Class A Debt Providers or any of them, or (z) relative to any amount owed to any creditor which ranks subordinate to the Class A Debt Providers or any of them, where such change would result in the relevant amounts ranking pari passu with, or in priority to, any amount owed to any Class A Debt Provider, provided that the creation of payments which rank subordinate in all respects to a Class A Debt Provider shall not be an adverse change in respect of such Class A Debt Provider.

The Entrenched Rights of the Class B Debt Providers mirror those rights applicable for Class A Debt Providers *mutatis mutandis* and more specifically include any proposed modification to, or consent or waiver under or in respect of the STID or any other Finance Document which:

(a) the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) has demonstrated to the satisfaction of the Security Trustee would increase or adversely modify its obligations or liabilities under or in connection with the STID or any other Finance Document;

(b) (i) would release any of the Security (unless at least equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the STID and the relevant Security Document; (ii) would adversely alter the rights of priority of, or the enforcement by, the relevant Class B Debt Provider (or, where applicable, its Secured Creditor Representative) under the Security Documents other than as expressly contemplated therein; (iii) would, in respect of a Class B Debt Provider, decrease the amount of that Class B Debt Provider's share of the Secured Liabilities which are secured by means of the Security; or (iv) would, in respect of a Class B Debt Provider, deprive such Class B Debt Provider of its status as a Secured Creditor;

(c) (i) would adversely change or would have the effect of adversely changing the Payment Priorities (including by amending any of the defined terms referred to in the Payment Priorities if to do so would have the aforementioned effect); (ii) would adversely change or would have the effect of adversely changing the ranking of the claims of the relevant Class B Debt Provider; or (iii) would change or would have the effect of changing any requirement set out in any Finance Document that certain payments, applications or distributions should be made in accordance with the Payment Priorities;

(d) would change or would have the effect of changing (i) the Entrenched Rights or the Reserved Matters (including by changing any relevant definitions) or the existence thereof; (ii) (where applicable) the relevant Class B Debt Provider's Entrenched Rights or Reserved Matters (including by changing any relevant definitions); (iii) any statement in any provision of any Finance Document that such provision is subject to an Entrenched Right or Reserved Matter; or (iv) the manner in which such Entrenched Rights or Reserved Matters may be exercised or the consequences of exercising such Entrenched Rights or Reserved Matters (in each case including any supplement to the Entrenched Rights of an Additional Secured Creditor as specified in the relevant Accession Memorandum);

(e) would change or would have the effect of changing (i)(a) the definitions of "Authorised Credit Facility", "Authorised Credit Provider", "Class B Debt Provider", "Class B DIG", "Class B DIG Representatives", "DIG Proposal", "DIG Directions Request", "DIG Representatives", "Finance Documents", "Majority Creditors", "Qualifying Class B Debt", "Qualifying Class B Debt Provider", "Quorum Requirement", "Restricted Payment", "Restricted Payment Condition", "Secured Creditor", "Secured Liabilities", "STID Proposal" or "Voted Qualifying Class B Debt", or (b) the use of the relevant defined terms referred to above in any Finance Document in a manner which would affect the rights or interests of any Class B Debt Provider; (ii) those matters expressly requiring the consent, approval or agreement of, or directions or instructions from, or waiver by the Majority Creditors or the Security Trustee; or (iii) the percentages of aggregate Outstanding Principal Amount of Qualifying Debt required to terminate a Standstill;

(f) would or would be likely to have the effect of (i) delaying the date fixed for payment of, or amounts in the nature of, principal, interest or Make-Whole Amount in respect of the relevant Class B Debt Provider's Class B Debt or of any fees or premia in respect of such principal, interest or Make-Whole Amount; or (ii) reducing the amount of, or amount in the nature of, principal, interest or Make-Whole Amount payable in respect of such Class B Debt or the amount of any fees or premia in respect of such principal, interest or Make-Whole Amount;

(g) in respect of a modification, consent or waiver proposed during a Default Situation only (i) would bring forward the date fixed for payment of, or payment of amounts in the nature of, principal, interest or Make-Whole Amount in respect of any Class A Debt or Class B Debt or any fees or premia in respect of such principal, interest or Make-Whole Amount; or (ii) would increase the amount of, or amount in the nature of, principal, interest or Make-Whole Amount payable on any date in respect of any Class A Debt or Class B Debt or any fees or premia in respect of such principal, interest or Make-Whole Amount;

(h) would result in the exchange of the relevant Class B Debt Provider's Class B Debt for, or the conversion of such Class B Debt into, shares, bonds or other obligations of any other person;

(i) would change or would have the effect of changing the currency of payment due under the relevant Class B Debt Provider's Class B Debt (other than due to the United Kingdom joining the euro);

(j) (subject to (k) below) would change or would have the effect of changing any Event of Default or the consequences of an Event of Default as set out in the CTA or any Trigger Event relating to financial ratios (excluding any change permitted by the CTA following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom (see the section "*Common Terms Agreement — General*" below)) or any of the Trigger Event consequences or any of the financial ratios or the Restricted Payment Condition;

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

(l) would change or would have the effect of changing the rights of the relevant Class B Debt Provider to receive any sums owing to it for its own account in respect of fees, costs, charges, liabilities, Taxes, damages, proceedings, claims and demands in relation to any Finance Document to which it is a party (excluding, for the avoidance of doubt, the principal, interest or Make-Whole Amount payable to the relevant Class B Debt Provider);

(m) would change or would have the effect of changing any existing obligation of an Obligor to gross up any payment in respect of the relevant Class B Debt Provider's Class B Debt in the event of the imposition of withholding taxes;

(n) would change or would have the effect of changing (i) the voting procedures under any Finance Document; (ii) the representation of the relevant Class B Debt Provider by a Class B DIG Representative under or in connection with any voting procedures; or (iii) any other matters requiring the consent of the relevant Class B Debt Provider under or in relation to any Finance Document;

(o) would approve an assignment of any rights or a transfer of any obligations of an Obligor under the STID or any other Common Agreement;

(p) would change or would have the effect of changing Clause 8.1.1 of the STID; or

(q) would change or would have the effect of changing the governing law or the dispute resolution clauses of the Finance Documents,

where "adversely" means, in respect of any change to the Payment Priorities or other rights of priority, a change which has the effect of changing the priority of the Class B Debt Providers or any of them: (x) relative to each other, or (y) relative to any amount owed to any creditor ranking *pari passu* with or in priority to the Class B Debt Providers or any of them, or (z) relative to any amount owed to any creditor which ranks subordinate to the Class B Debt Providers or any of them, where such change would result in the relevant amounts ranking *pari passu* with, or in priority to, any amount owed to any Class B Debt Provider, **provided that** the creation of payments which rank subordinate in all respects to a Class B Debt Provider shall not be an adverse change in respect of such Class B Debt Provider.

The Bond Trustee, the Security Trustee, the Finance Lessors, the Hedge Counterparties and the Financial Guarantors have certain other limited Entrenched Rights in relation to any provisions of the Finance Documents that generally affect them to a greater extent than others. As described under "*Non-Participating YWSF Bondholders*", the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee have certain other limited Entrenched Rights.

Reserved Matters

Reserved Matters are matters which, subject to the Intercreditor Arrangements and the CTA, a Secured Creditor is free to exercise in accordance with its own facility arrangements and so are not exercisable by or by direction of the Majority Creditors.

Those Reserved Matters which each Ring-fenced Secured Creditor reserves to itself to decide are each and every right, power, authority and discretion of, or exercisable by, each such Ring-fenced Secured Creditor at any time:

(a) to receive any sums owing to it for its own account in respect of premia, fees, costs, charges, liabilities, damages, proceedings, claims and demands in relation to any Authorised Credit Facility to which it (or its Secured Creditor Representative) is a party (as permitted under the CTA);

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

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

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

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

(f) in the case of each Finance Lessor, to inspect the relevant Equipment, to make calculations under the financial schedules (or equivalent provisions thereunder relating to the calculations of Rental or termination sums) to the relevant Finance Lease and to terminate the relevant Finance Lease provided such termination is a Permitted Lease Termination;

(g) in the case of the EIB, to demand for prepayment under an EIB Authorised Credit Facility **provided that** such demand is a Permitted EIB Compulsory Prepayment Event;

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

(i) in the case of any Ring-fenced Secured Creditor, to accelerate their claims, to the extent necessary to apply proceeds of enforcement of the Share Pledge provided by YWH pursuant to the terms of the Security Documents.

The Bond Trustee, the Security Trustee, the Finance Lessors, the Hedge Counterparties and the Financial Guarantors each have certain additional Reserved Matters which each has reserved to itself to decide. For the Bond Trustee and each Financial Guarantor, these include rights vested in it pursuant to the terms of the Bond Trust Deed and the Financial Guarantee. For the Security Trustee, these include rights vested in it pursuant to the terms of the STID. As described under "*Non-Participating YWSF Bondholders*" above, the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee retain the right to take Independent Enforcement Action in respect of the Non-Participating YWSF Bonds.

Substitution of the Issuer and/or YWSF

The Security Trustee shall implement any STID Proposal proposing the substitution in place of the Issuer, or any substituted Issuer, or YWSF, or any entity that has substituted YWSF as the principal debtor under the Finance Documents of any other company incorporated in any other jurisdiction meeting the criteria for such a single purpose company established from time to time by the Rating Agencies. The implementation of any such proposal is an Entrenched Right of the Bond Trustee, the Participating YWSF Bond Trustee and each Financial Guarantor.

Intercompany Loan Arrangements

Issuer/YWS Loan Agreements and YWSF/YWS Loan Agreements

All Financial Indebtedness raised by the Issuer from time to time (whether through the issue of Bonds or raising of debt under DSR Liquidity Facilities (other than amounts necessary to fund the Debt Service Reserve Accounts and other than as described in "*Issuer/YWS Bond Loan Agreements*", below)) will be backed by an aggregate nominal amount of debt owed by YWS to the Issuer under a loan agreement (each an "Issuer/YWS Loan Agreement"). Each advance under an Issuer/YWS Loan Agreement will relate to the principal amount of the relevant Sub-Class of Bonds issued by the Issuer on an Issue Date or the principal amount of debt raised under the relevant DSR Liquidity Facility. The Issuer's obligations to repay principal and pay interest on the Bonds are intended to be met primarily from the payments of principal and interest received from YWS under each Issuer/YWS Loan Agreement and, where it has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Issuer under such Hedging Agreement. The business of YWS demonstrates the capacity to produce funds to service any payments due and payable under the Issuer/YWS Loan Agreements.

The Financial Indebtedness of YWSF (being incurred through the issue of the YWSF Bonds on their respective issue dates prior to the Closing Date and under the DSR Liquidity Facilities (other than amounts necessary to fund the Debt Service Reserve Accounts)) from time to time will be backed by an aggregate matching debt obligation owed by YWS to YWSF under a loan agreement (each a "YWSF/YWS Loan Agreement"). The advances documented under the initial YWSF/YWS Loan Agreement entered into on the Closing Date (the "Initial YWSF/YWS Loan Agreement") correspond to the principal amount of the relevant class of YWSF Bonds outstanding as at the Closing Date. YWSF's obligations to repay principal and pay interest on the YWSF Bonds were, as at the Closing Date, intended to be met primarily from the payments of principal and interest received from YWS under the Initial YWSF/YWS Loan Agreement and, where it has hedged its exposure to such payments under a Hedging Agreement, from payments received by YWSF under such Hedging Agreement. On 16 August 2018, the Issuer was substituted as the issuer of the bonds previously issued by Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited. At this point in time, certain of the YWSF/YWS Loan Agreements (the "Transferred YWSF/YWS Loan Agreements") were transferred from YWSF to the Issuer, to ensure that the payment flows on the bonds previously issued by Yorkshire Water Services Odsal Finance Limited continued to work (see "*Issuer/YWS Bond Loan Agreements*", below).

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

Issuer/YWS Bond Loan Agreements

Payments due by the Issuer under the Class A Unwrapped Bonds previously issued by Yorkshire Water Services Odsal Finance Limited will be funded in part by payments made by YWS to the Issuer under the Transferred YWSF/YWS Loan Agreements (as described above). In order to ensure that the Issuer will have sufficient funds on each Payment Date in respect of the Class A Unwrapped Bonds, there are a sequence of loan agreements corresponding to each Class of Bonds previously issued by Yorkshire Water Services Odsal Finance Limited (the "Issuer/YWS Bond Loan Agreements").

The Issuer/YWS Bond Loan Agreements can be categorised as, in respect of each Class of Class A Unwrapped Bonds previously issued by Yorkshire Water Services Odsal Finance Limited on the Closing Date, a pair of loans consisting of (i) an amortising loan with YWS as borrower and the Issuer as lender; and (ii) a discount (or accrued interest) loan with the Issuer as borrower and YWS as lender. In the case of any Class of Bonds previously issued by Yorkshire Water Services Odsal Finance Limited pursuant to the Exchange Offer where the principal amount of such Bonds exceeded the principal amount of the corresponding Exchanged YWSF Bonds and the interest payable on the Bonds was less than the interest payable on the corresponding Exchanged YWSF Bonds, this pairing of loans was reversed such that there is (i) an amortising loan with the Issuer as borrower and YWS as lender; and (ii) a discount (or accrued interest) loan with YWS as borrower and the Issuer as lender. In the case of any Class of Bonds previously issued by Yorkshire Water Services Odsal Finance Limited pursuant to the Exchange Offer where both the principal amount of and the interest payable on such Bonds exceeds the principal amount of or the interest payable on the corresponding Exchanged YWSF Bonds, the Issuer is the lender and YWS the borrower in respect of both the amortising loan and the discount (or accrued interest) loan. As an exception to this categorisation, in respect of any 2010 Bonds, which were exchanged for

Class A Unwrapped Bonds due 2023 previously issued by Yorkshire Water Services Odsal Finance Limited, there is a single loan agreement under which YWS and the Issuer made a series of loans and repayments in the capacity as both lender and borrower (as applicable). Where the Issuer is acting as lender and interest is payable under the relevant Issuer/YWS Bond Loan Agreement, it will receive a margin payable by YWS broadly equating to 1 basis point per annum on the relevant principal amount outstanding.

As described under "*Security Trust and Intercreditor Deed - Modifications, Consents and Waivers*" above, YWS and/or the Issuer may propose amendments to the terms of the Issuer/YWS Bond Loan Agreements (including the payment provisions) in order to ensure that the economic effect of such loan agreements achieves the position described above and the Security Trustee shall concur with such amendments subject to certain conditions contained in the STID being satisfied.

The obligations of YWS under each Issuer/YWS Loan Agreement, each Issuer/YWS Bond Loan Agreement and under each YWSF/YWS Loan Agreement are secured pursuant to the Security Agreement, and such obligations will be guaranteed by YWH in favour of the Security Trustee, who holds the benefit of such security on trust for the Secured Creditors (including the Issuer and YWSF) on the terms of the STID (see "*Security Agreement*" below).

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

In the CTA, YWS makes certain representations and warranties (as more fully set out under "*Common Terms Agreement – Representations*" below) to each Finance Party.

Each Issuer/YWS Loan Agreement, Issuer/YWS Bond Loan Agreement and each YWSF/YWS Loan Agreement is governed by English law.

Fees Generally

The Issuer is responsible for paying the properly incurred fees and expenses of, amongst others, the Bond Trustee, the Paying Agents, the Registrar, the Transfer Agents, the Agent Bank, the Arranger, the Bond Trustee's legal advisers, the Issuer's legal advisers and the Arranger's legal advisers and certain fees due to liquidity providers.

YWS is responsible for paying the fees and expenses of the Security Trustee together with the other Secured Creditors.

YWS (i) by way of facility fees under the Issuer/YWS Loan Agreements, pays to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees, expenses and any and all sums due to any Financial Guarantor under the Finance Documents; (ii) by way of facility fees under the Issuer/YWS Bond Loan Agreements, pays to the Issuer amounts equal to the amounts required by the Issuer to pay its ongoing fees, expenses and any and all sums due to any Financial Guarantor under the Finance Documents; and (iii) by way of facility fees under the YWSF/YWS Loan Agreements (other than the Transferred YWSF/YWS Loan Agreements), pays to YWSF amounts required by YWSF to pay its ongoing fees and expenses and any and all sums due to the YWSF Financial Guarantor under the YWSF Bonds.

Common Terms Agreement

General

Each of the Finance Lessors, the Hedge Counterparties, the Security Trustee, the Cash Manager, the Standstill Cash Manager, the Existing Authorised Credit Providers, the Senior Facilities Agent, the Initial Senior Facilities Arrangers, each Obligor, the Bond Trustee, the Participating YWSF Bond Trustee, the Principal Paying Agent, the Transfer Agent, the Registrar and others entered into, on the Closing Date or subsequently by way of accession, a common terms agreement (the "Common Terms Agreement" or "CTA") . The CTA sets out the representations, covenants (positive, negative and financial), Trigger Events and Events of Default which will apply to each Authorised Credit Facility.

It is a term of the CTA that any representation, covenant (to the extent of being able to declare an Event of Default), Trigger Event and Events of Default contained in any document which is in addition to those in the CTA and any other Common Agreement and any other exception expressly set out in the CTA will be unenforceable (save for limited exceptions which will, among other things, include Permitted EIB Compulsory Prepayment Events, covenants relating to the purpose of an Authorised Credit Facility, covenants relating to indemnities, covenants to pay (including related payment mechanics), covenants relating to remuneration, costs and expenses, representations and covenants in each Class or Sub-Class of Bonds, "clean-down" provisions in any Revolving Credit Facility and certain provisions under the Hedging Agreements and the Finance Leases). The CTA further provides that no representation, covenant, Trigger Event or Event of Default will be breached or triggered as a result of the Permitted Post Closing Events (including, but not limited to, the payments of all amounts outstanding under the Acquisition Term Facility, certain transaction fees not paid on the Closing Date (if applicable) and any other payments as may be agreed by YWS and the Security Trustee in writing).

The CTA allows YWS (following a Periodic Review or any material change in the regulation of the water and sewerage industry in the United Kingdom) to amend any financial ratio contained within the covenants, Trigger Events or Events of Default, **provided that** the Security Trustee (acting on the instructions of the Majority Creditors) agrees and the relevant ratings set out in the definition of Rating Requirement (in relation to the Bonds) have been affirmed by all Rating Agencies then rating the Bonds (**provided that** in circumstances where a Rating Agency is not willing to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, YWS has certified in writing to the Security Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with YWS this opinion is based on consultation with such Rating Agency) such amendment would not cause the ratings of the Bonds to be downgraded below the relevant ratings set out in the definition of Rating Requirement by such Rating Agency).

The CTA also sets out the cash management arrangements to apply to the YW Financing Group (see the section "*Cash Management*" below). The CTA also sets out the Hedging Policy with which each Hedging Agreement entered into must comply (see the section "*Hedging Policy*" below). It is a requirement of the CTA that future providers of Authorised Credit Facilities must also accede to the CTA and the STID.

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

Representations

On the Closing Date (and in respect of certain representations, on each Issue Date and each date on which any Financial Guarantee or any other new Authorised Credit Facility is issued or entered into under the Programme or any Relevant Securities are issued under an Authorised Credit Facility and only in relation to such Bonds, Financial Guarantee or Authorised Credit Facility (as applicable), and in respect of certain representations, on each Payment Date, each date of a request for a borrowing, the first date of each borrowing and each date for payment of a Restricted Payment), each Obligor makes a number of representations in respect of itself to each Finance Party. These representations will be subject, in some cases, to agreed exceptions, customary qualifications and to qualifications as to materiality and reservations of law, and will include representations as to:

(i) its corporate status, power and authority and certain other legal matters;

(ii) non-conflict with documents binding on it, constitutional documents or laws;

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

(iv) no Default or Potential Trigger Event being outstanding or will result from entry into and performance under the Transaction Documents and no other event or circumstance is outstanding which constitutes (or with the expiry of a grace period, the giving of a notice, the making of any determination or any combination of any of the foregoing, would constitute) a default or termination event under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which would have a Material Adverse Effect;

(v) it obtaining all necessary consents and approvals;

(vi) its ownership of, or interests in, the assets over which it has created Security Interests under the Security Documents and which are material to the operation of its Business;

(vii) maintaining all necessary insurances;

(viii) there being no insolvency event in relation to it (other than any proceeding or claim which is being contested in good faith and is not outstanding for longer than 45 days);

(ix) the conduct of its business not violating any judgment, law or regulation;

(x) the due payment of all taxes save to the extent any tax payment is being disputed in good faith;

(xi) under the laws of its jurisdictions of incorporation and tax residence in force on the Closing Date, it is not (other than as disclosed) being required to make any deduction or withholding from any payment of interest under the Finance Documents;

(xii) subject to reservations of law, the claims of the Secured Creditors ranking prior to the claims of its other unsecured and unsubordinated creditors;

(xiii) no Security Interest having been created or existing other than Permitted Security Interests and no indebtedness incurred other than Permitted Financial Indebtedness and Permitted Volume Trading Arrangements;

(xiv) save as otherwise disclosed herein (or in any updated Prospectus or supplement hereto) no litigation proceedings current, pending or threatened;

(xv) compliance with environmental laws;

(xvi) all arrangements or contracts with any person being on an arm's length basis;

(xvii) on the Closing Date, no member of the YW Financing Group being liable in respect of any Financial Indebtedness that is not Senior Debt, except for certain Permitted Financial Indebtedness;

(xviii) on the Closing Date, the shares over which Security will be granted pursuant to the Security Agreement are validly issued, fully paid, non-assessable and freely transferable and constitute shares in the capital of limited companies, and there are no moneys or liabilities outstanding or payable in respect of any such share;

(xix) as at the Closing Date, the aggregate market value of Excluded Property of the Chargors does not exceed 5 per cent. of RCV;

(xx) in the case of YWS, it having the necessary Intellectual Property Rights to carry on its Appointed Business;

(xxi) in the case of YWS, it being unaware of any Special Administration Order having been made in respect of it;

(xxii) in the case of YWS, assumptions used in respect of financial ratio calculations, projections and calculations having been made in good faith, after careful consideration and materially consistent with Applicable Accounting Principles and applicable Good Industry Practice; and

(xxiii) in respect of any offering of securities in a transaction exempt from the registration requirements of the Securities Act, pursuant to section 4(2) of the Securities Act: (i) compliance with U.S. federal securities law (for example, limiting communications with US investors), (ii) conduct of YWS's business as it may relate to US legislation (for example, compliance with US trade sanctions and money laundering laws) and (iii) compliance with UK and US pension obligations.

Additionally, each of YWH, Yorkshire Water Services Odsal Holdings Limited, YWSF, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited represented that its activities have been limited prior to the Closing Date to support their bankruptcy remote status. The Issuer represented, on the date of its accession to the CTA and STID, that its activities have been limited prior to such accession date to support its bankruptcy remote status.

It should be noted that following the 2018 Reorganisation, Yorkshire Water Services Odsal Holdings Limited, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited are no longer party to the Finance Documents.

Covenants

The CTA contains certain positive, negative and financial covenants from each of the Obligors. A summary of the covenants which are included in the CTA (subject, in some cases, to agreed exceptions, *de minimis* amounts and qualifications as to materiality and reservations of law) is set out below in the sections "*Information Covenants*", "*General Covenants*" and "*Financial Covenants*".

Information Covenants

- YWS undertakes to provide, from time to time, certain information including:

  (a) information, which would reasonably be expected to be material to an Authorised Credit Provider, which it supplies to Ofwat;

  (b) details of proposed material changes to the Instrument of Appointment or any proposed changes to the constitutional documents;

  (c) details of any investigations or proceedings;

  (d) any notice (including an Enforcement Order) from any governmental authority or industry regulator;

  (e) a semi-annual Investors' Report;

  (f) certain other material information about the business and financial condition of each of the Obligors as may be requested or required to be delivered from time to time; and

  (g) information in relation to any announcement of K.

- Each Obligor undertakes to provide, within certain agreed timeframes, certain information including:

  (a) its audited unconsolidated financial statements and (in respect of YWS only) its unaudited unconsolidated interim financial statements;

(b) copies of all material documents despatched by it to its creditors (other than in the ordinary course of its business);

(c) details of any litigation or other proceedings which are current, threatened or pending;

(d) details of any Obligor placed on credit watch with negative implications with a view to a possible downgrade and/or any Wrapped Bonds and/or any YWSF Wrapped Bonds or Unwrapped Debt of such Obligor being below Investment Grade and any non-compliance with any law or regulation or the occurrence of an emergency;

(e) notification of any Default or Potential Trigger Event;

(f) details of any event which could give rise to an insurance claim in excess of 0.25 per cent. of RCV; and

(g) details of any event which would be reasonably likely to have a Material Adverse Effect and, where relevant, the Periodic Information relating to it.

- Each of YWS, YWSF, and the Issuer undertakes, among other things:

(a) to supply a Compliance Certificate to be accompanied by computations made in respect of such historical and forward-looking financial ratios as required by the CTA;

(b) to permit the Security Trustee to investigate the calculations contained in any Compliance Certificate; and

(c) to deliver a certificate upon request by the Security Trustee certifying that no Default or Potential Trigger Event is outstanding or, if a Default or Potential Trigger Event is outstanding of which it is aware, specifying the Default or Potential Trigger Event and the steps (if any) taken or proposed to be taken to remedy such event.

General Covenants

- Each Obligor undertakes, among other things:

(a) to maintain its corporate status;

(b) to ensure that the secured claims of Secured Creditors against it under the Finance Documents will rank prior to the claims of all its other unsecured and unsubordinated creditors;

(c) to operate and maintain its business in a safe, efficient and business-like manner and in accordance with its memorandum and articles of association and the Finance Documents and, in the case of YWS, the Instrument of Appointment, the WIA and Good Industry Practice (taking its Business as a whole);

(d) to ensure that the corporate ownership structure of the YW Financing Group (other than the ownership or Control of YWH) remains as at the date of the CTA (other than any Permitted Acquisitions or Permitted Disposals);

(e) not to incur any Financial Indebtedness other than Permitted Financial Indebtedness or, in the case of YWS, Permitted Volume Trading Arrangements;

(f) not to acquire or invest, other than Permitted Acquisitions, Authorised Investments and Permitted Joint Ventures or as permitted by the Transaction Documents or with the consent of the Security Trustee;

(g) not to, or to permit any Permitted Joint Venture to, be a creditor in respect of any Financial Indebtedness or issue any guarantee or indemnity in respect of the obligations of any other person in respect of Financial Indebtedness (subject to certain exceptions, including pursuant to the First Kelda Holdco Loan and the Second Kelda Holdco Loan);

(h) not to change its constitutional documents without the prior written consent of the Security Trustee;

(i) not to enter into any Treasury Transaction other than (i) in the case of the Issuer, YWS or YWSF pursuant to Hedging Agreements; (ii) any Treasury Transactions entered into between Obligors; and/or (iii) Treasury Transactions entered into by YWS in the ordinary course of its business to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;

(j) outside the ordinary course of its business and except for in connection with a Permitted Tax Loss Transaction or the YWS VAT Group or pursuant to any Finance Lease Document, not to enter, without the consent of the Security Trustee, into any arrangements with any person (other than a taxation authority in respect of the taxation liabilities of such Obligor or any other Obligor or pursuant to the Finance Documents) relating to Tax;

(k) not to compromise or settle any claim, litigation or arbitration without prior notification to the Security Trustee;

(l) (A) to obtain, maintain and comply with all applicable laws, regulations and orders and obtain and maintain all governmental and regulatory consents, licences, authorisations and approvals (including the Instrument of Appointment) necessary for the conduct of its business as a whole in accordance with Good Industry Practice and (B) to do nothing which would lead to the termination, suspension or revocation of any such consents, licences, authorisations and approvals;

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

(n) other than in respect of Permitted Disposals, not to create or allow to exist any Security Interest on any of its present or future revenues or assets other than Permitted Security Interests, nor create or enter into any restriction or prohibition on the creation or granting of, any Security Interest on any of its assets except as permitted by the Finance Documents, nor create or permit to exist any further Security Interest over all or any of its present and future revenues, equipment or assets as security for any Permitted Financial Indebtedness other than in favour of the Security Trustee to be held upon the terms of the STID;

(o) not to (A) (i) dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by an associate other than Permitted Disposals or (in the case of YWS) pursuant to a Finance Lease; or (ii) dispose of any of its receivables (other than Permitted Disposals) or (iii) purchase any asset on terms providing for (or likely to have the substantive effect of) a retention of title or a conditional sale, in circumstances where the primary purpose is raising Financial Indebtedness or financing the acquisition of an asset; nor (B) enter into any such transaction in (A) above where the primary purpose is not raising finance to the extent that the consideration in respect of such transaction is not received in cash in full at the time and exceeds 0.1 per cent. of RCV in aggregate at any time;

(p) not to dispose of the Equipment or its undertaking, revenues, business or assets other than a Permitted Disposal, a Permitted Joint Venture or to create a Permitted Security Interest;

(q) (in the case of the Exchange Issuer only) not to sell, transfer or otherwise dispose of any of the Exchanged YWSF Bonds at any time, other than pursuant to the creation of a Permitted Security Interest;

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

(s) other than as a result of a Permitted Emergency Action, not to enter into any arrangement or contract with any person otherwise than on an arm's length basis.

- Additionally, YWH undertakes, amongst other things:

(a) not to carry on or transact any business or other activity other than (A) ownership of the shares in members of the YW Financing Group; (B) the giving of the guarantee and security in accordance with the Finance Documents; (C) the performance of obligations required or exercise of any rights under the Finance Documents; (D) receiving the Intra-Group Debt Service Distributions (if any); (E) carrying out any Permitted Post Closing Events; and (F) providing management services to members of the YW Financing Group from time to time;

(b) not to own any asset or incur any liabilities except for the purposes of carrying on its business in accordance with the Finance Documents;

(c) not to incur Financial Indebtedness (other than certain categories of Permitted Financial Indebtedness and only to the extent that Subordinated Debt is entered into with another member of the Kelda Group) to any member of the Kelda Group or any Affiliate or be a lender in respect of Financial Indebtedness of any member of the Kelda Group or any Affiliate unless the occurrence of such Financial Indebtedness is in compliance with the Restricted Payment Condition; and

(d) not to make any Restricted Payments otherwise than in accordance with the Finance Documents and out of monies received by it, directly or indirectly, from YWS in the case of YWH which have been properly paid by YWS as a Distribution or as set out under the CTA.

- YWS further undertakes to maintain at least three non-executive directors who are not employees or directors of any Associate (save as disclosed in writing to the Security Trustee on the Closing Date or as otherwise approved by the Security Trustee).

- Additionally, YWS undertakes, among other things:

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

(b) to conduct its Appointed Business in the name of YWS or under any such other name or names (but not through a separate legal entity) as YWS shall determine and to ensure that separation of the YW Financing Group from any member of the Non-YW Financing Group (or Associate thereof) is maintained at all times;

(c) not to permit, agree to or recommend any suspension or the abandonment of all or a material part of the operation of its Appointed Business;

(d) if it exceeds the Permitted Non-Appointed Business Limits, to dispose of or reduce all or part of its Permitted Non-Appointed Business within six months of the date on which the Permitted Non-Appointed Business Limits are first exceeded so that the Permitted Non-Appointed Business Limits are complied with on the next Calculation Date immediately following the expiry of the relevant six-month period;

(e) to comply in all material respects with the Instrument of Appointment;

(f) not to agree to any amendment or variation of the Instrument of Appointment;

(g) to comply with applicable relevant Environmental Laws and Environmental Approvals applicable to it and to notify the Security Trustee of any Environmental Claims;

(h) to effect and maintain those insurances in connection with its Business as are required under the CTA;

(i) to procure that any Outsourcing Agreement or Capex Contract entered into on and from the Closing Date complies with the Public Procurement Rules (if such Outsourcing Agreement or Capex Contract would be an agreement to which the Public Procurement Rules would apply) and the Outsourcing Policy;

(j) to ensure it has adequate financial and management resources to enable it to discharge its core obligations under the Instrument of Appointment;

(k) (A) following receipt of notice of termination of the Instrument of Appointment, use its reasonable endeavours to ensure that (i) a Transfer Scheme reasonably satisfactory to the Security Trustee is agreed between YWS, the transferee and Ofwat by a date within two years of the giving of such notice; (ii) any such Transfer Scheme will not be materially prejudicial to the Secured Creditors; and (iii) ensure that the Security Trustee is kept fully informed of the consultation process with Ofwat and is consulted in relation thereto if YWS becomes subject to any Transfer Scheme; and (B) subject to its obligations under the WIA, not to agree to any Transfer Scheme without the consent of the Security Trustee;

(l) as soon as reasonably practicable, to apply to Ofwat for an interim determination when permitted under the Instrument of Appointment where it would be prudent and in the best commercial interests of YWS to do so;

(m) to levy charges to customers which, together with other available amounts, are as far as possible sufficient, within the constraints of the current price limit framework or other regulatory requirements, to enable YWS to meet its operational, investment and financial obligations under the Instrument of Appointment and its obligations in respect of Financial Indebtedness; and

(n) if the Account Bank or any DSR Liquidity Facility Provider no longer maintains the Minimum Short-term Rating with Moody's or Fitch, in accordance with the requirement to act with prudent treasury management policies, to consult with Moody's and / or Fitch. If Moody's and / or Fitch indicate to YWS that they are reasonably likely to downgrade the then current rating of the Bonds, unless, in the case of the Account Bank, the Account Bank is replaced, or, in the case of a Liquidity Provider, such Liquidity Provider is replaced or its commitment drawn, then the relevant Obligor shall exercise its rights to effect such replacement or drawing as the case may be.

- Additionally, YWS, YWSF, the Issuer undertake, among other things:

(a) to each use its reasonable endeavours to ensure that it maintains a published underlying rating in respect of the Wrapped Bonds and the YWSF Wrapped Bonds and a credit rating in respect of the Unwrapped Bonds and YWSF Unwrapped Bonds with at least two of the Rating Agencies as the Security Trustee and YWS shall agree, in each case, of Investment Grade;

(b) only to:

(1) implement Deferrals of K at a time when no Trigger Event is subsisting, no Event of Default is subsisting or if required by Ofwat;

(2) other than in the case of Permitted Post Closing Events or any Intra-Group Debt Service Distribution, make any payment in respect of Subordinated Debt or pay any Distribution which would be a Restricted Payment if each of the following requirements is met:

(A) in the case of a Distribution only, the payment is made after a board meeting has been held approving such Distribution or dividend;

(B) the aggregate amount of any such payment(s) that may be paid is no higher than the Proposed Payment Amount (as defined below);

(C) on the date of such payment:

(a) no withdrawals have been made from the Issuer's, or, as the case may be, YWSF's Debt Service Reserve Accounts or YWSF's Non-Participating YWSF Bond Reserve Account pursuant to Schedule 11 (*Cash Management*) and no drawings are outstanding under the DSR Liquidity Facilities, other than Standby Drawings;

(b) each of the Senior RAR and the Class A RAR for each Test Period (after deducting an amount equal to the proposed payment(s) (the "Proposed Payment Amount") from available cash), as certified by the Issuer, YWSF and YWS in the Compliance Certificate most recently delivered to the Security Trustee and each Rating Agency, is less than or equal to

(i) prior to the occurrence of the Permitted Non-Participating Financial Indebtedness Trigger, (a) in the case of the Senior RAR, 0.82:1; and (b) in the case of the Class A RAR, 0.72:1;

(ii) following the occurrence of the Permitted Non-Participating Financial Indebtedness Trigger, (a) in the case of the Senior RAR, 0.85:1; and (b) in the case of the Class A RAR, 0.75:1; and

(iii) no Default subsists or would result from the payment and those representations required to be repeated on each payment date are, and will following such payment remain, correct in all material respects **provided that** if such Default arises as a result of a notice to terminate the Instrument of Appointment having been served then such Default shall be deemed to be cured if an independent financial adviser shall have certified to the Security Trustee that a Transfer Scheme as defined in Schedule 2 of the WIA or other satisfactory security has been established that will not be materially prejudicial to the interests of Class A Debt Providers or Class B Debt Providers (as the case may be); and

(iv) no underlying rating in respect of the Class A Wrapped Bonds or the YWSF Wrapped Bonds and each credit rating in respect of the Class A Unwrapped Bonds or the YWSF Unwrapped Bonds has been placed on credit watch with negative implications where it is reasonably likely that such underlying rating or credit rating will fall below Investment Grade;

(c) in the case of YWS, not to make an Intra-Group Debt Service Distribution unless certain conditions are satisfied;

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

(e) to only replace the Auditor without the prior written approval of the Security Trustee if the replacement Auditor is a firm of independent public accountants of international standing;

(f) not to change its financial year end without the prior written consent of the Security Trustee; and

(g) to enter into the hedging agreements contemplated in the Hedging Policy in accordance with the terms of the Hedging Policy.

- Additionally, each of the Issuer, YWSF and, in the case of paragraphs (b) and (f) below, YWS undertakes, among other things:

(a) to restrict its business to certain matters in accordance with the Finance Documents;

(b) not to enter into any Authorised Credit Facility (other than in respect of any Subordinated Debt) unless following such entry into such Authorised Credit Facility:

(i) the sum of:

(1) the aggregate nominal outstanding Financial Indebtedness of the YW Financing Group which has an expected maturity falling within any period of 24 consecutive months (from and including the first day of any 24 month period to but excluding the day falling 24 months later) expressed as a percentage of RCV as at the proposed date of entry into such Authorised Credit Facility; and

(2) the aggregate accretions by way of indexation at the Relevant Inflation Rate to each Relevant Termination Date under any RPI Linked Hedging Agreement which:

(A) may be terminated at the election of the applicable Hedge Counterparty (taking into account the earliest optional termination date only);

(B) has a scheduled termination date; or

(C) will terminate pursuant to any mandatory termination provision specified in the relevant Hedging Agreement,

in each case within any period of 24 consecutive months (from and including the first day of any 24 month period to but excluding the day falling 24 months later) (any termination date falling within such period being a "Relevant Termination Date") each expressed as a percentage of RCV (where (1) if the Relevant Termination Date falls prior to the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for such Relevant Termination Date indexed to the Relevant Termination Date at the rate of inflation assumed by YWS in its most recent YWS Business Financial Model for such 24 month period, such rate of inflation the "Relevant Inflation Rate"), and (2) if the Relevant Termination Date falls after the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for the end of the current Periodic Review Period indexed to the Relevant Termination Date at the Relevant Inflation Rate),

shall not exceed 20 per cent.; and

(ii) the sum of:

(1) the aggregate nominal outstanding Financial Indebtedness of the YW Financing Group which has an expected maturity falling within the period from one Periodic Review to the next Periodic Review expressed as a percentage of RCV as at the proposed date of entry into such Authorised Credit Facility; and

(2) the aggregate accretions by way of indexation at the Relevant Inflation Rate to each Relevant Termination Date under any RPI Linked Hedging Agreement which:

(A) may be terminated at the election of the applicable Hedge Counterparty (taking into account the earliest optional termination date only);

(B) has a scheduled termination date; or

(C) will terminate pursuant to any mandatory termination provision specified in the relevant Hedging Agreement,

in each case within the period from one Periodic Review to the next Periodic Review (any termination date falling within such period being a "Relevant Termination Date") each expressed as a percentage of RCV (where (1) if the Relevant Termination Date falls prior to the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for such Relevant Termination Date; and (2) if the Relevant Termination Date falls after the end of the current Periodic Review Period, the RCV shall be that projected by Ofwat for the end of the current Periodic Review Period indexed to the Relevant Termination Date at the rate of inflation assumed by YWS in its most recent YWS Business Financial Model for such Periodic Review Period, such rate of inflation (the "Relevant Inflation Rate")),

does not exceed 40 per cent. (adjusted and increased proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than 5 years),

and, for the purposes of these paragraphs (b)(i) and (ii), "expected maturity" shall include any Financial Indebtedness that would, in the ordinary course, be expected to be repaid in full as a result of any Subordinated Step-up Fee Amounts or other extraordinary payment being required to keep such Financial Indebtedness outstanding;

(c) to use all reasonable endeavours to procure and maintain the admission of all listed Bonds for trading on the London Stock Exchange;

(d) to procure that the Principal Paying Agent notifies the Bond Trustee if it does not receive the full amount in the correct currency in respect of any payment in respect of the Bonds on or before the due date for such payment;

(e) to give notice of certain events to the Bond Trustee and Bondholders in relation to the Bonds and payments in respect of the Bonds;

(f) while any of the Bonds remain Outstanding, to procure that notice is given to each of the Rating Agencies of (A) any proposed amendment to the Finance Documents; (B) the Bonds of any Sub-Class being repaid in full; (C) the termination of the appointment of the Cash Manager; (D) the appointment of a replacement Bond Trustee or Security Trustee or any new or replacement Agents; (E) any Default; (F) the taking of Enforcement Action; (G) the occurrence of any YWH Change of Control; or (H) the establishment or acquisition of any Permitted Subsidiary, in each case, promptly after the Issuer, YWSF or YWS becoming aware of the same; and

(g) to give notice of certain events in relation to the Bonds to the Rating Agencies.

Financial Covenants

(i) YWS undertakes, among other things:

(a) to deliver, with each Compliance Certificate and each Investors' Report a statement setting out details of the calculation of the following ratios calculated as at the Calculation Date immediately prior to the date of the delivery of that Compliance Certificate:

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

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

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

(4) a Class A Average Adjusted ICR for each Test Period;

(5) the Senior Average Adjusted ICR for each Test Period;

(6) the Class A RAR for each Test Period;

(7) the Senior RAR for each Test Period;

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

(9) the Conformed Senior Adjusted ICR for each Test Period;

(10) the Conformed Class A Average Adjusted ICR for each Test Period; and

(11) the Conformed Senior Average Adjusted ICR for each Test Period. and

(b) at each Periodic Review and on making each interim determination application, to apply to Ofwat for a price determination which, in the reasonable opinion of the YWS directors, would allow, at a minimum, a credit rating the same as the original credit rating in respect of the Class A Unwrapped Bonds and the YWSF Unwrapped Bonds and an underlying rating the same as the original underlying rating in respect of the Class A Wrapped Bonds and the YWSF Wrapped Bonds, in each case from each of the Rating Agencies.

(ii) Each of the Issuer and YWSF shall (and YWS will procure that each of the Issuer and YWSF shall) maintain:

(a) DSR Liquidity Facilities available for drawing in respect of Class A Debt which, when aggregated with all amounts (including the value of any Authorised Investments funded from such amounts) standing to the credit of the Class A Debt Service Reserve Accounts of the Issuer and YWSF are not less than the Class A Required Balance;

(b) DSR Liquidity Facilities available for drawing by YWSF in respect of Non-Participating YWSF Bonds (other than Exchanged YWSF Bonds) which, when aggregated with all amounts (including the value of any Authorised Investments funded from such amounts) standing to the credit of the Non-Participating YWSF Bond Reserve Account of YWSF are not less than the Non-Participating YWSF Bond Required Balance; and

(c) DSR Liquidity Facilities available for drawing in respect of Class B Debt which, when aggregated with all amounts (including the value of any Authorised Investments funded from such amounts) standing to the credit of the Class B Debt Service Reserve Account of the Issuer is not less than the Class B Required Balance.

(iii) YWS further undertakes to maintain an O&M Reserve and/or O&M Reserve Facility available for drawing which together with amounts standing to the credit of any O&M Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Accounts) amount to not less than the O&M Reserve Required Amount.

Trigger Events

The CTA also sets out certain Trigger Events which will include (subject to agreed exceptions, materiality qualifications, grace periods and remedies and as more particularly provided in the CTA) the occurrence of any of the following events:

(i) *Financial Ratios*

(a) the Class A RAR for any Test Period is or is estimated to be more than 0.75:1;

(b) the Senior RAR for any Test Period is or is estimated to be more than 0.90:1;

(c) the Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;

(d) the Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;

(e) the Class A Average Adjusted ICR is or is estimated to be less than 1.4:1;

(f) the Senior Average Adjusted ICR is or is estimated to be less than 1.2:1;

(g) the Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1.3:1;

(h) the Conformed Senior Adjusted ICR for any Test Period is or is estimated to be less than 1.1:1;

(i) the Conformed Class A Average Adjusted ICR for any Test Period is or is estimated to be less than 1.4:1; or

(j) the Conformed Senior Average Adjusted ICR for any Test Period is or is estimated to be less than 1.2:1.

(ii) *Debt Service Payment Account Shortfall*

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

(iii) *Material Deviation in Projections*

On any Calculation Date, the estimated actual Capital Expenditure for the five-year period between the last Periodic Review and the next Periodic Review exceeds the Capital Expenditure for that period assumed by Ofwat for such period (as adjusted for the exceptions noted below) in respect of YWS by 10 per cent. or more. Allowable adjustments to the Capital Expenditure assumed by Ofwat are as follows:

(a) in respect of changes in Out-turn Inflation, including Variances in real construction prices from assumed construction prices;

(b) Variances that YWS has reasonable expectation will be added to the RCV through a Recognised Ofwat Mechanism by no later than the next Periodic Review Effective Date; and

(c) Variances attributable to investment in Major Capex Projects, where such projects were not reflected in the existing Periodic Review, but are the subject of discussions with Ofwat.

(iv) *Liquidity for Capital Expenditure and Working Capital*

If, as at any Calculation Date, the aggregate of (i) YWS's operating cash flows including monies standing to the credit of the Operating Accounts available or forecast to be available to meet Capital Expenditure and working capital requirements for the next 12 months; and (ii) Authorised Credit Facilities (excluding Liquidity Facilities) available to be drawn in the next 12 month period, is less than the aggregate of (a) YWS's forecast Capital Expenditure projected for the next 12 month period; (b) YWS's forecast working capital requirements projected for the next 12 month period; and (c) the amount the Issuer, YWSF or, as the case may be, YWS estimates, in its reasonable opinion, is equal to the net amount payable by the Issuer, YWSF or, as the case may be, YWS to a Hedge Counterparty following the exercise of an option to terminate a Treasury Transaction as permitted by the Hedging Policy.

(v) *Required Balance and Non-Participating YWSF Bond Required Balance of DSR Liquidity Facilities and Drawdown on O&M Reserve Facilities*

If, at any time, the aggregate of all amounts available for drawing under the DSR Liquidity Facilities in respect of Class A Debt and Class B Debt and all amounts standing to the credit of the Debt Service Reserve Accounts of the Issuer and YWSF (including the value of any Authorised Investments funded from amounts standing to the credit of the Debt Service Reserve Accounts) is less than the Required Balance (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

If, at any time, the aggregate of all amounts available for drawing under the DSR Liquidity Facilities in respect of Non-Participating YWSF Bonds (other than Exchanged YWSF Bonds) and all amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account of YWSF (including the value of any Authorised Investments funded from amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account) is less than the Non-Participating YWSF Bond Required Balance (although it will not be a Trigger Event if it is triggered as a direct result of a banking error and remedied by such amount being repaid within three Business Days without such repayment being funded by a further drawing under a DSR Liquidity Facility).

If, at any time, YWS draws down under an O&M Reserve Facility or YWS withdraws funds from its O&M Reserve Account, in either case to pay its operating or maintenance expenditure (excluding any drawing or repayment of any Standby Drawing in relation to an O&M Reserve Facility).

(vi) *Enforcement Order*

An Enforcement Order is issued under Part II, Chapter II of the WIA against YWS which would have a Material Adverse Effect if not complied with.

(vii) *Circumstances leading to a Special Administration Order*

Any published indication or occurrence of other circumstance that would reasonably be expected to lead to an application by Ofwat or the Secretary of State for a Special Administration Order to be made in respect of YWS.

(viii) *Termination of Instrument of Appointment*

The giving of a notice to terminate the Instrument of Appointment under the WIA.

(ix) *Event of Default*

An Event of Default is continuing.

(x) *Referral regarding Substantial Effects Clause*

A referral is made under sub-paragraph 14.2 of Condition B in Schedule 2 (*Substantial Effect Determination*) to the Instrument of Appointment (or any successor or equivalent paragraph) as a result of any materially adverse event.

(xi) *Audit Qualification*

The Auditor qualify its report of any member of the YW Financing Group in a material manner which causes the financial ratios calculated in accordance with the CTA to not reflect the true position of YWS in a materially adverse manner.

(xii) *Adverse Governmental Legislation*

The final reading of new legislation impacting upon Relevant Undertakers (as that term is defined in the WIA) if such legislation would (if enacted) lead to a breach of the financial ratios set out above or cause a material deviation in projections as set out above (in each case, taking into account any actions available to YWS to mitigate or cure the same).

(xiii) *Modification or Replacement of Instrument of Appointment*

If within six months of an announcement setting out clear proposals (including a related timetable to effect such proposals) by Ofwat for the modification or replacement of the Instrument of Appointment which, if implemented, would have a Material Adverse Effect, YWS has not obtained confirmation from Ofwat that the proposed modification or replacement is not expected to be implemented or is expected to be implemented in a form which is not reasonably expected to have a Material Adverse Effect.

(xiv) *Conduct of Business*

The Permitted Non-Appointed Business Limits are breached.

(xv) *Adverse Final Determination of K*

A final determination of K by Ofwat which is reasonably likely to have a Material Adverse Effect (taking into account any remedies available to YWS).

(xvi) *Credit Rating Downgrade*

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

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

(c) the long-term shadow credit rating of the Class B Wrapped Bonds by any two of the Rating Agencies is (i) ascribed at or falls below Investment Grade; or (ii) is withdrawn; or

(d) the long-term credit rating of any Class B Unwrapped Debt by any two of the Rating Agencies is (i) ascribed at or falls below Investment Grade; or (ii) is withdrawn.

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

(xvii) *Super Senior RPI Linked Hedging Agreements*

On any Calculation Date, the aggregate amount of all accretions by indexation to the original notional amounts of any Super Senior RPI Linked Hedging Agreements exceeds 6 per cent. of RCV as at that Calculation Date.

Trigger Event Consequences

Following the occurrence of a Trigger Event and at any time until such Trigger Event has been waived or deemed remedied in accordance with the CTA, certain consequences will result, including:

(i) no Obligor may make Restricted Payments and YWS must not declare and must stop any implementation of any Deferrals of K;

(ii) YWS must provide such information as may be properly requested by the Security Trustee. YWS must discuss with the Security Trustee (at a mutually convenient time and location) its plans for appropriate remedial action and the timetable for implementation of such action which must then be implemented by YWS;

(iii) the Security Trustee may commission an Independent Review to be conducted by technical advisers to the Security Trustee (appointed subject to prior consultation with YWS) to examine the causes of the relevant Trigger Event and recommend appropriate measures;

(iv) subject to prior notice to YWS, if practicable, the Security Trustee shall be entitled to discuss the relevant Trigger Event and any Remedial Plan with Ofwat; and

(v) restrictions on payments by YWS under Outsourcing Agreements and/or Capex Contracts with Associates which do not comply with the Outsourcing Policy.

Trigger Event Remedies

At any time when the Issuer, YWSF or YWS (as the case may be) believes that a Trigger Event has been remedied in accordance with the detailed provisions of the CTA, it must serve notice on the Security Trustee to that effect, and the Security Trustee must respond confirming that the relevant Trigger Event has, in its reasonable opinion, been remedied or setting out its reasons for believing that such Trigger Event has not been remedied (in which case, such event will continue to be a Trigger Event until such time as the Security Trustee is reasonably satisfied that the Trigger Event has been remedied).

Events of Default

The CTA contains a number of events of default (the "Events of Default") which will be Events of Default under each Finance Document (other than, in respect of the Hedge Counterparties, the Hedging Agreements). Subject, in some cases and where not otherwise stated below, to agreed exceptions, materiality thresholds and qualifications, reservations of law, grace periods and remedies, Events of Default include:

(a) non-payment of amounts payable under the Finance Documents;

(b) non-compliance with certain other obligations under the Finance Documents;

(c) material misrepresentation;

(d) non-payment of amounts payable (after the expiry of any originally applicable grace period) in respect of any Financial Indebtedness other than in respect of the Finance Documents and in excess of 0.1 per cent. of RCV in nominal amount;

(e) insolvency of any Obligor (other than YWS) or insolvency proceedings being commenced against any Obligor (other than YWS) or, in relation to YWS, an insolvency event or insolvency proceedings as set out further in the CTA occur(s) in relation to YWS;

(f) transfer, revocation or termination of the Instrument of Appointment;

(g) insufficient liquidity to meet YWS's forecast Capital Expenditure and working capital requirements projected for the next six month period;

(h) any Obligor repudiating a Finance Document or it becoming unlawful or ineffective to perform obligations under any Finance Document;

(i) a YWS Change of Control occurs;

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

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

(l) failure by any Obligor to comply with any judgment, attachment, sequestration, distress or execution being made, obtained or levied against the assets of any Obligor in respect of sums exceeding 0.1 per cent. of RCV;

(m) an Obligor other than YWS ceasing or threatening to cease to carry on its business or YWS ceasing or threatening to cease to carry on the Appointed Business;

(n) litigation being started against an Obligor or its assets or revenues which would be reasonably likely to be adversely determined and, if so adversely determined, would have a Material Adverse Effect;

(o) the Class A ICR for any Test Period is or is estimated to be less than 1.60:1; and/or

(p) the Senior RAR for any Test Period is or is estimated to be more than 0.95:1; and/or

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

(r) the Conformed Class A Adjusted ICR for any Test Period is or is estimated to be less than 1:1.

In respect of each Event of Default requiring any action or discretion on the part of the relevant creditor, the Security Trustee will (save in respect of certain Entrenched Rights and Reserved Matters (see the section "*Entrenched Rights and Reserved Matters*" above)) act in accordance with the instructions of the Majority Creditors in accordance with the STID (see the section "*Security Trust and Intercreditor Deed*" above).

Immediately upon the notification to the Security Trustee of an occurrence of an Event of Default, a Standstill Period will commence in accordance with the STID (see the section "*Security Trust and Intercreditor Deed – Standstill*" above).

Conditions Precedent

The conditions precedent to among other things the signing of the CTA, the Closing Date and to the issue of Bonds after the Closing Date is all set out in a conditions precedent agreement (the "CP Agreement") as agreed between, among others, the Bond Trustee, the Security Trustee and the Obligors.

Cash Management

Accounts

The CTA requires YWS to open and maintain the following Accounts with the Account Bank:

(a) certain Operating Accounts;

(b) an O&M Reserve Account;

(c) a Debt Service Payment Account; and

(d) a Compensation Account.

The Issuer is required to open and maintain the following Accounts with the Account Bank:

(a) a Transaction Account;

(b) a Class A Debt Service Reserve Account;

(c) a Class B Debt Service Reserve Account (if required); and

(d) in the event it raises Permitted Financial Indebtedness denominated in a currency other than Sterling, an account denominated in such currency.

YWSF is required to open and maintain the following Accounts with the Account Bank:

(a) a Transaction Account;

(b) a Class A Debt Service Reserve Account; and

(c) a Non-Participating YWSF Bond Reserve Account.

YWH was required to open and maintain one chequing account only with the Account Bank.

Each of the Issuer, YWSF and YWS may also open and maintain an account (each a "Swap Collateral Account") into which any collateral provided by a Hedge Counterparty or guarantor thereof shall be deposited upon the relevant trigger occurring for the provision of such collateral to support the obligations of the Hedge Counterparty or guarantor under the terms of the appropriate Hedging Agreement.

Each of YWS and the Issuer may open and maintain a Cash Cover Account pursuant to the terms of an Authorised Credit Facility pursuant to which a letter of credit facility has been made available to YWS or the Issuer into which any amounts in respect of "cash cover" (as defined in the relevant Authorised Credit Facility) shall be deposited in accordance with the terms thereof. Any amounts standing to the credit of a Cash Cover Account shall be applied only in accordance with the terms of the relevant Authorised Credit Facility and the STID.

Each of the above accounts together with any other bank account of any Obligor are collectively referred to as the "Accounts". Each of the Accounts (other than any Cash Cover Accounts opened at another bank or financial institution in accordance with the Senior Facilities Agreement or any other Authorised Credit Facility) will be held with the Account Bank pursuant to the Account Bank Agreement. Each Obligor will agree in the CTA to comply with the Account Bank Agreement and the provisions of the CTA applying to its Accounts.

Operating Accounts

Under the CTA, YWS will ensure that all of its revenues (other than any Income on Authorised Investments which shall be credited to the Account from which the relevant Authorised Investment was made) will be paid into an Operating Account.

The Operating Accounts shall be the principal current accounts of YWS through which all operating and Capital Expenditure or any Taxes incurred by YWS and (subject to the terms of the Finance Documents) payments in respect of the Financial Indebtedness of the YW Financing Group which are not permitted to be satisfied out of monies credited to the Debt Service Payment Account shall be cleared (including any amounts payable by YWS upon the occurrence of a Permitted EIB Compulsory Prepayment Event (subject to the proviso contained in the definition of Permitted EIB Compulsory Prepayment Event), any amounts payable in respect of any Non-

Participating YWSF Bonds and other permitted unsecured debt of YWS). YWS may make transfers at any time from one Operating Account to another, in its sole discretion. YWS may hold separate Operating Accounts for its Appointed Business and each of the trades entered into in connection with its Permitted Non-Appointed Business.

All operating expenditure of YWS will be funded (a) through payments made directly into the Operating Accounts and (b) through drawings made by YWS under any Authorised Credit Facility or other Permitted Financial Indebtedness, as and when required and permitted by the Finance Documents.

Proceeds in respect of property damage insurance (other than in respect of delay of start-up, business interruption or anticipated loss in revenue or third party claims) will also be paid by YWS into the Operating Accounts. On an ongoing basis, Capital Expenditure is funded out of monies standing to the credit of the Operating Accounts and/or (in relation to Capital Maintenance Expenditure), to the extent that the sums standing to the credit of the Operating Accounts are insufficient, an O&M Reserve Account.

All Distributions and Permitted Post Closing Events will be funded (directly or indirectly) out of monies standing to the credit of the Operating Accounts subject always to the satisfaction of all of the conditions set out in the CTA for the making of such payments.

On the Closing Date and annually thereafter on 31 March of each year (or, if such day is not a Business Day, the immediately preceding Business Day), YWS will calculate the Annual Finance Charge for the Pre-Test Period and for the period of 12 months commencing on the immediately following, 1 April, respectively, and details of such calculation will be included in the next following Investors' Report.

Under the CTA, YWS is required to, on the opening of business on the first Business Day of each month until the Discharge Date, transfer from the Operating Accounts to the Debt Service Payment Account an amount (the "Monthly Payment Amount") equal to 1/12th of YWS's Annual Finance Charge for the relevant 12 month period **provided that** the aggregate of any interest accruing on and credited to the Debt Service Payment Account will be treated as a prepayment of future Monthly Payment Amounts payable during the relevant 12 month period. Accordingly, the Monthly Payment Amounts due for the remaining months of such 12 month period shall be reduced *pro rata* to reflect such prepayment.

YWS will recalculate the Annual Finance Charge and the Monthly Payment Amount if during the course of any relevant 12 month period, there occurs any increase (whether as a result of any increase in the rate of applicable interest, any drawing under any Authorised Credit Facility, any deferral of interest, any upwards adjustment of rentals under any Finance Lease, or otherwise) or decrease (whether as a result of any reduction in the rate of applicable interest, downwards adjustment of rentals under any Finance Lease or any prepayment or repayment of the debt under which the relevant liabilities arise or accrue or otherwise) in the Annual Finance Charge and shall adjust the Monthly Payment Amount for the remaining months in the relevant 12 month period, and details will be included in the next following Investors' Report.

YWS's O&M Reserve Account

YWS will ensure that the proceeds of any drawing by it under any O&M Reserve Facility Agreement (other than a Standby Drawing) are paid directly into YWS's O&M Reserve Account or an Operating Account.

Withdrawals from YWS's O&M Reserve Account will be permitted if (i) such withdrawal is on account of operating and capital expenditure requirements that cannot be met from existing balances in the Operating Accounts, (ii) such withdrawal is for the purpose of transferring into an Operating Account any interest income earned from time to time on the O&M Reserve Accounts (including Income from any related Authorised Investments) or (iii) to the extent of any surplus O&M Reserves as certified by YWS to the Security Trustee and the Account Bank.

Debt Service Payment Account

YWS is required to ensure that each transfer of or in respect of the Monthly Payment Amount from the Operating Account is made directly into the Debt Service Payment Account.

The CTA provides that, on each Payment Date, monies credited to the Debt Service Payment Account shall be applied by YWS in the following order for the purpose of enabling the following payments ("Permitted Payments") to be made in the following order of priority (the "Payment Priorities") without double counting (**provided that**, any amounts applied by YWS in directly discharging an obligation of the Issuer or YWSF shall be treated as having simultaneously discharged YWS's corresponding obligation to pay on such Payment Date to the Issuer or, as the case may be, YWSF, the relevant facility fees, interest, principal, indemnity amounts and other sums due to the Issuer or, as the case may be, YWSF under the Issuer/YWS Loan Agreements or, as the case may be, the YWSF/YWS Loan Agreements and amounts applied by YWS in directly discharging the Issuer's obligations in respect of payments under the Class A Bonds originally issued by Yorkshire Water Services Odsal Finance Limited shall be treated as simultaneously having discharged YWSF's corresponding obligation to pay amounts due to the Issuer under the YWSF Bonds, YWS's corresponding obligation to pay amounts due to YWSF corresponding to such Exchanged YWSF Bonds under the Initial YWSF/YWS Loan Agreement and YWS's corresponding obligation (if applicable) to pay amounts due to the Issuer corresponding to such Class A Bonds under the Exchange Issuer/YWS Bond Loan Agreements and **provided further that**, the payment of the Issuer Profit Amount under the Issuer/YWS Loan Agreements, and the YWSF Profit Amount under the YWSF/YWS Loan Agreements (in each case, as specified therein) shall be paid at paragraphs (vi) and (xi) below and shall be transferred to the Transaction Account of the Issuer or, as the case may be, YWSF; any amounts payable by an Obligor pursuant to the terms of any Authorised Credit Facility in respect of "cash cover" (as defined in the Senior Facilities Agreement or any other relevant Authorised Credit Facility pursuant to which a letter of credit facility is provided) shall be discharged pursuant to item (vii) below (in respect of Class A Debt) or item (xii) below (in respect of Class B Debt) by payment of such amount to a Cash Cover Account of the relevant Obligor; any payments under items (iii) to (xix) shall be excluded to the extent such payments are due to a Subordinated Secured Creditor and shall instead be applied to items (xx) and (xxi) as applicable; and the distribution of amounts payable in respect of any Authorised Credit Facility as between the parties thereto shall be governed by the terms of the relevant Authorised Credit Facility and the obligations of any Obligor in relation thereto shall be discharged in accordance with such terms):

(i) *first* (to the extent there are insufficient monies standing to the credit of all other Accounts (other than any Excluded Account) and/or available for drawing under any Liquidity Facility), in or towards satisfaction of all of the YW Financing Group's operating and budgeted maintenance costs (except to the extent falling due under the Finance Documents);

(ii) *second*, *pro rata*, according to the respective amounts thereof (a) in satisfaction of YWS's, or, as the case may be, the Issuer's obligation to pay such amounts, in or towards payment of the remuneration, costs and expenses of the Security Trustee and the Bond Trustee; and (b) in satisfaction of YWSF's obligation to pay such amounts, payment of the remuneration, costs and expenses of the Participating YWSF Bond Trustee in respect of the Participating YWSF Bonds;

(iii) *third*, *pro rata*, according to the respective amounts thereof in or towards satisfaction of: (a) the Issuer's obligation to pay such amounts, the remuneration, costs and expenses of the Agent Bank and each Paying Agent; (b) the Issuer's and YWSF's obligation to pay such amounts, the remuneration, costs and expenses of the Account Bank under the Account Bank Agreement and the remuneration, costs and expenses of each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (c) the Issuer's obligation to pay such amounts, the remuneration, costs and expenses of each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; (d) the Issuer's and/or YWS's obligations to pay such amounts, the remuneration, costs and expenses of each Facility Agent and each Authorised Credit Provider under the relevant Authorised Credit Facility and the Standstill Cash Manager; (e) the remuneration, costs, expenses and fees of each Financial Guarantor pursuant to the relevant G&R Deed; and (f) YWSF's obligation to pay such amounts, the costs and expenses of YWSF in respect of the Participating YWSF Bonds being all amounts due by way of remuneration, costs and expenses to any issuing and paying agent, registrar, transfer agent or other agents in respect of the Participating YWSF Bonds;

(iv) *fourth*, *pro rata*, according to the respective amounts thereof, in or towards satisfaction of: (a) the Issuer's and YWSF's obligations to pay all amounts of fees, interest and principal (other than any Subordinated Liquidity Facility Amounts) due or overdue to each DSR Liquidity Facility Provider under the relevant DSR Liquidity Facility Agreement; (b) the Issuer's obligation to pay all amounts of fees, interest and principal (other than Subordinated Liquidity Facility Amounts) due or overdue to each O&M Reserve Facility Provider under the relevant O&M Reserve Facility Agreement; and (c) all amounts of interest and principal due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility to the extent that the Financial Indebtedness was incurred to fund a New Money Advance;

(v) *fifth*, *pro rata*, according to the respective amounts thereof, in or towards satisfaction of all scheduled amounts payable to each Hedge Counterparty under any Super-Senior Interest Rate Hedging Agreement (subject to paragraph (vi) below);

(vi) *sixth*, *pro rata*, according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of interest (including the Lease Reserve Amounts and Adjusted Lease Reserve Amounts), recurring fees and commitment commissions due or overdue in respect of the Class A Debt (other than any amounts payable to Hedge Counterparties pursuant to paragraph (v) or this paragraph (vi)(b), (c) and (d), Subordinated Step-up Fee Amounts and Subordinated Authorised Loan Amounts); (b) any unscheduled amounts (including termination amounts) due and payable to each Hedge Counterparty under any Super-Senior Interest Rate Hedging Agreement (except to the extent required to be paid at paragraph (xv) below) or any reserves in respect thereof required to be paid to the Compensation Account; (c) all scheduled amounts payable to each Hedge Counterparty under any Pari Passu Interest Rate Hedging Agreement (subject to paragraph (vii)) (d) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt and (subject to paragraph (xv) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (e) all amounts of underwriting commissions due or overdue in respect of Class A Debt; (f) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class A Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds guaranteed by such Financial Guarantor; and (g) (A) following the commencement of a Standstill Period and for so long as it continues (but excluding the application by the Security Trustee of any Ring-fenced Proceeds), first, all amounts payable to the Non-Participating YWSF Bond Trustee under or in relation to the Non-Participating YWSF Bonds and, secondly, all amounts payable under the Non-Participating YWSF Bonds in respect of interest due or overdue in respect of the Non-Participating YWSF Bonds; and (B) if the circumstances described in the paragraph entitled '*Payments Following Termination of Standstill and Permitted Share Pledge Acceleration*' below arise, with respect to the application by the Security Trustee of Shared Proceeds only, first, all amounts payable to the Non-Participating YWSF Bond Trustee under or in relation to the Non-Participating YWSF Bonds and, secondly, all amounts payable under the Non-Participating YWSF Bonds in respect of interest due or overdue in respect of the Non-Participating YWSF Bonds;

(vii) *seventh*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all amounts of principal due or overdue in respect of Class A Debt (including, in respect of Finance Leases, those amounts (including any rental and capital sums) payable in respect thereof which do not fall within paragraph (vi) above and do not fall due as a result of the operation of any indemnity or fee reimbursement provision of a Finance Lease) (other than amounts payable to Hedge Counterparties pursuant to paragraph (vi)(b), this paragraph (vii)(b), (c) and (d) and paragraph (xv)); (b) all principal exchange or final exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class A Debt (except to the extent required to be paid at paragraph (xv) below) or any reserves in respect thereof required to be paid to the Compensation Account; and (d) any unscheduled amounts (including termination amounts) due and payable to each Hedge Counterparty under any Pari Passu Interest Rate Hedging Agreement (except to the extent required to be paid at paragraph (xv) below); (e) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class A Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds; and (f) (A) following the commencement of a Standstill Period and for so long as it continues (but excluding the application by the Security Trustee of any Ring-fenced Proceeds), all amounts payable under the Non-Participating YWSF Bonds in respect of principal due or overdue in respect of the Non-Participating YWSF Bonds; and (B) if the circumstances described in the paragraph entitled '*Payments Following Termination of Standstill and Permitted Share Pledge Acceleration*' below arise, with respect to the application by the Security Trustee of Shared Proceeds only, all amounts payable under the Non-Participating YWSF Bonds in respect of principal due or overdue in respect of the Non-Participating YWSF Bonds;

(viii) *eighth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class A Debt;

(ix) *ninth,* pro rata according to the respective amounts thereof:

(a) if the Class A Required Balance is greater than zero, *pro rata*, in payment to (A) the Class A Debt Service Reserve Account of the Programme Issuer until the aggregate balance of such account (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities available to the Programme Issuer in respect of Class A Debt is at least equal to the Issuer DSR Proportion of the Class A Required Balance; (B) the Class A Debt Service Reserve Account of the Exchange Issuer until the aggregate balance of such account (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities available to the Exchange Issuer in respect of Class A Debt is at least equal to the Exchange Issuer DSR Proportion of the Class A Required Balance; and (C) the Class A Debt Service Reserve Account of YWSF, until the aggregate balance of such account (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities available to YWSF in respect of Class A Debt is at least equal to the YWSF DSR Proportion of the Class A Required Balance; and

(b) in payment to the Non-Participating YWSF Bond Reserve Account of YWSF until the aggregate balance on such account (including the value of any Authorised Investments funded from amounts standing to the credit of such Non-Participating YWSF Bond Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities available to YWSF in respect of the Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds) is at least equal to the Non-Participating YWSF Bond Required Balance;

(x) *tenth,* in payment to the Issuer's O&M Reserve Account until the sum of the O&M Reserve (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Accounts) and the aggregate of amounts available to be drawn under the O&M Reserve Facilities is at least equal to the O&M Reserve Required Amount;

(xi) *eleventh*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) interest and commitment commissions due or overdue in respect of the Class B Debt (other than any Subordinated Step-up Fee Amounts); (b) all scheduled amounts (other than principal exchange or final exchange amounts) payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt and (subject to paragraph (xv) below and following termination of a Standstill Period other than due to remedy or waiver by the Majority Creditors of, or the revocation of, the Event of Default giving rise to the Standstill Period) all amounts payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) all amounts of underwriting commissions due or overdue in respect of the Class B Debt; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of interest on any Class B Wrapped Bonds guaranteed by such Financial Guarantor;

(xii) *twelfth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of (a) all amounts of principal due or overdue in respect of the Class B Debt; (b) all principal exchange or final exchange amounts due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt; (c) any termination amounts or other unscheduled sums due and payable to each Hedge Counterparty under any Currency Hedging Agreement in respect of Class B Debt (except to the extent required to be paid at paragraph (xv) below) or any reserves in respect thereof required to be paid to the Compensation Account; and (d) all reimbursement sums (if any) owed to each Financial Guarantor under the relevant G&R Deed in respect of payments of principal on any Class B Wrapped Bonds guaranteed by such Financial Guarantor;

(xiii) *thirteenth*, in or towards satisfaction of any Make-Whole Amount due and payable on the Class B Debt;

(xiv) *fourteenth*, in payment to the Class B Debt Service Reserve Account of the Programme Issuer until the sum of the balance thereof (including the value of any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) and the aggregate available commitments under any DSR Liquidity Facilities in respect of Class B Debt is at least equal to the Class B Required Balance;

(xv) *fifteenth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) any other amounts (not included in paragraphs (vi) and (vii) above), due and/or overdue to the Finance Lessors; and (b) any termination payment due or overdue to a Hedge Counterparty under any Hedging Agreement which arises as a result of a default by such Hedge Counterparty or as a result of a downgrade in the credit rating of such Hedge Counterparty following any failure by the Hedge Counterparty to comply with the applicable downgrade provisions set out in the relevant Hedging Agreement (other than any amount attributable to the return of collateral or any premium or other upfront payment paid to the Issuer, YWS or YWSF to enter into a transaction to replace a Hedging Agreement (in whole or in part)) which shall be applied first in payment of amounts due to the Hedge Counterparty in respect of that Hedging Agreement);

(xvi) *sixteenth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Liquidity Facility Amounts due or overdue to each Liquidity Facility Provider under any Liquidity Facilities; (b) all Subordinated Authorised Loan Amounts due or overdue to each Authorised

Credit Provider under the relevant Authorised Credit Facility in respect of Class A Debt; (c) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class A Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds guaranteed by such Financial Guarantor; and (d) any amounts payable in respect of Class A Debt not referred to in other sub-paragraphs of the Payment Priorities;

(xvii) *seventeenth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of: (a) all Subordinated Authorised Loan Amounts due or overdue to each Authorised Credit Provider under the relevant Authorised Credit Facility in respect of Class B Debt; (b) any other indemnified amounts due or overdue to each Financial Guarantor under the relevant G&R Deed in respect of any Class B Wrapped Bonds guaranteed by such Financial Guarantor; and (c) any amounts payable in respect of Class B Debt not referred to in other sub-paragraphs of the Payment Priorities;

(xviii) *eighteenth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-up Fee Amounts due or overdue in respect of any Class A Bonds;

(xix) *nineteenth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all Subordinated Step-up Fee Amounts due or overdue in respect of any Class B Bonds;

(xx) *twentieth*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of all amounts due or overdue (other than principal) to any Subordinated Secured Creditor (limited (a) in respect of amounts due to any Bondholders, Participating YWSF Bondholders or Non-Participating YWSF Bondholders, to any Subordinated Classes; and (b) in respect of amounts due to any Non-Participating YWSF Bondholders or the Non-Participating YWSF Bond Trustee, to (A) amounts payable following the commencement of a Standstill Period and for so long as it continues (but excluding the application by the Security Trustee of any Ring-fenced Proceeds); and (B) in circumstances where the events described in the paragraph entitled '*Payments Following Termination of Standstill and Permitted Share Pledge Acceleration*' below have arisen, the application by the Security Trustee of Shared Proceeds only);

(xxi) *twenty-first*, *pro rata* according to the respective amounts thereof, in or towards satisfaction of principal due or overdue to any Subordinated Secured Creditor (limited (a) in respect of amounts due to any Bondholders, Participating YWSF Bondholders or Non-Participating YWSF Bondholders, to any Subordinated Classes; and (b) in respect of amounts due to any Non-Participating YWSF Bondholders or the Non-Participating YWSF Bond Trustee, to (A) amounts payable following the commencement of a Standstill Period and for so long as it continues (but excluding the application by the Security Trustee of any Ring-fenced Proceeds); and (B) in circumstances where the events described in the paragraph entitled '*Payments Following Termination of Standstill and Permitted Share Pledge Acceleration*' below have arisen, the application by the Security Trustee of Shared Proceeds only); and

(xxii) *twenty-second*, (to the extent required in the CTA) the balance shall remain in the Debt Service Payment Account.

If at the end of any Test Period, there are amounts standing to the credit of the Debt Service Payment Account ("Excess Funds") as a result of either (a) interest credited to and accruing on the Debt Service Payment Account or (b) payment of amounts into the Debt Service Payment Account in excess of the Annual Finance Charge for such Test Period, such Excess Funds will be treated and applied as a prepayment of future Monthly Payment Amounts due in the succeeding Test Period.

If on any Payment Date there are insufficient funds available to the Obligors to pay in full all Secured Liabilities falling due for payment on such date, then the Payment Priorities shall apply and the Cash Manager shall ensure that (a) no amounts are applied in discharging any liabilities due to a Secured Creditor unless on the date such amounts are applied all sums then due and payable to each prior ranking Secured Creditor have first been discharged in full; and (b) where funds available to the Obligors are insufficient to meet all of the payments falling due to be made on such date in any sub-paragraph of the Payment Priorities, such funds shall be divided pro rata between those payments.

The Payment Priorities set out in paragraphs (i) to (xxii) inclusive will not apply to (a) the CD Amounts, which shall be applied on the Closing Date in accordance with the Settlement and Acknowledgement Deed, (b) the proceeds of any further borrowing of Permitted Financial Indebtedness which are required by the terms of such borrowing to be applied (1) by way of loan to YWS pursuant to an Issuer/YWS Loan Agreement, an Exchange Issuer/YWS Loan Agreement or, as the case may be, a YWSF/YWS Loan Agreement; or (2) in repayment or prepayment of any then existing Financial Indebtedness of the YW Financing Group, in each case, to the extent permitted by the CTA or (c) any return of collateral or premium or up front payment on replacement of a Hedging Agreement which has been terminated in the circumstances contemplated in paragraph (xv) above which will be paid to the relevant Hedge Counterparty directly. In no circumstance shall YWS be entitled to apply monies represented by the Monthly Payment Amount in or towards making a Restricted Payment.

For so long as no Standstill Period is continuing, YWS will, on the date which is seven Business Days prior to each Payment Date (such date, a "Determination Date"), determine whether the aggregate amount of monies then credited to the Debt Service Payment Account is at least equal to the aggregate of all amounts referred to in paragraphs (i) to (xxi) of the Payment Priorities described above (other than (vi)(g) and (vii)(f) and other than principal repayments on the Senior Debt) which fall due and payable on such Payment Date (such aggregate amount, "Scheduled Debt Service"). If the balance on the Debt Service Payment Account on a Determination Date is less than the amount of Scheduled Debt Service falling due on the following Payment Date, then YWS will promptly transfer to the Debt Service Payment Account an amount equal to the shortfall first from sums standing to the credit of the Operating Accounts and then, to the extent that there would still be a shortfall in meeting the Scheduled Debt Service, from sums standing to the credit of the Debt Service Reserve Accounts. No amounts may be so transferred from any Operating Account to the extent that to do so would cause the aggregate net balance of the Operating Accounts to fall below the then current aggregate net overdraft limit on the Operating Accounts or cause the balance on any Operating Account to fall below the then current gross overdraft limit in respect of such Operating Account. If after making any required transfers from the Operating Accounts and/or the Debt Service Reserve Accounts, the balance on the Debt Service Payment Account would be insufficient to pay any Scheduled Debt Service falling due for payment at paragraphs (i)-(vi) inclusive (other than (vi)(g)), (xi), (xviii) or (xix) of the Payment Priorities (excluding any termination payments under any Hedging Agreements), the Issuer and/or, in the case of a shortfall relating to the obligations of YWSF, YWSF shall promptly request a drawing under the relevant DSR Liquidity Facility (if any) (a) in the case of the Issuer, in an amount equal to any shortfall remaining in respect of the Issuer's Class A Debt or, in respect of items (xi) and (xix), the Class B Debt; (b) in the case of the Issuer, in an amount equal to any shortfall remaining in respect of the Issuer's Class A Debt; and (c) in the case of YWSF, in an amount equal to any shortfall remaining in respect of YWSF's Class A Debt.

Debt Service Reserve Accounts, Non-Participating YWSF Bond Reserve Account and O&M Reserve Accounts

YWS will (subject to and in accordance with the Payment Priorities) transfer monies standing to the credit of the Debt Service Payment Account to (i) the Class A Debt Service Reserve Accounts (of the Issuer and YWSF) and the Class B Debt Service Reserve Account of the Issuer, as required, to maintain the Required Balance; (ii) the Non-Participating YWSF Bond Reserve Account of YWSF as required to maintain the Non-Participating YWSF Bond Required Balance; and (iii) the O&M Reserve Accounts of YWS, as required, to maintain the O&M Reserve Required Amount.

YWS will agree to procure that on any Payment Date and (in respect of paragraph (c) only) any Non-Participating YWSF Bond Payment Date:

(a) the aggregate of (i) all amounts available for drawing under the DSR Liquidity Facilities in respect of Class A Debt; and (ii) all amounts standing to the credit of the Class A Debt Service Reserve Accounts (including the value of any Authorised Investments funded from amounts standing to the credit of the Class A Debt Service Reserve Accounts) are at least equal to the Class A Required Balance;

(b) the aggregate of (i) all amounts available for drawing under the DSR Liquidity Facilities in respect of Class B Debt; and (ii) all amounts standing to the credit of the Class B Debt Service Reserve Account (to the extent one is maintained) (including the value of any Authorised Investments funded from amounts standing to the credit of the Class B Debt Service Reserve Account) (after deducting all amounts required to satisfy the Class A Required Balance) are at least equal to the Class B Required Balance; and

(c) the aggregate of (i) all amounts available for drawing by YWSF under the DSR Liquidity Facilities in respect of any Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds); and (ii) all amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account), are at least equal to the Non-Participating YWSF Bond Required Balance.

(1) In the case of the relevant DSR Liquidity Facility in respect of Class A Debt, the Issuer and YWSF, (2) in the case of the relevant DSR Liquidity Facility in respect of Class B Debt, the Issuer, (3) in the case of the relevant DSR Liquidity Facility in respect of Non-Participating YWSF Bonds, YWSF, and (4) in the case of the relevant O&M Reserve Facility, YWS, (A) will be required to draw down the whole of a Liquidity Facility Provider's commitment if that Liquidity Facility Provider (i) ceases to have the Minimum Short-Term Rating from S&P; or (ii) fails to renew its commitment at the end of the term of the relevant Liquidity Facility and whose commitment is not replaced by another Liquidity Facility Provider; and (B) may (but is not obliged to) draw down the whole of a Liquidity Facility Provider's commitment if that Liquidity Facility Provider ceases to have the Minimum Short-Term Rating from Moody's or Fitch. The Issuer or, as the case may be, YWSF must deposit the proceeds of each such drawdown into its Debt Service Reserve Account or, in the case of a DSR Liquidity Facility in respect of Non-Participating YWSF Bonds, the Non-Participating YWSF Bond Reserve Account and, in the case of a drawdown by YWS under an O&M Reserve Facility, YWS must deposit the proceeds of such drawdown into its O&M Reserve Account.

No monies may be withdrawn from the Debt Service Reserve Accounts, Non-Participating YWSF Bond Reserve Account or the O&M Reserve Accounts except as permitted by the relevant Liquidity Facility Agreement (see the section "*The Liquidity Facilities*" below) and the CTA or if the Issuer, YWSF or, as the case may be, YWS delivers, prior to any withdrawal, a certificate to the Security Trustee and the Account Bank that following the making of such withdrawal (a) in the case of the Debt Service Reserve Accounts, the aggregate of the amounts standing to the credit of the relevant Debt Service Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the relevant Debt Service Reserve Account) and amounts available for drawing under the DSR Liquidity Facilities in respect of Class A Debt and Class B Debt is at least equal to the Required Balance, (b) in the case of the Non-Participating YWSF Bond Reserve Account, the aggregate of the amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account (including the value of any Authorised Investments funded from amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account) and amounts available for drawing under the DSR Liquidity Facilities in respect of Non-Participating YWSF Bonds is at least equal to the Non-Participating YWSF Bond Required Balance and (c) in the case of YWS's O&M Reserve Account, the aggregate of the O&M Reserve (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Accounts) and amounts available for drawing under the O&M Reserve Facilities is at least equal to the O&M Reserve Required Amount.

Compensation Account

YWS shall ensure that any amounts required to be deposited into the Compensation Account pursuant to items (vi)(b), (vii)(c) or (xii)(c) of the Payment Priorities are paid into the Compensation Account.

YWS may only withdraw amounts from the Compensation Account in meeting termination sums due under the relevant Hedging Agreement or as otherwise required by the Hedging Policy.

Authorised Investments

YWS and the Issuer will be permitted, in accordance with the CTA, to invest in certain Authorised Investments from amounts standing to the credit of any of the Accounts.

Cash Management during a Standstill Period

The arrangements described in the section "*Debt Service Payment Account*" above shall continue to apply until the commencement of a Standstill Period. The CTA will provide that, so long as a Standstill Period continues unremedied, and provided no Enforcement Action (other than a Permitted Share Pledge Acceleration and other than any Independent Enforcement Action) has occurred, YWS shall cease to be the Cash Manager and will be replaced by the Standstill Cash Manager, who shall assume control of the Accounts, pay operating expenditure when it falls due and, on a monthly basis, calculate the aggregate of all payments falling to be made during the next following period of 12 months and shall calculate all net revenues received and/or expected to be received over that 12 month period. To the extent that the forecast revenues are insufficient (after paying all relevant operating expenditure) to pay the aggregate of all payments falling to be made during the next 12 months, the Standstill Cash Manager shall notionally apply those forecast revenues to each category in accordance with the Payment Priorities until the revenue that is forecast to be available is insufficient to meet all of the payments falling to be made within such 12 month period in any sub-paragraph of the Payment Priorities (the "Shortfall Paragraph") and shall, in respect of those categories of payment falling within the Shortfall Paragraph, divide the anticipated revenues remaining *pro rata* between those amounts. Throughout the Standstill Period, any payments falling to be made within a category of payment falling within a Shortfall Paragraph shall be made by a payment of the *pro rata* share of that payment so calculated and no payments falling in a category which (in accordance with the Payment Priorities) falls after a Shortfall Paragraph shall be made (and in either case the balance of the payments not made shall remain outstanding).

Payments Following Termination of Standstill and Permitted Share Pledge Acceleration

Following termination of a Standstill (other than due to (a) waiver by the Majority Creditors (subject to the relevant Quorum Requirement being met) and any other Secured Creditors whose consent is required to be obtained in respect of such waiver pursuant to the Entrenched Rights or (b) the remedy of the Event of Default giving rise to the Standstill Period) or upon a Permitted Share Pledge Acceleration, the Security Trustee shall apply all sums received by it or available for distribution in accordance with the Payment Priorities above **provided that** (a) items (i), (ix), (x) and (xiv) shall be deleted for these purposes; and (b) items (vi)(g), (vii)(f) and, to the extent such items relate to payments to Non-Participating YWSF Bondholders or the Non-Participating YWSF Bond Trustee, items (xx) and (xxi) shall apply in respect of the application by the Security Trustee of Shared Proceeds only.

Additionally, during a Standstill Period the Annual Finance Charge pertaining to any Finance Leases shall be adjusted in accordance with the terms of the relevant Finance Lease or Addendum relating thereto.

Hedging Policy

The Hedging Policy provides, *inter alia*, that:

1. The YW Financing Group will not enter into Treasury Transactions for the purpose of speculation, but rather only to manage risk inherent in its business or funding on a prudent basis (which shall include any forward starting hedges if thought appropriate) and to the extent permitted by the Financial Services and Markets Act 2000.

2. Any change to the Hedging Policy will be subject to YWS board approval and may only be made with the approval of the Security Trustee.

3. Subject to such approvals, the Hedging Policy will be reviewed from time to time by the YW Financing Group and amended (subject to Entrenched Rights and Reserved Matters and in accordance with the provisions of the STID) as appropriate in line with market developments, regulatory developments, and Good Industry Practice.

4. The YW Financing Group must not bear currency risk in respect of any foreign currency denominated debt instruments, or in respect of any foreign currency purchases which, when aggregated with all other foreign currency exposure at the time of such purchase, causes the sterling equivalent of foreign currency exposure of the YW Financing Group to exceed 0.1 per cent. of RCV.

5. The YW Financing Group will maintain at least 85 per cent. of its total outstanding liability profile for the current period to the next Periodic Review and at least 75 per cent. in the next period to the subsequent Periodic Review (each as adjusted proportionately to the extent that the period from one Periodic Review to the next Periodic Review is greater than five years) (on a rolling basis) as index-linked obligations or fixed rate obligations either directly or via hedges. This figure will be kept under review with respect to market conditions and developments in regulatory methodology and practice. Any proposal to change these figures will be approved by the YWS board and be subject to the approval of the Security Trustee (such approval not to be unreasonably withheld).

6. Interest rate risk on floating rate liabilities will be hedged through a combination of cash balances and instruments such as interest rate and inflation linked swaps entered into by the Issuer.

7. Subject to market constraints and YWS board approval, the YW Financing Group will raise debt through the use of index-linked instruments where it is cost effective.

8. Subject to paragraph 9 below, the Issuer, YWSF and YWS may only enter into Treasury Transactions with counterparties whose short-term, unsecured and unsubordinated debt obligations are assigned a rating by the Rating Agencies which is no less than the minimum required ratings applicable to each Rating Agency as specified in the Hedging Policy or where a parent guarantee is provided by an institution which meets the same criteria. Each Hedging Agreement must include a provision entitling the Issuer, YWSF or, as the case may be, YWS to terminate if there is a downgrade of the Hedge Counterparty (or guarantor thereof) from such minimum required ratings or certain specified long-term ratings and 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 S&P, Moody's and Fitch.

9. On 3 March 2014, a STID Proposal was passed which allows the Issuer, YWSF and YWS to enter into Hedging Agreements with unrated counterparties subject to various conditions, including that;

   (a) the relevant Hedge Counterparty has posted collateral at the date on which it enters into any confirmation in respect of such Hedging Agreement in an amount to fully cover all maximum future undiscounted net payment obligations which the Hedge Counterparty has or could have under the terms of the relevant Hedging Agreement; and

(b) each Rating Agency has affirmed the then current rating of the Bonds at the time at which such confirmation in respect of such Hedging Agreement is entered into (provided that in circumstances where a Rating Agency is not willing to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, YWS has certified in writing to the Security Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with YWS this opinion is based on consultation with such Rating Agency), such transaction would not cause the ratings of the Bonds to be downgraded).

10. Hedging Agreements must be entered into in the form, as amended by the parties thereto, of the 1992 ISDA Master Agreement (Multicurrency – Cross Border), the 2002 Master Agreement published by ISDA or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

Security Agreement

Security

Each Obligor, on the Closing Date, entered into the security agreement (the "Security Agreement") with the Security Trustee pursuant to which YWH guaranteed the obligations of each other Obligor under the Finance Documents and YWS, YWSF, and the Issuer guaranteed the obligations of each other (but not YWH) under the Finance Documents, in each case to the Security Trustee as security trustee for the Shared Secured Creditors and the Ring-fenced Secured Creditors on the terms set out in the Security Agreement and the STID.

Each of YWS and YWSF (together with any Permitted Subsidiaries which constitute a "Principal Subsidiary" (as such term is defined in the terms and conditions of the Non-Participating YWSF Bonds), the "Shared Chargors") secured its property, assets and undertakings to the Security Trustee as trustee for the Shared Secured Creditors (which include the Non-Participating YWSF Bondholders and the Non-Participating YWSF Bond Trustee). However, in respect of YWS, the creation, perfection and enforcement of such security will be subject to the WIA, the Instrument of Appointment and requirements thereunder. Each other Obligor (the "Ring-fenced Chargors") secured its property, assets and undertakings to the Security Trustee as trustee for the Ring-fenced Secured Creditors (which do not include the Non-Participating YWSF Bondholders or the Non-Participating YWSF Bond Trustee).

The Security Agreement, to the extent applicable, incorporates the provisions of the CTA and is subject to the STID.

The security constituted by the Security Agreement is expressed to include, amongst other things:

(i) first fixed charges over:

(a) the shares in YWS, YWSF, and the Issuer;

(b) each Obligor's right, title and interest from time to time in and to certain land and other real property and the proceeds of any disposal thereof;

(c) all present and future plant, machinery, office equipment, computers, vehicles and other chattels;

(d) all monies standing to the credit of each Obligor's bank accounts;

(e) certain Intellectual Property Rights owned by each Obligor;

(f) uncalled capital and goodwill;

(g) each Authorised Investment;

(h) all shares of any person owned by the Obligor including all dividends, interest and other monies payable in respect thereof and all other rights related thereto;

(i) all present and future book debts; and

(j) all benefit in respect of certain insurances;

(ii) an assignment of each Obligor's right in respect of all Transaction Documents; and

(iii) a first floating charge of the whole of the undertaking of each Obligor,

except that the Security does not include any security over Protected Land (see Chapter 6, "*Regulation of the Water and Wastewater Industry in England and Wales*" under "*Protected Land*") or any of YWS's other assets, property and rights to the extent, and for so long as, the taking of any such security would contravene the terms of the Instrument of Appointment and requirements thereunder or the WIA or any other applicable law.

For a description of certain limitations on the ability of YWS to grant security and certain limitations and restrictions on the security purported to be granted, see Chapter 4 "*Risk Factors – Certain Legal Considerations – Security*" and Chapter 6 "*Regulation of the Water and Wastewater Industry in England and Wales – Restrictions on the Granting of Security*".

Prior to an Event of Default, notices of assignment will only be given to the relevant counterparty to the Transaction Documents that are assigned and to the insurers with whom YWS has taken out insurance in accordance with the requirements of the CTA (subject to certain agreed exceptions). Following an Event of Default, notices of assignment will be given in respect of any assigned contract or asset as requested by the Security Trustee upon the instructions of the Majority Creditors pursuant to the terms of the STID.

Any Permitted Subsidiary acquired or established by YWS at any time following the Closing Date will be required to accede to the Security Agreement as an Obligor.

Security Structure

The following shows the security provided by the YW Financing Group in favour of the Security Trustee on behalf of the Shared Secured Creditors (in respect of the Shared Security) and the Ring-fenced Secured Creditors (in respect of the Ring-fenced Security) on the terms set out in the Security Agreement and the STID:

SECURITY		**GUARANTEE**
Fixed and floating charge Principal secured asset is its holding of shares in YWS	YWH (a Ring-fenced Chargor)	Guarantees all obligations of YWS, YWSF, and the Issuer under the Finance Documents
Fixed and floating charge over its property, assets and undertaking, all subject to the WIA and the Instrument of Appointment	YWS (a Shared Chargor)	Guarantees all obligations of YWSF and the Issuer under the Finance Documents
Fixed and floating charge	YWSF (a Shared Chargor)	Guarantees all obligations of YWS and the Issuer under the Finance Documents
Fixed and floating charge	Issuer (a Ring-fenced Chargor)	Guarantees all obligations of YWS and YWSFunder the Finance Documents

Financial Guarantor Documents

The Financial Guarantees of Wrapped Bonds

The form of Financial Guarantee to be issued by each Financial Guarantor (upon fulfilment or waiver by the Relevant Financial Guarantors of certain conditions precedent to be contained in the CP Agreement) in respect of the issue of any Wrapped Bonds issued under the Programme will be set out in a supplement to this Prospectus.

Upon an early redemption of the relevant Wrapped Bonds or an acceleration of the relevant Wrapped Bonds, each Relevant Financial Guarantor's obligations will continue to be to pay the Guaranteed Amounts as they fall Due for Payment (each as defined in the Relevant Financial Guarantor's Financial Guarantee) on each Payment Date. None of the Financial Guarantors will be obliged under any circumstances to accelerate payment under its Financial Guarantees. However, if it does so, it may do so in its absolute discretion in whole or in part, and the amount payable by the Relevant Financial Guarantor will be the Outstanding Principal Amount (or *pro rata* amount that has become due and payable) of the relevant Wrapped Bonds together with accrued interest (excluding always the FG Excepted Amounts). Any amounts due in excess of such Outstanding Principal Amount (and any accrued interest thereon) will not be guaranteed by any Financial Guarantor under any of the Financial Guarantees.

The Bond Trustee as party to each of the Financial Guarantees will have the right to enforce the terms of such Financial Guarantees, and any right of any other person to do so is expressly excluded.

Guarantee and Reimbursement Deeds

On each relevant Issue Date of Wrapped Bonds, the Issuer and YWS will enter into a guarantee and reimbursement deed (each a "G&R Deed") with the relevant Financial Guarantor, pursuant to which the Issuer will be obliged, among other things, to reimburse such Financial Guarantor in respect of the payments made by it under the relevant Financial Guarantee and to pay, among other things, any fees and expenses of such Financial Guarantor in respect of the provision of the relevant Financial Guarantee. Insofar as a Financial Guarantor makes payment under the relevant Financial Guarantee in respect of Guaranteed Amounts (as defined in such Financial Guarantee), it will be subrogated to the present and future rights of the relevant Wrapped Bondholders against the Issuer in respect of any payments made.

Additional Resources Available

Finance Leases

YWS is party to various Finance Leases, whereby the Finance Lessor leases the Equipment sold or supplied to YWS on the terms and subject to the conditions set out in the lease agreements with YWS as lessee and the respective leasing company as lessor. The Finance Documents also permit YWS to enter into new Finance Leases in the future.

The Equipment acquired by or sold or supplied to such leasing companies consists mainly of plant and machinery and other equipment used in the water and sewerage operations of YWS. The Equipment is comprised of movable equipment and fixed equipment (that is Equipment which is so installed or affixed to real estate so as to become part of that real estate as a matter of law ("Fixtures")).

Authorised Credit Facilities

YWS has entered into various bilateral and syndicated bank facilities, which incorporate and are subject to the terms of the STID and the CTA.

The Liquidity Facilities

DSR Liquidity Facilities

YWS agrees to procure that on any Payment Date, the aggregate of (i) all amounts available for drawing under any DSR Liquidity Facilities; and (ii) all aggregate amounts standing to the credit of the Debt Service Reserve Accounts (including any Authorised Investments funded from amounts standing to the credit of any Debt Service Reserve Account) are at least equal to the Required Balance.

Following the Closing Date, in order to maintain the Required Balance from time to time, each of the Issuer and YWSF may enter into a DSR Liquidity Facility Agreement. The Issuer and YWSF entered the DSR Liquidity Facility Agreement on 7 April 2011 (as amended and restated on 23 September 2011 and as further amended and restated on 26 September 2012 (as may be further as amended and restated from time to time)) and renewed on 29 March 2018. The Issuer may establish further DSR Liquidity Facilities in connection with the issue of further Bonds and other Class A Debt and Class B Debt issued or incurred.

On the Closing Date, the Non-Participating YWSF Bond Required Balance represented an amount equal to the next 18 months' interest and principal forecast to be due on the Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds (if any)), after taking into account anticipated real flow receipts under any Hedging Agreement then in place in respect of any Non-Participating YWSF Bonds. An amount equal to the Non-Participating YWSF Bond Required Balance (if any) was deposited by YWS into YWSF's Non-Participating YWSF Bond Reserve Account on the Closing Date. Following the Closing Date, in order to maintain the Non-Participating YWSF Bond Required Balance from time to time, YWSF may enter into a DSR Liquidity Facility Agreement. However, as at the date of this Prospectus, the Non-Participating YWSF Bond Required Balance is maintained from monies standing to the credit of the Non-Participating YWSF Bond Reserve Account.

Under the terms of the Second DSR Liquidity Agreement and each further DSR Liquidity Facility Agreement, the DSR Liquidity Facility Providers provide and will provide (as applicable) a 364 day commitment in an aggregate amount specified in the relevant DSR Liquidity Facility Agreement (which, in the case of Class A Debt and Class B Debt, when aggregated with all amounts available for drawing under any other DSR Liquidity Facilities in respect of Class A Debt and Class B Debt and all amounts standing to the credit of the Debt Service Reserve Accounts (including any Authorised Investments funded from amounts standing to the credit of any Debt Service Reserve Account), equals at least the Required Balance, and, in the case of Non-Participating YWSF Bonds, when aggregated with all amounts available for drawing under any DSR Liquidity Facility in respect of the Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds) and all amounts standing to the credit of the Non-Participating YWSF Bond Reserve Account (including any Authorised Investments funded from amounts standing to the credit of any Non-Participating YWSF Bond Reserve Account), equals at least the Non-Participating YWSF Bond Required Balance) to permit drawings to be made by:

(i) each of the Issuer and YWSF in circumstances where YWS has or will have insufficient funds in the Debt Service Payment Account available on a Payment Date to pay amounts (other than principal amounts to be repaid in respect of Class A Debt or Class B Debt and principal amounts to be repaid or any termination payments under any Hedging Agreements) scheduled to be paid in respect of items (i) to (vi) inclusive (other than (vi)(g)) and item (xviii) of the Payment Priorities (a "Liquidity Shortfall"); and/or

(ii) YWSF where YWS or YWSF has or will have insufficient funds in the Operating Accounts available on a Non-Participating YWSF Bond Payment Date, or otherwise fails on a Non-Participating YWSF Bond Payment Date, to pay any amounts scheduled to be paid in respect of any Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds) on such Non-Participating YWSF Bond Payment Date (a "Non-Participating YWSF Bond Shortfall").

The proceeds of drawings made by the Issuer or YWSF under the DSR Liquidity Facilities will be on-lent by the Issuer or, as the case may be, YWSF to YWS under an Issuer/YWS Loan Agreement, or, as the case may be, a YWSF/YWS Loan Agreement.

The Issuer will not be able to make a drawing in respect of a Liquidity Shortfall relating (in whole or in part) to Class B Debt unless the sum of the amount available under the DSR Liquidity Facilities and the amount standing to the credit of the Issuer's Class A Debt Service Reserve Account (including any Authorised Investments funded from amounts standing to the credit of such Debt Service Reserve Account) (immediately after such drawing) is not less than the Class A Required Balance. Only YWSF will be able to make a drawing in respect of a Non-Participating YWSF Bond Shortfall.

Unless otherwise agreed by the Issuer, YWSF and the Security Trustee, liquidity in respect of the Class A Debt and Non-Participating YWSF Bonds will be applied in making payments in respect of Class A Debt or, as the case may be, Non-Participating YWSF Bonds only and liquidity in respect of Class B Debt will be applied in making payments in respect of Class B Debt only.

O&M Reserve Facility

YWS agrees that it shall at all times maintain an O&M Reserve Facility available for drawing which, when aggregated with amounts standing to the credit of any O&M Reserve Accounts of YWS (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Account of YWS, amounts to not less than the O&M Reserve Required Amount.

In order to maintain the O&M Reserve Required Amount from time to time, YWS may enter into an O&M Reserve Facility Agreement. Yorkshire Water Services Odsal Finance Limited renewed the O&M Reserve Facility Agreement on 29 March 2018, and this was transferred to YWS on 16 August 2018 as part of the 2018 Reorganisation.

Under the terms of the O&M Reserve Facility Agreement and each further O&M Reserve Facility Agreement, the O&M Reserve Facility Providers provide and will provide (as applicable) a 364 day liquidity facility in an aggregate amount specified in the relevant O&M Reserve Facility Agreement (which, when aggregated with all amounts available for drawing under any other O&M Reserve Facilities and all amounts standing to the credit of the O&M Reserve Accounts of YWS (including the value of any Authorised Investments funded from amounts standing to the credit of the O&M Reserve Account of YWS), equals the O&M Reserve Required Amount).

Drawings under each O&M Reserve Facility will be used by YWS to meet its operating and Capital Maintenance Expenditure requirements to the extent that YWS has insufficient funds available to it in its Operating Accounts to meet these requirements. YWS may establish further O&M Reserve Facilities in connection with other Class A Debt and Class B Debt issued or incurred by the YW Financing Group.

Liquidity Facilities – General

Each Liquidity Facility Provider must have the Minimum Short-Term Rating at the time of its accession as a Liquidity Facility Provider.

Each Liquidity Facility Provider may be replaced at any time **provided that** such Liquidity Facility Provider is replaced by a bank with the Minimum Short-Term Rating and all amounts outstanding to such Liquidity Facility Provider are repaid in full.

Each Liquidity Facility Agreement will provide that amounts repaid by the Issuer or, as the case may be, YWSF may be redrawn.

Each Liquidity Facility Agreement will provide that if (i) at any time the rating of the relevant Liquidity Facility Provider falls below the Minimum Short-Term Rating from S&P, or (ii) the relevant Liquidity Facility Provider does not agree to renew its commitment under such Liquidity Facility prior to the expiry of the relevant availability period, the Issuer or, as the case may be, YWSF will:

(a) use all reasonable endeavours to replace the relevant Liquidity Facility Provider with a party having the Minimum Short-Term Rating; and

(b) (if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement) be entitled to require such Liquidity Facility Provider to pay into the Debt Service Reserve Account (in the case of DSR Liquidity Facilities) of the Issuer or, as the case may be, YWSF, or YWS's O&M Reserve Account (in the case of an O&M Reserve Facility) the full amount of the relevant Liquidity Facility Provider's undrawn commitment (a "Standby Drawing").

Each Liquidity Facility Agreement will provide that if at any time the rating of the relevant Liquidity Facility Provider falls below the Minimum Short-Term Rating from Moody's or Fitch, the Issuer or, as the case may be, YWSF may (but shall not be obliged to):

(a) replace the relevant Liquidity Facility Provider with a party having the Minimum Short-Term Rating; and

(b) (if a replacement is not made within the relevant time period specified in the relevant Liquidity Facility Agreement) be entitled (but not obliged) to require such Liquidity Facility Provider to pay into the Debt Service Reserve Account (in the case of DSR Liquidity Facilities) of the Issuer or, as the case may be, YWSF, or YWS's O&M Reserve Account (in the case of an O&M Reserve Facility) a Standby Drawing.

A Standby Drawing will generally be repayable only if the relevant Liquidity Facility Provider is rated with the Minimum Short-Term Rating or confirmation is received from each of the Rating Agencies that either (i) the terms of a replacement Liquidity Facility, or (ii) the absence of any such facility, in each case, as applicable will not lead to a shadow ratings downgrade of the Wrapped Bonds or the YWSF Wrapped Bonds or a credit ratings downgrade of the Unwrapped Bonds or the YWSF Unwrapped Bonds from the relevant Rating Agencies.

Interest will accrue on any drawing (including a Standby Drawing) made under the Liquidity Facility provided by a Liquidity Facility Provider at a reference rate per annum plus a margin. Under the Liquidity Facility Agreements, the Issuer or, as the case may be, YWSF will also, in certain circumstances, be required to pay additional amounts if (i) a withholding or deduction for or on account of tax is imposed on payments made by it to the relevant Liquidity Facility Provider; or (ii) if the relevant Liquidity Facility Provider suffers an increase in the cost of providing the relevant Liquidity Facility. The Issuer or, as the case may be, YWSF will pay certain agency, arrangement and renewal fees as well as a commitment fee which will accrue on any undrawn portion of the commitments under the Liquidity Facilities.

Upon the enforcement of the Security pursuant to the STID, all indebtedness outstanding under any Liquidity Facility (other than Subordinated Liquidity Facility Amounts) will rank in priority to the Bonds.

Hedging

YWS has entered into a number of Hedging Agreements, each of which must comply with the terms of the Hedging Policy. The Hedging Agreements incorporate and are subject to the terms of the CTA and STID. The Hedging Policy provides that the YW Financing Group must enter into Hedging Agreements in accordance with the Hedging Policy and that the only members of the YW Financing Group that may enter into Hedging Agreements are YWS, YWSF and the Issuer. (See "*Hedging Policy*" under "*Common Terms Agreement*" above for further details)

Termination

The Issuer, YWSF or, as the case may be, YWS 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 S&P, Moody's and Fitch).

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

(a) a failure by the Issuer, YWSF or, as the case may be, YWS to make payment when due;

(b) certain insolvency events affecting the Issuer, YWSF or, as the case may be, YWS;

(c) illegality affecting the Hedging Agreement;

(d) certain tax events;

(e) redemption in whole or in part of any Sub-Class of the Bonds hedged by such Treasury Transaction;

(f) termination of a Standstill Period (except by virtue of remedy or waiver of the relevant Event of Default giving rise to the Standstill Period) or, if earlier, an Acceleration of any Sub-Class of the Bonds hedged by such Treasury Transaction pursuant to Condition 11 of the Bonds; or

(g) the Discharge Date has occurred.

In addition to the circumstances described above,

(a) YWS will be entitled to be party to the Type 2 Hedging Agreements;

(b) YWS will be entitled to be party to certain Hedging Agreements which are not Type 2 Hedging Agreements;

(c) subject to the terms of the STID, YWS will be entitled to agree with the relevant Hedge Counterparty to terminate a Type 2 Hedging Agreement (or part thereof) or to amend the mandatory termination provisions of a Type 2 Hedging Agreement such that following such amendment the relevant Hedging Agreement ceases to be a Type 2 Hedging Agreement; and

(d) following the date upon which all Treasury Transactions entered into pursuant to a Type 2 Hedging Agreement cease to be outstanding, the Issuer, YWSF and YWS will be entitled to enter into new Treasury Transactions pursuant to Hedging Agreements with Hedge Counterparties pursuant to which each relevant Hedge Counterparty can have the right to terminate the relevant Treasury Transaction on or after the tenth anniversary of the original effective date of such Treasury Transaction,

provided that:

(i) as at the date of an amendment or termination pursuant to paragraph (c) above or, as the case may be, entry into a Treasury Transaction pursuant to paragraph (d) above (and in each case taking account of such amendment or termination or, as the case may be, such Treasury Transaction), the aggregate notional amount and/or sterling currency amounts (as applicable) of all outstanding Treasury Transactions referred to in sub-paragraphs (b), (c) and (d) above, in each case expressed as a percentage of RCV, does not exceed 10 per cent.;

(ii) as at the Closing Date and as at the date of an amendment or termination pursuant to paragraph (c) above or, as the case may be, entry into a Treasury Transaction pursuant to paragraph (d) above (and taking account of such amendment or termination or, as the case may be, such Treasury Transaction), the aggregate notional amount and/or sterling currency amounts (as applicable) of all outstanding Treasury Transactions entered into pursuant to sub-paragraphs (a), (b), (c) and (d) above which:

(A) may be terminated at the election of the applicable Hedge Counterparty (taking into account the earliest optional termination date only); or

(B) will terminate pursuant to any mandatory termination provision,

(in each case not including the scheduled maturity date of such Treasury Transactions) within any period of 24 consecutive months (from and including the first day of any 24 month period to but excluding the day falling 24 months later) (any such termination date being a "Relevant Termination Date"), in each case expressed as a percentage of RCV, does not exceed 3.5 per cent.;

(iii) as at the Closing Date and as at the date of an amendment or termination pursuant to paragraph (c) above or, as the case may be, entry into a Treasury Transaction pursuant to paragraph (d) above (and taking account of such amendment or termination or, as the case may be, such Treasury Transaction), the aggregate notional amount and/or sterling currency amounts (as applicable) of all outstanding Treasury Transactions entered into pursuant to sub-paragraphs (a), (b), (c) and (d) above which:

(A) may be terminated at the election of the applicable Hedge Counterparty (taking into account the earliest optional termination date only);

(B) will terminate pursuant to any mandatory termination provision,

(in each case not including the scheduled maturity date of such Treasury Transactions) within any rolling five-year period (any such termination date being a "Relevant Termination Date"), in each case expressed as a percentage of RCV, does not exceed 7 per cent.; and

(iv) within three months following the anniversary prior to the Relevant Termination Date of the relevant Treasury Transaction, the Issuer, YWSF or YWS (as the case may be) will be required to use all reasonable endeavours to either:

(A) enter into new Treasury Transaction(s) in order to replace the Treasury Transaction which is the subject of such termination or (subject to the terms of the STID) extend the termination provisions in respect of the Treasury Transaction which is the subject of such termination; or

(B) place on deposit in the Compensation Account an amount which the Issuer, YWSF or YWS (as the case may be) estimates, in its reasonable opinion, as being equal to the net amount, if any, payable by the Issuer, YWSF or YWS (as the case may be) to the relevant Hedge Counterparty on such termination **provided that**, YWS shall recalculate such estimated net amount on the dates falling 6 months prior and 3 months prior to the Relevant Termination Date and (i) to the extent that the estimated net amount increases as at such date, YWS shall place a further amount on deposit in the Compensation Account; or (ii) to the extent that the estimated net amount decreases as at such date, YWS shall be permitted to withdraw an amount from the Compensation Account, in each case resulting in the balance of the amount on deposit in relation to such Treasury Transaction being equal to the most recent estimate in respect thereof.

In the event that a Hedging Agreement is terminated, a termination payment may be due from the Issuer, YWS or, as the case may be, YWSF.

Other Finance Documents

Account Bank Agreement

Pursuant to the Account Bank Agreement, the Account Bank will agree to hold the Accounts (other than any Cash Cover Accounts opened at another bank or financial institution in accordance with the Senior Facilities Agreement or any other Authorised Credit Facility) and operate them in accordance with the instructions of the Cash Manager or Standstill Cash Manager (as applicable). The Cash Manager or Standstill Cash Manager (as applicable) will manage the Accounts on behalf of the YW Financing Group pursuant to the CTA (see the section "*Cash Management*" above).

Tax Deed of Covenant

Pursuant to the Tax Deed of Covenant, among other things, all the parties thereto which are members of the Kelda Group will make representations and will give covenants with a view to protecting the Obligors from various tax-related risks.

Under the terms of the Tax Deed of Covenant, each Obligor will give certain representations and covenants as to its tax status and to the effect that, subject to the Obligors' membership of the YWS VAT Group, it has not taken and, save in certain permitted circumstances, will not take any steps which could reasonably be expected to give rise to a liability to tax for an Obligor where that tax is primarily the liability of another person (a "Secondary Tax Liability") and, save in certain permitted circumstances, that it will not take any steps and will procure that no steps are taken which would cause any Obligor to become subject, *inter alia*, to any charge to corporation tax on chargeable gains under section 179 of the Taxation of Chargeable Gains Act 1992 or to stamp duty land tax as a result of the withdrawal of group relief under paragraph 3 or 9 of schedule 7 to the Finance Act 2003 (each a "Degrouping Tax Liability").

Kelda Holdings Limited and KGL (the "Covenantors") will also represent and covenant that, other than where liability arises from membership of the YWS VAT Group, no steps have been taken nor will be taken which might reasonably be expected to give rise to a Secondary Tax Liability in an Obligor, and that they will not take and will procure, to the extent that they are able to do so, that no steps are taken which cause an Obligor to be subject to a Degrouping Tax Liability.

Under the Tax Deed of Covenant, Kelda Holdings Limited will undertake to indemnify the Obligors against any Secondary Tax Liability or Degrouping Tax Liability which arises as a result of the breach of the covenants referred to above.

With a view to preventing or mitigating a Secondary Tax Liability or Degrouping Tax Liability arising in an Obligor, the Covenantors and the Obligors (among others) will, under the Tax Deed of Covenant, incur certain obligations in relation to specified events including changes in ownership of the Obligors. For example, the Tax Deed of Covenant provides that in certain circumstances where it is anticipated that there will be a change of control for tax purposes of YWH and therefore of the Obligors (for example, as a result of the sale of shares in YWH or KGL), KGL can be required, as a condition of that sale, to deposit an amount in a trust account equal to the estimated tax liability (if any) arising or likely to arise in an Obligor as a result of the sale. The money deposited could then be used to pay the tax liability of the Obligor.

The YWS VAT Group (of which YWS is the representative member) is currently comprised of YWS, YWH, the Issuer and YWSF. With a view to mitigating the possibility of any Obligor becoming liable (on a joint and several basis or otherwise) for any VAT liability of another person (other than an Obligor), the Obligors and the Covenantors will represent and covenant that no other person shall become treated as a member of the YWS

VAT Group without the consent of the Security Trustee. Kelda Holdings Limited will also indemnify YWS or procure that YWS is indemnified in respect of any Tax liability which YWS may incur by virtue of any member of the Kelda Group (other than an Obligor) having been a member of the YWS VAT Group.

CHAPTER 8
THE BONDS

Terms and Conditions of the Bonds

The following is the text of the terms and conditions which (subject to the provisions of the relevant Final Terms or Drawdown Prospectus (as defined below) and, save for the italicised paragraphs) will be incorporated by reference into each Global Bond (as defined below) representing Bonds (as defined below) in bearer form, Bonds in definitive form (if any) issued in exchange for the Global Bond(s) representing Bonds in bearer form, each Registered Bond (as defined below) in global form (a "Registered Global Bond") representing Bonds in registered form and each Registered Bond in definitive form (a "Definitive Registered Bond") representing Bonds in registered form (only if such incorporation by reference is permitted by the rules of the relevant Stock Exchange and agreed by the Issuer). If such incorporation by reference is not so permitted and agreed, each Bond in bearer form and each Definitive Registered Bond representing Bonds in registered form will have endorsed thereon or attached thereto such text (as so completed, amended, varied or supplemented). Further information with respect to each Tranche (as defined below) of Bonds will be given in the relevant Final Terms or Drawdown Prospectus which will provide for those aspects of these Conditions which are applicable to such Tranche (as defined below) of Bonds, including, in the case of Wrapped Bonds (as defined below), the form of Financial Guarantee (as defined below) and endorsement and, in the case of all Sub-Classes (as defined below), the terms of the relevant advance under the relevant Issuer/YWS Loan Agreement. If a Financial Guarantor (as defined below) is appointed in relation to any Sub-Class of Wrapped Bonds (as specified in the relevant Final Terms or Drawdown Prospectus) a supplement to this Prospectus will be produced providing such information about such Financial Guarantor as may be required by the rules of the UK Listing Authority or the London Stock Exchange on which such Bonds are admitted to listing and/or trading. References in the Conditions to "Bonds" are, as the context requires, references to the Bonds of one Sub-Class only, not to all Bonds which may be issued under the Programme.

Yorkshire Water Finance plc (the "Issuer") has succeeded Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited which established a guaranteed bond programme (the "Programme") for the issuance of up to £8,000,000,000 guaranteed bonds (the "Bonds"). Bonds issued under the Programme on a particular Issue Date comprise a Series (a "Series"), and each Series comprises one or more Classes of Bonds (each a "Class"). Each Class may comprise one or more sub-classes (each a "Sub-Class") and each Sub-Class comprising one or more tranches (each a "Tranche").

Bonds issued by the Issuer subject to a Financial Guarantee will be designated as "Class A Wrapped Bonds" or "Class B Wrapped Bonds". The Bonds issued by the Issuer which are not subject to a Financial Guarantee will be designated as "Class A Unwrapped Bonds" or "Class B Unwrapped Bonds" (and, together with the Class B Wrapped Bonds, the "Class B Bonds"). Bonds issued by the Issuer will be designated as "Class A Unwrapped Bonds" (and, together with the Class A Unwrapped Bonds and the Class A Wrapped Bonds issued by the Issuer, the "Class A Bonds"). Each Sub-Class will be denominated in different currencies or will have different interest rates, maturity dates or other terms. Bonds of any Class may be fixed rate bonds ("Fixed Rate Bonds"), floating rate bonds ("Floating Rate Bonds"), index-linked bonds ("Indexed Bonds") or instalment bonds ("Instalment Bonds") depending on the method of calculating interest payable in respect of such Bonds and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

The terms and conditions applicable to any particular Sub-Class of Bonds are these terms and conditions ("Conditions") completed by a set of final terms in relation to such Sub-Class (a "Final Terms") or a drawdown prospectus (a "Drawdown Prospectus"). In the event of any inconsistency between these Conditions and the relevant Final Terms or Drawdown Prospectus, the relevant Final Terms or Drawdown Prospectus (as applicable) shall prevail.

Reference to "Final Terms" or "Drawdown Prospectus" is to the Final Terms or, as the case may be, Drawdown Prospectus (or the relevant provisions thereof) applicable to the Bonds.

The Bonds are subject to and have the benefit of a trust deed dated the Closing Date (as defined below) (as amended, supplemented, restated and/or novated from time to time, the "Bond Trust Deed") between the Issuer, any Financial Guarantor (as defined below) acceding thereto and Deutsche Trustee Company Limited as trustee (the "Bond Trustee", which expression includes the trustee or trustees for the time being of the Bond Trust Deed).

The Class A Wrapped Bonds and the Class B Wrapped Bonds (each "Wrapped Bonds") alone will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (as adjusted for indexation, as applicable, but excluding any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and amounts (if any), in the case of Fixed Rate Bonds or Indexed Bonds (other than deferred interest), representing step-up fees at a rate specified in the relevant Final Terms or Drawdown Prospectus in excess of the initial Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(l) (*Definitions*), and, in the case of Floating Rate Bonds, representing step-up fees at a rate specified in the relevant Final Terms or Drawdown Prospectus in excess of the initial Margin on the Coupons on such Sub-Class as at the relevant Issue Date (as defined in Condition 6(l) (*Definitions*)) (in each case, the "Subordinated Step-up Fee Amounts"), all such amounts being the "FG Excepted Amounts") pursuant to a financial guarantee (each, a "Financial Guarantee") to be issued by financial guarantors (each a "Financial Guarantor") in conjunction with the issue of each Sub-Class of Bonds.

Neither of the Class A Unwrapped Bonds nor the Class B Unwrapped Bonds (each "Unwrapped Bonds") will have the benefit of any such Financial Guarantee.

The Bonds have the benefit (to the extent applicable) of an agency agreement (as amended, supplemented and/or restated from time to time, the "Agency Agreement") dated the Closing Date (to which the Issuer, the Bond Trustee, the Principal Paying Agent and the other Paying Agents (in the case of Bearer Bonds) or the Transfer Agents and the Registrar (in the case of Registered Bonds) are party). As used herein, each of "Principal Paying Agent", "Paying Agents", "Agent Bank", "Transfer Agents" and/or "Registrar" means, in relation to the Bonds, the persons specified in the Agency Agreement as the Principal Paying Agent, Paying Agents, Agent Bank, Transfer Agents and/or Registrar, respectively, and, in each case, any successor to such person in such capacity. The Bonds may also have the benefit (to the extent applicable) of a calculation agency agreement (in the form or substantially in the form of Schedule 1 to the Agency Agreement, the "Calculation Agency Agreement") between, *inter alios*, the Issuer and any calculation agent appointed by the Issuer as calculation agent (the "Calculation Agent").

On 24 July 2009 (the "Closing Date"), Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited entered into a security agreement (the "Security Agreement") with Deutsche Trustee Company Limited as security trustee (the "Security Trustee"), pursuant to which they granted certain fixed and floating charge security (the "Issuer Security") to the Security Trustee for itself and on behalf of the Bond Trustee (for itself and on behalf of the Bondholders), the Bondholders, the Participating YWSF Bond Trustee (for itself and on behalf of the relevant Participating YWSF Bondholders), the Participating YWSF Bondholders, each Financial Guarantor, Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited , YWSF, each Liquidity Facility Provider, any Liquidity Facility Arrangers, each Finance Lessor, the Hedge Counterparties, the Liquidity Facility Agents, each Authorised Credit Provider (as defined below), the Senior Facilities Agent, the Initial Senior Facilities Arrangers, each Agent, the Account Bank, the Cash Manager (other than when the Cash Manager is YWS), the Standstill Cash Manager and any Additional Secured Creditors (each as defined therein) (together with the Security Trustee, the "Secured Creditors"). On the Closing Date, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited entered into a security trust and intercreditor deed (the "STID") with, among others, the Security Trustee, other Secured Creditors and pursuant to which the Security Trustee holds the Security on trust for itself and the other Secured Creditors and the Secured Creditors agree to certain intercreditor arrangements. Persuant to a reorganisation of the YW Financing Group in 2018, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited are no longer the issuers under the Programme and the Issuer has succeeded such persons under the Security Agreement, the STID and all other Finance Documents.

Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited entered into a Dealership Agreement dated 15 July 2009 (as amended, supplemented, restated and/or novated from time to time, the "Dealership Agreement") with the dealers named therein (the "Dealers") in respect of the Programme, and the Issuer has succeeded Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited as issuer under the Dealership Agreement. Pursuant to the Dealership Agreement, any of the Dealers may enter into a subscription agreement in relation to each Sub-Class of Bonds issued by the Issuer, and pursuant to which the Dealers have agreed to subscribe for the relevant Sub-Class of Bonds. In any subscription agreement relating to a Sub-Class of Bonds, any of the Dealers may agree to procure subscribers to subscribe for the relevant Sub-Class of Bonds.

On the Closing Date, Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited entered into a common terms agreement (the "Common Terms Agreement") with, among others, the Security Trustee, pursuant to which certain representations, warranties and covenants are made and which sets out in Schedule 7 (*Events of Default*) thereof the Events of Default (as defined therein) in relation to the Bonds. Persuant to an accession memorandum dated 15 August 2018, the Issuer became a party to the Common Terms Agreement and made certain representations, undertakings, and covenants in relation to the Bonds.

The Issuer may enter into liquidity facility agreements (together, the "DSR Liquidity Facility Agreements") with certain liquidity facility providers (together, the "DSR Liquidity Facility Providers") pursuant to which the DSR Liquidity Facility Providers agree to make certain facilities (the "DSR Liquidity Facilities") available to meet debt service liquidity shortfalls. YWS may enter into an O&M Reserve Liquidity Facility Agreement with certain liquidity facility providers (together, the "O&M Reserve Facility Providers") pursuant to which the O&M Reserve Facility Providers agree to make certain facilities (the "O&M Reserve Facilities") available to YWS in respect of shortfalls in YWS's operating and maintenance expenditure. YWS has entered into a revolving credit facility with certain lenders for the purposes of funding the YW Financing Group.

YWS has entered and may enter into certain credit facilities from time to time, the "Authorised Credit Facilities") with certain lenders (together with the lenders in respect of other Authorised Credit Facilities, the "Authorised Credit Providers"), pursuant to which the Authorised Credit Providers agree to make certain facilities available to YWS for the purpose of funding certain working capital, capital expenditure and other expenses of the YW Financing Group.

YWS and/or the Issuer and/or YWSF may enter into certain currency, index linked and interest rate hedging agreements (together, the "Hedging Agreements") with certain hedge counterparties (together the "Hedge Counterparties") in respect of certain Sub-Classes of Bonds and Authorised Credit Facilities, pursuant to which the Issuer, YWSF or YWS, as the case may be, hedges certain of its currency, index linked and interest rate obligations.

The Bond Trust Deed, the Bonds (including the applicable Final Terms or Drawdown Prospectus), the Participating YWSF Bond Trust Deeds, the Participating YWSF Bonds (including the applicable final terms), the Security Agreement, the STID, (the STID, the Security Agreement and any other documentation evidencing or creating security over any asset of an Obligor to a Secured Creditor under the Finance Documents being together the "Security Documents"), the Financial Guarantee Fee Letters, the Finance Lease Documents, the

Agency Agreement, the Liquidity Facility Agreements, the Hedging Agreements, the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements, the YWSF/YWS Loan Agreements, the G&R Deeds, the Financial Guarantees, the CTA, the CP Agreement, the Existing Authorised Credit Finance Contracts, any other Authorised Credit Facilities, the master definitions agreement originally between, among others, Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited, and the Security Trustee dated the Closing Date and amended from time to time (the "Master Definitions Agreement"), the account bank agreement originally between, among others, the account bank, Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited, and the Security Trustee (the "Account Bank Agreement"), the Tax Deed of Covenant, any indemnification deed between, among others, a Financial Guarantor and the Dealers (an "Indemnification Deed") and any related security document (each, if not defined above, as defined below or in the Master Definitions Agreement) are, in relation to the Bonds, (and together with each other agreement or instrument originally between YWS or Yorkshire Water Services Bradford Finance Limited or Yorkshire Water Services Odsal Finance Limited (as applicable) and an Additional Secured Creditor designated as a Finance Document by YWS or Yorkshire Water Services Bradford Finance Limited or Yorkshire Water Services Odsal Finance Limited (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum of such Additional Secured Creditor) together referred to as the "Finance Documents".

The Issuer is a public limited company, incorporated in accordance with the laws of England and Wales on 2 July 2018, with company number 11444372 and registered business address at Western House, Halifax Road, Bradford, United Kingdom, BD6 2SZ.

Terms not defined in these Conditions have the meaning set out in the Master Definitions Agreement.

Certain statements in these Conditions are summaries of the detailed provisions appearing on the face of the Bonds (which expression shall include the body thereof), in the relevant Final Terms or Drawdown Prospectus or in the Bond Trust Deed, the Security Agreement or the STID. Copies of, *inter alia*, the Finance Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds).

The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Bond Trust Deed, the STID, the Security Agreement, the CTA and the relevant Final Terms or Drawdown Prospectus and to have notice of those provisions of the Agency Agreement and the other Finance Documents applicable to them.

Any reference in these Conditions to a matter being "specified" means as the same may be specified in the relevant Final Terms or Drawdown Prospectus.

1 Form, Denomination and Title

(a) *Form and Denomination*

The Bonds are in bearer form ("Bearer Bonds") or in registered form ("Registered Bonds") as specified in the applicable Final Terms or Drawdown Prospectus and, serially numbered in the Specified Denomination(s) **provided that** in the case of any Bonds which are to be admitted to trading on a regulated market within the 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 Bonds). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination and Registered Bonds may not be exchanged for Bearer Bonds and vice versa. References in these Conditions to "Bonds" include Bearer Bonds and Registered Bonds and all Sub-Classes, Classes, Tranches and Series.

Interest-bearing Bearer Bonds are issued with Coupons (as defined below) (and, where appropriate, a Talon, (as defined below)) attached. After all the Coupons attached to, or issued in respect of, any Bearer Bond which was issued with a Talon have matured, a coupon sheet comprising further Coupons (other than Coupons which would be void) and (if necessary) one further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent. Any Bearer Bond the principal amount of which is redeemable in instalments may be issued with one or more Receipts (as defined below) (and, where appropriate, a Talon) attached thereto. After all the Receipts attached to, or issued in respect of, any Instalment Bond which was issued with a Talon have matured, a receipt sheet comprising further Receipts (other than Receipts which would be void) and (if necessary) a further Talon will be issued against presentation of the relevant Talon at the specified office of any Paying Agent.

(b) *Title*

Title to Bearer Bonds, Coupons, Receipts and Talons (if any) passes by delivery. Title to Registered Bonds passes by registration in the register (the "Register"), which the Issuer shall procure to be kept by the Registrar.

In these Conditions, subject as provided below, each "Bondholder" (in relation to a Bond, Coupon, Receipt or Talon), "holder" and "Holder" means (i) in relation to a Bearer Bond, the bearer of any Bearer Bond, Coupon, Receipt or Talon (as the case may be) and (ii) in relation to Registered Bond, the person in whose name a Registered Bond is registered, as the case may be. The expressions "Bondholder", "holder" and "Holder" include the holders of instalment receipts (which, in relation to Class A Bonds will be "Class A Receipts", in relation to Class B Bonds, "Class B Receipts" and together, the "Receipts"), appertaining to the payment of principal by instalments (if any) attached to such Bonds in bearer form (the "Receiptholders"), the holders of the coupons (which, in relation to Class A Bonds will be "Class A Coupons", in relation to Class B Bonds, "Class B Coupons" and together, the "Coupons") (if any) appertaining to interest bearing Bonds in bearer form (the "Couponholders"), and the expression Couponholders or Receiptholders includes the holders of talons in relation to Coupons or Receipts as applicable, (which, in relation to Class A Bonds will be "Class A Talons", in relation to Class B Bonds, "Class B Talons" and together, the "Talons") (if any) for further coupons or receipts, as applicable attached to such Bonds (the "Talonholders").

The bearer of any Bearer Bond, Coupon, Receipt or Talon and the registered holder of any Registered Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on the relevant Bond, or its theft or loss or any express or constructive notice of any claim by any other person of any interest therein other than, in the case of a Registered Bond, a duly executed transfer of such Bond in the form endorsed on the Bond Certificate in respect thereof) and no person will be liable for so treating the holder.

Bonds which are represented by a Global Bond or Registered Global Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or Drawdown Prospectus or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Bond Trustee.

(c) *Fungible Issues of Bonds comprising a Sub-Class*

A Sub-Class of Bonds may comprise a number of issues in addition to the initial Tranche of such Sub-Class, each of which will be issued on identical terms save for the first Interest Payment Date, the Issue Date and the Issue Price. Such further issues of the same Sub-Class will be consolidated and form a Series with the prior issues of that Sub-Class.

2 Exchanges of Bearer Bonds for Registered Bonds and Transfers of Registered Bonds

(a) *Exchange of Bonds*

Subject to Condition 2(e) (*Closed Periods*), Bearer Bonds may, if so specified in the relevant Final Terms or Drawdown Prospectus, be exchanged at the expense of the transferor Bondholder for the same aggregate principal amount of Registered Bonds at the request in writing of the relevant Bondholder and upon surrender of the Bearer Bond to be exchanged together with all unmatured Coupons, Receipts and Talons (if any) relating to it at the specified office of the Registrar or any Transfer Agent or Paying Agent. Where, however, a Bearer Bond is surrendered for exchange after the Record Date (as defined below) for any payment of interest or Interest Amount (as defined below), the Coupon in respect of that payment of interest or Interest Amount need not be surrendered with it.

Registered Bonds may not be exchanged for Bearer Bonds.

(b) *Transfer of Registered Bonds*

A Registered Bond may be transferred upon the surrender of the relevant Definitive Registered Bond, together with the form of transfer endorsed on it duly completed and executed, at the specified office of any Transfer Agent or the Registrar. However, a Registered Bond may not be transferred unless (i) the principal amount of Registered Bonds proposed to be transferred; and (ii) the principal amount of the Registered Bonds proposed to be the principal amount of the balance of Registered Bonds to be retained by the relevant transferor are, in each case, Specified Denominations (as specified in the relevant Final Terms or Drawdown Prospectus). In the case of a transfer of part only of a holding of Registered Bonds represented by a Definitive Registered Bond, a new Definitive Registered Bond in respect of the balance not transferred will be issued to the transferor within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such form of transfer.

(c) *Delivery of New Definitive Registered Bonds*

Each new Definitive Registered Bond to be issued upon exchange of Bearer Bonds or transfer of Registered Bonds will, within three business days (in the place of the specified office of the Transfer Agent or the Registrar) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or the Registrar stipulated in the request for exchange or form of transfer, or be mailed at the risk of the Bondholder entitled to the Definitive Registered Bond to such address as may be specified in such request or form of transfer. For these purposes, a form of transfer or request for exchange received by the Registrar after the Record Date (as defined below) in respect of any payment due in respect of Registered Bonds shall be deemed not to be effectively received by the Registrar until the Business Day (as defined below) following the due date for such payment.

(d) *Exchange at the Expense of Transferor Bondholder*

Registration of Bonds on exchange or transfer will be effected at the expense of the transferor Bondholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment of (or the giving of such indemnity as the Transfer Agent or the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

(e) *Closed Periods*

No transfer of a Registered Bond may be registered, nor any exchange of a Bearer Bond for a Registered Bond may occur during the period of 15 days ending on the due date for any payment of principal, interest, Interest Amount (as defined below) or Redemption Amount (as defined below) on that Bond.

3 Status of Bonds and Financial Guarantee

(a) *Status of Class A Bonds*

This Condition 3(a) is applicable only in relation to Bonds which are specified as being a Sub-Class of Class A Bonds.

The Class A Bonds, Class A Coupons, Class A Talons and Class A Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*) and rank *pari passu* without any preference among themselves. However, the Class A Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(b) *Status of Class B Bonds*

This Condition 3(b) is applicable only in relation to Bonds issued by the Issuer which are specified as being a Sub-Class of Class B Bonds.

The Class B Bonds, Class B Coupons, Class B Talons and Class B Receipts (if any) are direct and unconditional obligations of the Issuer, are secured in the manner described in Condition 4 (*Security, Priority and Relationship with Secured Creditors*), are subordinated to the Class A Bonds, Class A Coupons, Class A Receipts and Class A Talons (if any) and rank *pari passu* without any preference among themselves. However, the Class B Unwrapped Bonds will not have the benefit of any Financial Guarantee.

(c) *Financial Guarantee Issued by Financial Guarantor*

This Condition 3(c) is applicable only in relation to Bonds which are specified as being a Sub-Class of Wrapped Bonds.

Each Sub-Class of each Class of Wrapped Bonds issued by the Issuer will have the benefit of a Financial Guarantee issued by a Financial Guarantor, issued pursuant to a guarantee and reimbursement deed between, amongst others, the Issuer and a Financial Guarantor dated on or before the relevant Issue Date (as defined below) of such Bonds (each a "G&R Deed"). Under the relevant Financial Guarantee, the relevant Financial Guarantor unconditionally and irrevocably agrees to pay to the Bond Trustee all sums due and payable but unpaid by the Issuer in respect of scheduled interest and payment of principal (but excluding FG Excepted Amounts) on such Wrapped Bonds, all as more particularly described in the relevant Financial Guarantee.

The terms of the relevant Financial Guarantee provide that amounts of principal on any such Bonds which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) other than on the relevant Payment Date (as defined under the Financial Guarantee) will not be treated as Guaranteed Amounts (as defined in the Financial Guarantee) which are Due for Payment (as defined in the Financial Guarantee) under the Financial Guarantee unless the Financial Guarantor in its sole discretion elects so to do by notice in writing to the Bond Trustee. The Financial Guarantor may elect to accelerate payments due under the Financial Guarantee in full or in part. All payments made by the relevant Financial Guarantor under the relevant Financial Guarantee in respect of partial acceleration shall be applied (i) to pay the Interest (as defined in the relevant Financial Guarantee) accrued but unpaid on the Principal (as defined in the relevant Financial Guarantee) of such part of the accelerated payment; and (ii) to reduce the Principal (as defined in the relevant Financial Guarantee) (or, in the case of Wrapped Bonds repayable in instalments, each principal repayment instalment on a *pro rata* basis with a corresponding reduction of each amount of the Interest (as determined in the Financial Guarantee)) outstanding under the relevant Sub-Classes of Wrapped Bonds. If no such election is made, the Financial Guarantor will continue to be liable to make payments in respect of the Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

To the extent that the early redemption price of any Bonds exceeds the aggregate of the Principal Amount Outstanding of any such Bonds and any accrued interest outstanding on any such Bonds to be redeemed (each as adjusted for indexation in accordance with Condition 7 (Application of the Index Ratio), if applicable), payment of such early redemption price will not be guaranteed by the Financial Guarantor under the relevant Financial Guarantee.

(d) *Status of Financial Guarantee*

This Condition 3(d) is applicable only in relation to Bonds issued by the Issuer which are specified as being a Sub-Class of Wrapped Bonds.

The relevant Financial Guarantee provided by the Financial Guarantor in respect of the Bonds will constitute a direct, unsecured obligation of the Financial Guarantor which will rank at least *pari passu* with all other unsecured obligations of such Financial Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(e) *Security Trustee not Responsible for Monitoring Compliance*

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

The Security Trustee shall not be responsible for monitoring compliance by YWS with any of its obligations under the Finance Documents to which it is a party except by means of receipt from YWS of certificates of compliance which YWS has covenanted to deliver to the Security Trustee pursuant to the provisions of the CTA and which will state among other things, that no Default is outstanding. The Security Trustee shall be entitled to rely on certificates absolutely unless it is instructed otherwise by the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) in which case it will be bound to act on such instructions in accordance with the STID. The Security Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Finance Documents. The Security Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any two Authorised Signatories of any Obligor or any other party to any Finance Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Security Trustee may require to be satisfied. The Security Trustee is in no way bound to call for further evidence or be responsible for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Security Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

All Bondholders shall (on providing sufficient evidence of identity) be entitled to view a copy of the Periodic Information as and when available to the Security Trustee pursuant to the terms of the CTA and to view a copy of the unaudited interim accounts and audited annual accounts of YWS within 60 days of 30 September and 120 days of 31 March of each year, respectively.

In addition, each Guarantor has covenanted to provide the Security Trustee with certain additional information (as set out in Schedule 5, Part 1 "*Information Covenants*" of the CTA). Such information may be published on a website designated by the relevant Guarantor and the Security Trustee.

In the event the relevant website cannot be accessed for technical reasons or is non-operational or is infected by an electronic virus or function software for a period of five consecutive days, all such information set out above which would otherwise be available will be delivered to the Security Trustee in paper form for onward delivery to the Bond Trustee and the Agents. Copies of such information will be available for inspection at the specified office of the Agents and the Bond Trustee.

4 Security, Priority and Relationship with Secured Creditors

(a) Guarantee and Security

Under the Security Agreement, Yorkshire Water Services Holdings Limited ("YWH") guarantees the obligations of each other Obligor under the Finance Documents and YWS, YWSF, and the Issuer will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee for itself and on behalf of the Secured Creditors on the terms set out in the Security Documents (including, without limitation, the Bond Trustee for itself and on behalf of the Bondholders) and secures such obligations upon the whole of its property, undertaking, rights and assets, subject to certain specified exceptions and, in the case of YWS, to the terms of the Instrument of Appointment (as defined below) and any requirements thereunder or the Act (as defined below). There is no intention to create further security for the benefit of the holders of Bonds that may be issued after the Closing Date. All Bonds issued by the Issuer under the Programme and any additional creditor of the Issuer acceding to the STID will share in the security (the "Security") constituted by the Security Documents.

In these Conditions:

the "Act" means the United Kingdom Water Industry Act 1991 (as amended); and "Instrument of Appointment" means the instrument of appointment dated 1989 as amended under which the Secretary of State for the Environment appointed YWS as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

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

(b) Relationship among Bondholders and with other Secured Creditors

The Bond Trust Deed contains provisions detailing the Bond Trustee's obligations to consider the interests of the Bondholders as regards all powers, trusts and authorities, duties and discretions of the Bond Trustee (except where expressly provided or otherwise referred to in Condition 16 (*Bond Trustee Protections*).

The STID provides that the Security Trustee (except in relation to Reserved Matters and Entrenched Rights and subject to certain exceptions) will act on instructions of the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) (including the Bond Trustee as trustee for and representative of the holders of each Sub-Class of Wrapped Bonds (following the occurrence of an FG Event of Default in respect of the Financial Guarantor of such Wrapped Bonds which is continuing) and the holders of each Sub-Class of Unwrapped Bonds) and, when so doing, the Security Trustee is not required to have regard to the interests of any Secured Creditor (including the Bond Trustee as trustee for and representative of the Bondholders or any individual Bondholder) in relation to the exercise of such rights and, consequently, has no liability to the Bondholders as a consequence of so acting.

(c) *Enforceable Security*

In the event of the Security becoming enforceable as provided in the STID, the Security Trustee shall, if instructed by the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) or pursuant to a valid Emergency Instruction Notice, enforce its rights with respect to the Security in accordance with the instructions of the Majority Creditors or with such Emergency Instruction Notice, but without any liability as to the consequence of such action and without having regard to the effect thereof on, or being required to account for such action to, any particular Bondholder, **provided that** the Security Trustee shall not be obliged to take any action unless it is indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Application After Enforcement*

After enforcement of the Security, the Security Trustee shall (to the extent that such funds are available) use funds standing to the credit of the Accounts (other than the Excluded Accounts) to make payments in accordance with the Payment Priorities (as set out in the CTA).

(e) *Bond Trustee and Security Trustee not liable for security*

The Bond Trustee and the Security Trustee will not be liable for any failure to make the usual investigations or any investigations which might be made by a security holder in relation to the property which is the subject of the Security, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the relevant Obligor to the Security, whether such defect or failure was known to the Bond Trustee or the Security Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the Security created under the Security Documents whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such Security. The Bond Trustee and the Security Trustee have no responsibility for the value of any such Security.

5 Issuer's Covenants

So long as any of the Bonds remain Outstanding, the Issuer has agreed to comply with the covenants as set out in Schedule 4 (*Covenants*) of the CTA.

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

6 Interest and other Calculations

(a) Interest on Fixed Rate Bonds and Indexed Bonds

This Condition 6(a) is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Fixed Rate Bonds or Indexed Bonds.

Each Fixed Rate Bond and Indexed Bond bears interest on its Principal Amount Outstanding and, if it is an Indexed Bond, adjusted for indexation in accordance with Condition 7 (*Indexation*)) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Interest Rate(s). Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

The amount of interest payable in respect of each Fixed Rate Bond and Indexed Bond shall be the amount of interest payable per Calculation Amount multiplied by the Principal Amount Outstanding of such Bond and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*).

The amount of interest payable per Calculation Amount in respect of any Fixed Rate Bond and Indexed Bond for any Fixed Interest Period shall be equal to the product of the Interest Rate, the Calculation Amount specified, and the Day Count Fraction for such Fixed Interest Period and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*), unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Period, in which case the amount of interest payable per Calculation Amount in respect of such Bond for such Fixed Interest Period shall equal such Interest Amount (or be calculated in accordance with such formula).

Where any Interest Period comprises two or more Fixed Interest 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 Fixed Interest Periods.

If interest is required to be calculated for a period other than a Fixed Interest Period or if no Fixed Coupon Amount is specified in the applicable Final Terms or Drawdown Prospectus, such interest payable per Calculation Amount shall be calculated (i) in the case of Bonds other than Indexed Bonds, by applying the Interest Rate to the Calculation Amount specified, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*) and (ii) in the case of Indexed Bonds, on an actual/actual basis in line with the method used by the Debt Management Office for the United Kingdom Index-Linked Gilt Edged Market.

(b) Interest on Floating Rate Bonds

This Condition 6(b) is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Floating Rate Bonds.

(i) *Interest Payment Dates*

Each Floating Rate Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms or Drawdown Prospectus; or

(B) if no Specified Interest Payment Date(s) is/are expressly specified in the applicable Final Terms or Drawdown Prospectus, each date (each such date, together with each Specified

Interest Payment Date, an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms or Drawdown Prospectus after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

The amount of interest payable in respect of each Floating Rate Bond shall be the amount of interest payable per Calculation Amount multiplied by the Principal Amount Outstanding of such Bond and divided by the Calculation Amount and rounding the resultant figure to the nearest unit of the Relevant Currency in accordance with Condition 6(d) (*Rounding*).

The amount of interest payable per Calculation Amount shall be determined in accordance with paragraph (iii) below.

(ii) *Interest Rate(s)*

The Interest Rate(s) payable from time to time in respect of the Floating Rate Bonds will be determined in the manner specified hereon and the provisions below relating to either Screen Rate Determination or ISDA Determination, depending upon which is specified the applicable Final Terms or Drawdown Prospectus.

(A) If "Screen Rate Determination" is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Bonds for each Interest Period will be determined by the Agent Bank (or the Calculation Agent, if applicable) on the following basis:

(1) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Agent Bank (or the Calculation Agent, if applicable) will determine the Relevant Rate (as defined in Condition 6(l) (*Definitions*), being either EURIBOR or LIBOR, as specified in the applicable Final Terms or Drawdown Prospectus);

(2) in any other case, the Agent Bank (or the Calculation Agent, if applicable) will determine the arithmetic mean of the Relevant Rates (as defined in Condition 6(l) (*Definitions*)) which appear on the Page as of the Relevant Time (as defined in Condition 6(l) (*Definitions*)) on the relevant Interest Determination Date;

(3) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Agent Bank (or the Calculation Agent, if applicable) will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks (as defined in Condition 6(l) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre (as defined in Condition 6(l) (*Definitions*)) interbank market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(4) if fewer than two such quotations are provided as requested in Condition 6(b)(ii)(3), the Agent Bank (or the Calculation Agent, if applicable) will determine

the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable)) quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre of the Relevant Currency) on the first day of the relevant Interest Period (as defined in Condition 6(l) (*Definitions*)) for loans in the Relevant Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 6(l) (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined. However, if the Agent Bank is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to the Bonds during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Bonds in respect of a preceding Interest Period.

(B) If "ISDA Determination" is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate(s) applicable to the Bonds for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Agent Bank (or the Calculation Agent, if applicable) under an interest rate swap transaction if the Agent Bank (or the Calculation Agent, if applicable) were acting as calculation agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(1) Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms or Drawdown Prospectus;

(2) the Designated Maturity (as defined in the ISDA Definitions) is the Specified Duration (as defined in Condition 6(l) (*Definitions*)); and

(3) the relevant Reset Date (as defined in the ISDA Definitions) is either (1) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period, (2) if the relevant Floating Rate Option is based on EURIBOR, the first day of that Interest Period or (3) in any other case, as specified in the relevant Final Terms or Drawdown Prospectus.

(iii) *Calculations*

The amount of interest payable per Calculation Amount in respect of any Floating Rate Bond for each Interest Period shall be calculated by multiplying the product of the Interest Rate and the Calculation Amount specified by the Day Count Fraction (as defined in Condition 6(l)(*Definitions*) and rounding the resultant figure to the nearest unit of the Relevant Currency (rounded in accordance with Condition 6(d) (*Rounding*)).

(c) Minimum Interest Rate and/or Maximum Interest Rate

If any Maximum Interest Rate or Minimum Interest Rate is specified in the relevant Final Terms or Drawdown Prospectus, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified, as the case may be, provided that the Minimum Interest Rate may not be less than zero. If no Minimum Interest Rate is specified in the relevant Final Terms or Drawdown Prospectus, then it shall be deemed to be zero.

(d) *Rounding*

For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified):

(i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up);

(ii) all figures will be rounded to seven significant figures (with halves being rounded up); and

(iii) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, "unit" means, with respect to any currency other than euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to euro, means 0.01 euro.

(e) *Business Day Convention*

If any date referred to in these Conditions or the relevant Final Terms or Drawdown Prospectus is specified to be subject to adjustment in accordance with a Business Day convention and (x) if there is no numerically corresponding day on the calendar month in which such date should occur or (y) such date would otherwise fall on a day which is not a Business Day (as defined in Condition 6(l) (*Definitions*)), then if the Business Day Convention specified in the relevant Final Terms or Drawdown Prospectus is:

(i) the "Following Business Day Convention", such date shall be postponed to the next day which is a Business Day;

(ii) the "Modified Following Business Day Convention", such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or

(iii) the "Preceding Business Day Convention", such date shall be brought forward to the immediately preceding Business Day.

(f) *Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts*

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Agent Bank (or the Calculation Agent, if applicable) may be required to calculate any Redemption Amount or the amount of an instalment of scheduled principal (an "Instalment Amount"), obtain any quote or make any determination or calculation, the Agent Bank (or the Calculation Agent, if applicable) will determine the Interest Rate and calculate the Interest Amount for the relevant Interest Period (including, for the avoidance of doubt any applicable Index Ratio to be calculated in accordance with Condition 7(b) (*Application of the Index Ratio*), calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount, Principal Amount Outstanding or any Instalment Amount to be notified to, in the case of Bearer Bonds, the Paying Agents or in the case of Registered Bonds, the Registrar, and, in each case, the Bond Trustee, the Issuer, the Bondholders and the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) as soon as possible after its determination but in no event later than (i) (in case of notification to the London Stock Exchange and each other listing authority, stock exchange and/or quotation system by which the relevant Bonds have then been admitted to listing, trading and/or quotation) the commencement of the relevant Interest Period, if determined prior to such time, in the case of an Interest Rate and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Sub-Class or Tranche of Bonds are for the time being listed or by which they have been admitted to listing and to the Bondholders in accordance with Condition 17 (*Notices*). If the Bonds become due and payable under Condition 11 (*Events of Default*), the accrued interest and the Interest Rate payable in respect of the Bonds shall nevertheless continue to be calculated as previously provided in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made unless otherwise required by the Bond Trustee. If the Calculation Amount is less than the minimum Specified Denomination, the Agent Bank (or the Calculation Agent, if applicable) may publish only the Calculation Amount and the Interest Amount in respect of a Bond having the minimum Specified Denomination. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Agent Bank (or the Calculation Agent, if applicable) or, as the case may be, the Bond Trustee pursuant to this Condition 6 or Condition 7 (*Indexation*), shall (in the absence of manifest error) be final and binding upon all parties.

(g) Accrual of Interest

Interest will cease to accrue on each Bond (or, in the case of the redemption of part only of a Bond, that part only of such Bond) on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (both before and after judgment) at the Interest Rate in the manner provided in this Condition 6 to the Relevant Date (as defined in Condition 6(l) (*Definitions*)).

(h) Deferral of interest on Class B Bonds

This Condition 6(h) is applicable only in relation to Bonds issued by the Issuer which are specified as being Class B Bonds.

In the case of interest on Class B Bonds only, if, on any Interest Payment Date prior to the taking of Enforcement Action, there are insufficient funds available to the Issuer (after taking into account any amounts available to be drawn under any DSR Liquidity Facility or from the Debt Service Reserve Accounts) to pay such accrued interest, the Issuer's liability to pay such accrued interest will be treated as not having fallen due and will be deferred until the earliest of: (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 11 (*Cash Management*) of the CTA, sufficient funds available to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which the Class A Debt has been paid in full; and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred interest (including any interest accrued thereon). Interest will accrue on such deferred interest at the rate otherwise payable on unpaid principal of such Class B Bonds.

(i) Agent Bank, Calculation Agent and Reference Banks

The Issuer will procure that there shall at all times be an Agent Bank (and a Calculation Agent, if applicable) and four Reference Banks selected by the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) with offices in the Relevant Financial Centre if provision is made for them in these Conditions applicable to this Bond and for so long as it is Outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer acting through the Agent Bank (or the Calculation Agent, if applicable) will select another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. If the Agent Bank (or the Calculation Agent, if applicable) is unable or unwilling to act as such or if the Agent Bank (or the Calculation Agent, if applicable) fails duly to establish the Interest Rate for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint (with the prior written consent of the Bond Trustee) a successor to act as such in its place. The Agent Bank may not resign its duties without a successor having been appointed as aforesaid.

(j) Determination or Calculation by Bond Trustee

If the Agent Bank (or the Calculation Agent, if applicable) does not at any time for any reason determine any Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or any other amount to be determined or calculated by it, the Bond Trustee shall (without liability for so doing) determine such Interest Rate, Interest Amount, Redemption Amount, Instalment Amount or other amount as aforesaid at such rate or in such amount as in its absolute discretion (having regard as it shall think fit to the procedures described above, but subject to the terms of the Bond Trust Deed and always subject to any Minimum Interest Rate or Maximum Interest Rate specified in the applicable Final Terms or Drawdown Prospectus) it shall deem fair and reasonable in all the circumstances or, subject as aforesaid, apply the foregoing provisions of this Condition, with any consequential amendments, to the extent that, in its sole opinion, it can do so and in all other respects it shall do so in such manner as it shall, in its absolute discretion, deem fair and reasonable in the circumstances, and each such determination or calculation shall be deemed to have been made by the Agent Bank (or the Calculation Agent, if applicable).

(k) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of Condition 6 (*Interest and Other Calculations*) whether by the Principal Paying Agent, the Agent Bank (or the Calculation Agent, if applicable) or, if applicable, any calculation agent, shall (in the absence of wilful default, negligence, bad faith or manifest error) be binding on the Issuer, YWS, YWSF, YWH, the Agent Bank, the Bond Trustee, the Principal Paying Agent, the other Agents and all Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, YWS, YWSF, YWH, the Bond Trustee, the Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Agent Bank or, if applicable, any calculation agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(l) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

"Broken Amount" means the amount specified as such in the relevant Final Terms or Drawdown Prospectus;

"Business Day" means:

(i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus; and

(ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the Relevant Currency (which in the case of a payment in U.S. Dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus;

"Calculation Amount" has the meaning specified in the relevant Final Terms or Drawdown Prospectus;

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Bond for any period of time (whether or not constituting an Interest Period, the "Calculation Period"):

(i) if "Actual/Actual (ICMA)" is specified:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(a) 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

(b) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year

where:

"Determination Period" means the period from and including a Determination Date in any year but excluding the next Determination Date; and

"Determination Date" means the date specified as such hereon or, if none is so specified, the Interest Payment Date;

(ii) if "Actual/Actual" or "Actual/Actual (ISDA)" is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (1) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (2) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(iii) if "Actual/365 (Fixed)" is specified, the actual number of days in the Calculation Period divided by 365;

(iv) if "Actual/360" is specified, the actual number of days in the Calculation Period divided by 360;

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

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

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" 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 D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows;

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

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" 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 D_2 will be 30;

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

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

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" 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 D_1 will be 30; and

'"D_2" 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 D_2 will be 30;

"EURIBOR" means the rate for Euro deposits for such period as specified in the relevant Final Terms or Drawdown Prospectus and for each Interest Period thereafter, for Euro deposits for the relevant Interest Period as determined by reference to (1) on the display page designated EURIBOR01 on the Dow Jones Reuters Service (or such other page as may replace that page on that service, or such other service as may be nominated by the Agent Bank as the information vendor, for the purpose of displaying comparable rates) as of the Interest Determination Date or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Agent Bank) as may replace the Dow Jones Reuters Monitor as at or about 11.00 a.m. (Brussels time);

"euro" means the lawful currency of the Participating Member States;

"Fixed Coupon Amount" means the amount specified as such in the relevant Final Terms or Drawdown Prospectus;

"Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"Interest Amount" means:

(i) in respect of a Fixed Interest Period, the amount of interest payable per Calculation Amount for that Fixed Interest Period and which, in the case of Fixed Rate Bonds, and unless otherwise specified, shall mean the Fixed Coupon Amount or Broken Amount specified as being payable on the Interest Payment Date at the end of the Interest Period of which such Fixed Interest Period forms part;

(ii) in respect of an Interest Period, the amount of interest payable per Calculation Amount for that Interest Period; and

(iii) 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 in the relevant Final Terms or Drawdown Prospectus;

"Interest Determination Date" means, with respect to an Interest Rate and an Interest Period, the date specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is so specified, the day falling two Business Days in London prior to the first day of such Interest Period (or if the Relevant Currency is sterling the first day of such Interest Period) (as adjusted in accordance with any Business

Day Convention (as defined below) specified in the relevant Final Terms or Drawdown Prospectus) or, in the case of Indexed Bonds, the first Business Day on which it is practicable to calculate the Index Ratio applicable to the relevant Calculation Date in accordance with Condition 7(a);

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Interest Rate" means the rate of interest payable from time to time in respect of the Bonds and which is either specified as such in, or calculated in accordance with the provisions of, these Conditions and/or the relevant Final Terms or Drawdown Prospectus;

"ISDA Definitions" means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms or Drawdown Prospectus, the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of Bonds of the relevant Sub-Class (as specified in the relevant Final Terms or Drawdown Prospectus) as published by the International Swaps and Derivatives Association, Inc.);

"Issue Date" means the date specified as such in the relevant Final Terms or Drawdown Prospectus;

"LIBOR" means the rate for Sterling or U.S. dollar (as applicable) deposits for such period as specified in the relevant Final Terms or Drawdown Prospectus and for each Interest Period thereafter, for Sterling or U.S. dollar (as applicable) deposits for the relevant Interest Period as determined by reference to the Intercontinental Exchange LIBOR Rates display as quoted on the Bridge Reuters monitor as Reuters Screen LIBOR01 at 11.00 a.m. London time. If the Reuters Screen LIBOR01 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, any page showing this information may be used. If there is more than one service displaying the information, the one approved in writing by the Agent Bank in its sole discretion will be used;

"Margin" means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms or Drawdown Prospectus;

"Maturity Date" means the date specified in the relevant Final Terms or Drawdown Prospectus as the final date on which the principal amount of the Bond is due and payable;

"Maximum Interest Rate" means the rate specified as such in the relevant Final Terms or Drawdown Prospectus;

"Minimum Interest Rate" means the rate specified as such in the relevant Final Terms or Drawdown Prospectus;

"Page" means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service ("Reuters")) as may be specified in the relevant Final Terms or Drawdown Prospectus as a Relevant Screen Page, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices;

“Participating Member State” means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union;

“Principal Amount Outstanding” means, in relation to a Bond, Sub-Class or Class, the original face value thereof (in relation to any Indexed Bonds, as adjusted in accordance with the Conditions) less any repayment of principal made to the Holder(s) thereof in respect of such Bond, Sub-Class or Class;

“Redemption Amount” means, the amount provided under Condition 8(b) (*Optional Redemption*), unless otherwise specified in the relevant Final Terms or Drawdown Prospectus;

“Reference Banks” means the institutions specified as such or, if none, four major banks selected by the Agent Bank (or the Calculation Agent, if applicable) in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Agent Bank (or the Calculation Agent, if applicable), on behalf of the Issuer, in its sole and absolute discretion;

“Relevant Currency” means the currency specified as such or, if none is specified, the currency in which the Bonds are denominated;

“Relevant Date” means the earlier of (a) the date on which all amounts in respect of the Bonds have been paid, and (b) five days after the date on which all of the Principal Amount Outstanding (adjusted in the case of Indexed Bonds in accordance with Condition 7(b) (*Application of Index Ratio*)) has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Bondholders in accordance with Condition 17 (*Notices*);

“Relevant Financial Centre” means, with respect to any Bond, the financial centre specified as such in the relevant Final Terms or Drawdown Prospectus or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected as determined by the Agent Bank (or the Calculation Agent, if applicable);

“Relevant Rate” means the offered rate for a Representative Amount of the Relevant Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the relevant Final Terms or Drawdown Prospectus);

“Relevant Screen Page” means EURIBOR, LIBOR or such page, section, caption, column or other part of a particular information service as may be specified (or any successor or replacement page, section, caption, column or other part of a particular information service);

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the relevant Final Terms or Drawdown Prospectus or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Relevant Currency in the interbank market in the Relevant Financial Centre;

“Representative Amount” means, with respect to any rate to be determined on an Interest Determination Date, the amount specified in the relevant Final Terms or Drawdown Prospectus as such or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

“Specified Denomination” means the denomination specified in the relevant Final Terms or Drawdown Prospectus;

“Specified Duration” means, with respect to any Floating Rate (as defined in the ISDA Definitions) to be determined on an Interest Determination Date, the period or duration specified as such in the relevant

Final Terms or Drawdown Prospectus or, if none is specified, a period of time equal to the relative Interest Period;

"Specified Interest Payment Date" means the date(s) specified as such in the relevant Final Terms or Drawdown Prospectus;

"Specified Period" means the period(s) specified as such in the relevant Final Terms or Drawdown Prospectus;

"TARGET Settlement Day" means any day on which TARGET2 is open for the settlement of payments in euro; and

"TARGET2" means the Trans-European Automated Real-Time Gross Settlement Express Transfer system which utilises a single shared platform and which was launched on 19 November 2007.

7 Indexation

This Condition 7 is applicable only if the relevant Final Terms or Drawdown Prospectus specifies the Bonds as Indexed Bonds.

Where RPI is specified as the Index or Index Figure (each as defined below) in the applicable Final Terms, the following Conditions 7(a) to 7(e) will apply:

(a) Definitions (RPI)

"Affiliate" means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, "control" means control as defined in the Companies Act;

"Base Index Figure" means (subject to Condition 7(c)(i) (*Change in base*)) the base index figure as specified in the relevant Final Terms or Drawdown Prospectus;

"Calculation Date" means any date when a payment of interest or, as the case may be, principal falls due;

"Index" or "Index Figure" means, in relation to any relevant month (as defined in Condition 7(c)(ii) (*Delay in publication of* Index)), subject as provided in Condition 7(c)(i) (Change in base), if the UK Retail Price Index (RPI) is specified in the applicable Final Terms, the RPI (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Where RPI is specified as the Index or Index Figure in the applicable Final Terms, any reference to the "Index Figure applicable" to a particular Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and Condition 7(e) (*Cessation of or Fundamental Changes to the Index*) below, and if "3 months lag" is specified in the relevant Final Terms or Drawdown Prospectus, be calculated in accordance with the following formula:

$$\mathrm{IFA} = \mathrm{RPI}_{m-3} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\mathrm{RPI}_{m-2} - \mathrm{RPI}_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"IFA" means the Index Figure applicable;

"RPI_{m-3}" means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

"RPI_{m-2}" means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the "Index Figure applicable" to a particular Calculation Date shall, subject as provided in Condition 7(c) (*Changes in Circumstances Affecting the Index*) and Condition 7(e) (*Cessation of or Fundamental Changes to the Index*) below, and if "8 months lag" is specified in the relevant Final Terms or Drawdown Prospectus, be calculated in accordance with the following formula:

$$\mathrm{IFA} = \mathrm{RPI}_{m-8} + \frac{(\text{Day of Calculation Date} - 1)}{(\text{Days in month of Calculation Date})} \times (\mathrm{RPI}_{m-7} - \mathrm{RPI}_{m-8})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

"IFA" means the Index Figure applicable;

"RPI_{m-8}" means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

"RPI_{m-7}" means the Index Figure for the first day of the month that is seven months prior to the month in which the payment falls due;

"Index Ratio" applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

"Limited Index Ratio" means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

"Limited Indexation Factor" means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, **provided that** (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms or Drawdown Prospectus, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms or Drawdown Prospectus, it shall be deemed to be equal to such Minimum Indexation Factor;

"Limited Indexation Month" means any month specified in the relevant Final Terms or Drawdown Prospectus for which a Limited Indexation Factor is to be calculated;

"Limited Indexed Bonds" means Indexed Bonds to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms or Drawdown Prospectus) applies;

"Maximum Indexation Factor" means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus;

"Minimum Indexation Factor" means the indexation factor specified as such in the relevant Final Terms or Drawdown Prospectus; and

"Reference Gilt" means the Treasury Stock specified as such in the relevant Final Terms or Drawdown Prospectus for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer (an "**Indexation Adviser**").

(b) *Application of the Index Ratio (RPI)*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Indexed Bonds applicable to the month in which such payment falls to be made and rounded in accordance with Condition 6(d) (*Rounding*).

(c) *Changes in Circumstances Affecting the Index (RPI)*

(i) Change in base: If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of "Index" and "Index Figure" in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being at the Closing Date 178.2) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) Delay in publication of Index: If the Index Figure relating to any month (the "relevant month") which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Bonds is due (the "date for payment"), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as the Issuer considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty's Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser; or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 7(c)(i) (*Change in base*)) before the date for payment.

(d) *Application of Changes (RPI)*

Where the provisions of Condition 7(c)(ii) (*Delay in publication of Index*) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 7(c)(ii)(2) (*Delay in publication of Index*), the Index Figure relating to the relevant month is subsequently published while a Bond is still Outstanding, then:

(i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 7(c)(ii)(2) (*Delay in publication of Index*), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) Cessation of or Fundamental Changes to the Index (RPI)

(i) If (1) the Issuer has been notified by the Agent Bank (or the Calculation Agent, if applicable) that the Index has ceased to be published; or (2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Issuer (following consultation with an Indexation Adviser), be materially prejudicial to the interests of the Bondholders, the Issuer will give written notice of such occurrence to the Bondholders, and the Issuer shall (i) following consultation with an Indexation Adviser, determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made; or (ii) appoint a bank or other person in London (such bank or other person so appointed being referred to as the "**Expert**") to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and the determination of such Expert shall be binding on the Bondholders. All fees, costs and expenses of the Expert and the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(ii) The Index shall be adjusted or replaced by a substitute index as determined by the Issuer or the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Issuer may determine, and notify to the Bond Trustee and Bondholders, as appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Financial Guarantor(s), the other Secured Creditors, the Bond Trustee and the Bondholders. Notices to the Bondholders pursuant to this Condition shall be given by the Issuer as promptly as practicable and in accordance with Condition 17 (*Notices*).

Where CPI or CPIH is specified as the Index or Index Figure (each as defined below) in the applicable Final Terms, the following Conditions 7(f) to 7(h) will apply:

(f) Definitions (CPI and CPIH)

"Base Index Figure" means, subject as provided in Condition 7(h) below, the base index figure as specified in the applicable Final Terms;

"Calculation Date" means any Interest Payment Date, the Maturity Date or any other date on which principal falls due;

"IFA" means the Index Figure applicable;

"Index" or "Index Figure" means, subject as provided in Condition 7(h) below, (i) if UK Consumer Price Index is specified in the applicable Final Terms, the Consumer Price Index ("CPI") (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any) or (ii) if UK Consumer Price Index including owner occupiers' housing costs is specified in the applicable Final Terms, the CPI including owner occupiers' housing costs ("CPIH") (for all items) published by the Office for National Statistics (2015 = 100), or any comparable index which may replace such index for the purpose of calculating the amount payable on repayment of the Indexed Benchmark Gilt (if any).

Where CPI is specified as the Index or Index Figure in the applicable Final Terms, any reference to the Index Figure applicable to any day ("d") in any month ("m") shall, subject to Condition 7(h) below, be calculated in accordance with the following formula:

$$IFA = CPI_{m-t} + \frac{nbd}{q_m} x \left(CPI_{m-(t-1)} - CPI_{m-t} \right)$$

Where:

"CPI_{m-t}" means the Index Figure for the first day of the month that is t months prior to the month in which an Interest Payment Date occurs where t has a value of 1 to 24 as specified in the applicable Final Terms;

"nbd" means the actual number of days from and excluding the first day of month m to but including day d and, for the avoidance of doubt, where d is the first day of month m, nbd shall be equal to zero;

"q_m" means the actual number of days in month m;

Where CPIH is specified as the Index or Index Figure in the applicable Final Terms, any reference to the Index Figure applicable to any day ("d") in any month ("m") shall, subject to Condition 7(h) below, be calculated in accordance with the following formula:

$$IFA = CPIH_{m-t} + \frac{nbd}{q_m} x \left(CPIH_{m-(t-1)} - CPIH_{m-t} \right)$$

Where:

"$CPIH_{m-t}$" means the Index Figure for the first day of the month that is t months prior to the month in which an Interest Payment Date occurs where t has a value of 1 to 24 as specified in the applicable Final Terms;

"nbd" means the actual number of days from and excluding the first day of month m to but including day d and, for the avoidance of doubt, where d is the first day of month m, nbd shall be equal to zero;

"q_m" means the actual number of days in month m;

"Indexed Benchmark Gilt" means the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange whose average maturity most closely matches that of the Bonds as a gilt-edged market maker or other adviser selected by the Issuer (an "Indexation Adviser") shall determine to be appropriate; and

"Index Ratio" applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure and rounded to the nearest fifth decimal place.

(g) *Application of the Index Ratio (CPI and CPIH)*

Each payment of interest and principal in respect of the Bonds shall be the amount provided in or determined in accordance with these Conditions, multiplied by the Index Ratio applicable to the month or date, as the case may be, in which such payment falls to be made and rounded to fifth decimal places (0.000005 being rounded upwards).

(h) *Changes in circumstances affecting the Index (CPI and CPIH)*

(i) *Changes in Circumstances Affecting the Index: change in base:* If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the month from and including that in which such substitution takes effect or, as the case may be, from the first date from and including that on which such substitution takes effect:

(A) the definition of "**Index**" and "**Index Figure**" in Condition 7(f) shall be deemed to refer to the new date, month or year as applicable in substitution for 2015 (or, as the case may be, to such other date, month or year as applicable as may have been substituted therefor); and

(B) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure for the date on which such substitution takes effect, divided by the Index Figure for the date immediately preceding the date on which such substitution takes effect.

(ii) *Changes in Circumstances Affecting the Index: delay in publication of the Index*: If the Index Figure relating to any month (the "relevant month") which is required to be taken into account for the purposes of determining the Index Figure for any date (the "relevant figure") has not been published on or before the 14th business day before the date on which such payment is due (the "date for payment"), the Calculation Agent shall determine a substitute index figure (the "Substitute Index Figure") as follows:

Substitute Index Figure=Base Figure ×(Latest Figure/Reference Figure)

where:

"Base Figure" means the level of the Index published or announced by the National Office of Statistics (or any successor entity which publishes the Index) in respect of the month which is 12 calendar months prior to the month for which the Substitute Index Figure is determined;

"Latest Figure" means the latest level of the Index published or announced by the National Office of Statistics (or any successor entity which publishes the Index) prior to the month in respect of which the Substitute Index Figure is being calculated; and

"Reference Figure" means the level of the Index published or announced by the National Office of Statistics (or any successor entity which publishes the Index) in respect of the month that is 12 calendar months prior to the month referred to in the definition of Latest Figure above.

(iii) *Application of Changes*: If:

(A) an Index Figure having been applied pursuant to paragraph (ii) above, the Index Figure relating to the relevant month, is subsequently published while a Bond is still outstanding; or

(B) within 30 days of publication, the National Office of Statistics (or any successor entity which publishes the Index) corrects the level of the Index to remedy a manifest error in its original publication,

then:

(a) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced, as the case may be, by an amount equal to the shortfall or excess, as the case may be, of the amount of the relevant payment made on the basis of the Substitute Index Figure applicable by virtue of paragraph (ii) above or the Index Figure as originally published, as applicable, above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the 14th business day before the date for payment; and

(b) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(iv)

(A) If:

(1) the Issuer has been notified by the Calculation Agent that the Index has ceased to be published; or

(2) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Issuer (following consultation with an Indexation Adviser), be materially prejudicial to the interests of the Bondholders,

the Issuer will give written notice of such occurrence to the Bondholders, and the Issuer shall (i) following consultation with an Indexation Adviser, determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made; or (ii) appoint a bank or other person in London (such bank or other person so appointed being referred to as the "**Expert**") to determine for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and the determination of such Expert shall be binding on the Bondholders. All fees, costs and expenses of the Expert, the Issuer and the Bond Trustee in connection with such appointment shall be borne by the Issuer.

(B) The Index shall be adjusted or replaced by a substitute index as as determined by the Issuer or the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Issuer may determine, and notify to the Bond Trustee and Bondholders, as appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer and the other Obligors, the Bond Trustee, the Financial Guarantors, the other Secured Creditors and the Bondholders. Notices to the Bondholders pursuant to this Condition shall be given by the Issuer as promptly as practicable and in accordance with Condition 17 (*Notices*).

8 Redemption, Purchase and Cancellation

(a) *Partial and Final Redemption*

Unless previously redeemed, or purchased and cancelled as provided below, or unless such Bond is stated in the relevant Final Terms or Drawdown Prospectus as having no fixed Maturity Date, each Bond will be redeemed at its Principal Amount Outstanding (in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*)), on the date or dates (or, in the case of Floating Rate Bonds, on the Interest Payment Date(s)) specified in the relevant Final Terms or Drawdown Prospectus plus accrued but unpaid interest and, in the case of Indexed Bonds as adjusted in accordance with Condition 7(b) (*Application of the Index Ratio*).

In the case of principal on Class B Bonds only, if on any date, prior to the taking of Enforcement Action, on which such Bond is to be redeemed (in whole or in part) there are insufficient funds available to the Issuer to pay such principal, the Issuer's liability to pay such principal will be treated as not having fallen due and will be deferred until the earliest of (i) the next following Interest Payment Date on which the Issuer has, in accordance with the cash management provisions of Schedule 11 (*Cash Management*) of the CTA, sufficient funds to pay such deferred amounts (including any interest accrued thereon); (ii) the date on which all Class A Debt has been paid in full and (iii) an Acceleration of Liabilities (other than a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) and in the case of a Permitted Share Pledge Acceleration only to the extent that there would be sufficient funds available in accordance with the Payment Priorities to pay such deferred principal (including any accrued interest thereon). Interest will accrue on such deferred principal at the rate otherwise payable on unpaid principal of such Class B Bonds.

(b) *Optional Redemption*

Subject as provided below, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee and the Bondholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Bonds in whole or in part (but on a *pro rata* basis only) on any Interest Payment Date at their Redemption Amount, **provided that** Floating Rate Bonds may not be redeemed before the date specified in the relevant Final Terms or Drawdown Prospectus, as follows:

(i) In respect of Fixed Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be an amount equal to the higher of (i) their Principal Amount Outstanding; and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Bond Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Bonds on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such Government stock (or such other stock as specified in the relevant Final Terms or Drawdown Prospectus for Bonds denominated in currencies other than Sterling) as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Bond Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "Gross Redemption Yield" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published 8 June 1998 with effect from 1 November 1998 and updated on 16 March 2005 (and as further updated, supplemented, amended or replaced from time to time), pages 7 to 11 in respect of Indexed Bonds where "8 month lag" is specified in the relevant Final Terms or Drawdown Prospectus or pages 12 to 13 in respect of Indexed Bonds where "3 month lag" is specified in the relevant Final Terms or Drawdown Prospectus or any replacements therefore; "Reference Date" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "Reference Gilt" means the Treasury Stock specified in the relevant Final Terms or Drawdown Prospectus.

(ii) In respect of Floating Rate Bonds, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms or Drawdown Prospectus) plus any accrued but unpaid interest on the Principal Amount Outstanding.

(iii) In respect of Indexed Bonds, the Redemption Amount will (unless otherwise specified in the relevant Final Terms or Drawdown Prospectus) be the higher of (i) the Principal Amount Outstanding; and (ii) the price determined to be appropriate (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer) as being the price at which the Gross Real Redemption Yield (as defined below) on the Bonds on the Reference Date (as defined below) is equal to: (1) (in the case of RPI being the applicable Index or Index Figure) the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such Government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market, (selected by the Issuer), determine to be appropriate, plus accrued but unpaid interest (as adjusted in accordance with Condition 7(b) (*Applications of the Index Ratio*)) on the Principal Amount Outstanding and (2) (in the case of CPI or CPIH being the applicable Index or Index Figure) the sum of (A) if a Reference Gilt is specified in the applicable Final Terms, the Gross Redemption Yield at 3.00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such United Kingdom Government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer), determine to be appropriate; and (B) such rate as may be specified in the applicable Final Terms.

For the purposes of this Condition 8(b)(iii):

(A) "Gross Real Redemption Yield" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published 8 June 1998 with effect from 1 November 1998 and updated on 16 March 2006, (and as further updated, supplemented, amended or replaced from time to time) (provided that, for the purpose of calculating the Gross Redemption Yield on Index Linked Bonds in respect of which CPI or CPIH is specified as the applicable Index, any references to RPI (or the UK Retail Price Index) therein shall be read and construed as references to CPI or CPIH (as applicable) if CPI or CPIH is not covered by such publication), pages 7 to 11 in respect of Indexed Bonds where "8 months lag" is specified in the relevant Final Terms or Drawdown Prospectus or pages 12 to 13 in respect of Indexed Bonds where "3 months lag" is specified in the relevant Final Terms or Drawdown Prospectus or any replacements therefore; and

(B) "Reference Date" means the date which is two Business Days prior to the despatch of the notice of redemption under Condition 8(b)(iii); and "Reference Gilt" means the Treasury Stock specified in the relevant Final Terms or Drawdown Prospectus.

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

(c) *Redemption for Index Event, Taxation or Other Reasons*

Redemption for Index Events: Upon the occurrence of any Index Event (as defined below), the Issuer may, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee and the holders of the Indexed Bonds in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Indexed Bonds of all Sub-Classes referable to the Index the subject of the Index Event on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(b) (*Application of Index Ratio*)) plus accrued but unpaid interest. No single Sub-Class of Indexed Bonds may be redeemed in these circumstances unless all the other Classes and Sub-Classes of Indexed Bonds referable to the Index the subject of the Index Event are also redeemed at the same time and the Issuer has discharged all amounts due and payable to any Financial Guarantor that has issued a Financial Guarantee in respect of such Class or Sub-Class of Indexed Bonds. Before giving any such notice, the Issuer shall provide to the Bond Trustee, the Security Trustee, the Majority Creditors and the relevant Financial Guarantor(s) a certificate signed by an Authorised Signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to effect such redemption and payment to the relevant Financial Guarantor(s).

"Index Event" means:

(i) if RPI is specified as the Index or Index Figure in the applicable Final Terms,

(A) the Index Figure for three consecutive months fails to be determined on the basis of an Index Figure previously published as provided in Condition 7(c)(ii) (*Delay in publication of Index*) and the Bond Trustee has been notified by the Principal Paying Agent that publication of the Index has ceased; or

(B) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Issuer and such circumstances are continuing.

(ii) if CPI or CPIH is specified as the Index or Index Figure in the applicable Final Terms, the Index Figure fails to be determined for three consecutive months other than on the basis provided in Condition 7(h)(ii) (*Changes in Circumstances Affecting the Index: delay in publication of the Index*) and the Bond Trustee has been notified by the Calculation Agent that publication of the Index has ceased.

Redemption for Taxation Reasons: In addition, if at any time the Issuer satisfies the Bond Trustee that the Issuer would, on the next Interest Payment Date, become obliged to deduct or withhold from any payment of interest or principal in respect of the Bonds (other than in respect of default interest), any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or, if the Issuer is substituted for a company incorporated under or tax resident in another jurisdiction as permitted in accordance with these Conditions, such other jurisdiction or, in each case, any political subdivision thereof, or any other authority thereof, then the Issuer may, in order to avoid the relevant deductions or withholding, use its reasonable endeavours to arrange the substitution of a company incorporated under another jurisdiction approved by the Bond Trustee as principal debtor under the Bonds and as lender under the Issuer/YWS Loan Agreements and as obligor under the Finance Documents upon satisfying the conditions for substitution of the Issuer as set out in the STID (and referred to in Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*)). If the Issuer is unable to arrange a substitution as described above having used reasonable endeavours to do so and, as a result, the relevant deduction or withholding is continuing then the Issuer may (but will not be obliged to), upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee and the Bondholders in accordance with Condition 17 (*Notices*), redeem all (but not some only) of the Bonds on any Interest Payment Date at their Principal Amount Outstanding plus accrued but unpaid interest thereon (each adjusted, in the case of Indexed Bonds, in accordance with Condition 7(b) (*Application of the Index Ratio*)). Before giving any such notice of redemption, the Issuer shall provide to the Bond Trustee, and the Security Trustee and the relevant Financial Guarantors a certificate signed by an Authorised Signatory (a) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (b) confirming that the Issuer will have sufficient funds on such Interest Payment Date to discharge all its liabilities in respect of the Bonds and any amounts under the Security Agreement to be paid in priority to, or *pari passu* with, the Bonds under the Payment Priorities.

(d) *Redemption on Prepayment of Issuer/YWS Loan Agreements*

This Condition 8(d) is applicable to Bonds issued by the Issuer only.

If YWS gives notice to the Issuer under an Issuer/YWS Loan Agreement that it intends to prepay all or part of any advance made under such Issuer/YWS Loan Agreement and such advance was funded by the Issuer from the proceeds of the issue of a Sub-Class of Bonds, the Issuer shall, upon giving not more than 60 nor less than 30 days' notice to the Bond Trustee, the Security Trustee, the relevant Financial Guarantors (if any) and the Bondholders in accordance with Condition 17 (*Notices*), (where such advance is being prepaid in whole) redeem all of the Bonds of that Sub-Class or (where part only of such advance is being prepaid) the proportion of the relevant Sub-Class of Bonds which the proposed prepayment amount bears to the amount of the relevant advance. In the case of a voluntary prepayment, the relevant Bonds will be redeemed at their Redemption Amount determined in accordance with Condition 8(b) (*Optional Redemption*) except that, in the case of Fixed Rate Bonds and Indexed Bonds, for the purposes of this Condition 8(d), "Reference Date" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 8(d), plus accrued but unpaid interest and, in the case of any other prepayment, the relevant Bonds will be redeemed at their Principal Amount Outstanding plus accrued but unpaid interest.

(e) *Purchase of Bonds*

The Issuer may, **provided that** no Event of Default has occurred and is continuing, purchase Bonds (**provided that** all unmatured Receipts and Coupons and unexchanged Talons (if any) appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Any purchase by tender shall be made available to all Bondholders alike.

If not all the Bonds which are in registered form are to be purchased, upon surrender of the existing Definitive Registered Bond, the Registrar shall forthwith upon the written request of the Bondholder concerned issue a new Definitive Registered Bond in respect of the Bonds which are not to be purchased and despatch such Definitive Registered Bond to the Bondholder (at the risk of the Bondholder and to such address as the Bondholder may specify in such request).

While the Bonds are represented by a Global Bond or Registered Global Bond (as defined below), the relevant Global Bond or Registered Global Bond will be endorsed to reflect the Principal Amount Outstanding of Bonds to be so redeemed or purchased.

(f) *Redemption by Instalments*

Unless previously redeemed, purchased and cancelled as provided in this Condition 8, each Bond which provides for Instalment Dates (as specified in the relevant Final Terms or Drawdown Prospectus) and Instalment Amounts (as specified in the relevant Final Terms or Drawdown Prospectus) will be partially redeemed on each Instalment Date at the Instalment Amount.

(g) *Cancellation*

In respect of all Bonds purchased by or on behalf of the Issuer, the Bearer Bonds or the Registered Bonds shall be surrendered to or to the order of the Principal Paying Agent or the Registrar, as the case may be, for cancellation and, if so surrendered, will, together with all Bonds redeemed by the Issuer, be cancelled forthwith (together with, in the case of Bearer Bonds, all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Bonds so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(h) *Instalments*

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Redemption Amount will be determined pursuant to Condition 8(b) (*Optional Redemption*) above.

9 Payments

(a) *Bearer Bonds*

Payments to the Bondholders of principal (or, as the case may be, Redemption Amounts or other amounts payable on redemption) and interest (or, as the case may be, Interest Amounts) in respect of Bearer Bonds will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payment of Instalment Amounts other than on the due date for final redemption and **provided that** the Receipt is presented for payment together with its relative Bond), Bonds (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f) (*Unmatured Coupons and Receipts and Unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States of America by transfer to an account denominated in the currency in which such payment is due with, or (in the case of Bonds in definitive form only) a cheque payable in that currency drawn on, a bank in (i) the principal financial centre of that currency **provided that** such currency is not euro, or (ii) the principal financial centre of any Participating Member State if that currency is euro.

(b) *Registered Bonds*

Payments of principal (or, as the case may be, Redemption Amounts) in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation and surrender of the relevant Registered Bond at the specified office of the Registrar and in the manner provided in Condition 9(a) (*Bearer Bonds*).

Payments of instalments in respect of Registered Bonds will be made to the holder (or the first named of joint holders) of such Bond against presentation of the relevant Registered Bond at the specified office of the Registrar in the manner provided in Condition 9(a) (*Bearer Bonds*) above and annotation of such payment on the Register and the relevant Bond Certificate.

Interest (or, as the case may be, Interest Amounts) on Registered Bonds payable on any Interest Payment Date will be paid to the holder (or the first named of joint holders) on the fifteenth day before the due date for payment thereof (the "Record Date"). Payment of interest or Interest Amounts on each Registered Bond will be made in the currency in which such payment is due by cheque drawn on a bank in (a) the principal financial centre of the country of the currency concerned, **provided that** such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the Bondholder to the specified office of the Registrar before the relevant Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank in (a) the principal financial centre of the country of that currency **provided that** such currency is not euro, or (b) the principal financial centre of any Participating Member State if that currency is euro.

A record of each payment so made will be endorsed on the schedule to the Global Bond or the Registered Global Bond by or on behalf of the Principal Paying Agent or the Registrar, as the case may be, which endorsement shall be *prima facie* evidence that such payment has been made.

(c) Payments in the United States of America

Notwithstanding the foregoing, if any Bearer Bonds are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if:

(i) the Issuer shall have appointed Paying Agents with specified offices outside the United States of America with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Bonds in the manner provided above when due;

(ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and

(iii) such payment is then permitted by the law of the United States of America, without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(d) Payments subject to fiscal laws; payments on Global Bonds and Registered Bonds

Save as provided in Condition 10, payments will be subject in all cases to any other applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer, the Guarantors or their respective Agents agree to be subject and neither the Issuer nor the Guarantors will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

The holder of a Global Bond or Registered Global Bond shall be the only person entitled to receive payments of principal (or Redemption Amounts) and interest (or Interest Amounts) on the Global Bond or Registered Global Bond (as the case may be) and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond or Registered Global Bond in respect of each amount paid.

(e) Appointment of the Agents

The Paying Agents, the Agent Bank, the Transfer Agents and the Registrar (the "Agents") appointed by the Issuer (and their respective specified offices) are listed in the Agency Agreement. Any Calculation Agent will be listed in the relevant Final Terms or Drawdown Prospectus and will be appointed pursuant to a Calculation Agency Agreement. The Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right, with the prior written consent of the Bond Trustee at any time to vary or terminate the appointment of any Agent, and to appoint additional or other Agents, **provided that** the Issuer will at all times maintain (i) a Principal Paying Agent (in the case of Bearer Bonds); (ii) a Registrar (in the case of Registered Bonds); (iii) an Agent Bank or Calculation Agent (as specified in the relevant Final Terms or Drawdown Prospectus) (in the case of Floating Rate Bonds or Indexed Bonds); (iv) if and for so long as the Bonds are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent, Transfer Agent or Registrar in any particular place, a Paying Agent, Transfer Agent and/or Registrar, as applicable, having its specified office in the place required by such listing authority, stock exchange and/or quotation system. Notice of any such variation, termination or appointment will be given in accordance with Condition 17 (*Notices*).

(f) Unmatured Coupons and Receipts and Unexchanged Talons

(i) Subject to the provisions of the relevant Final Terms or Drawdown Prospectus, upon the due date for redemption of any Bond which is a Bearer Bond (other than a Fixed Rate Bond, unless it has all unmatured Coupons attached), unmatured Coupons and Receipts relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(ii) Upon the date for redemption of any Bond, any unmatured Talon relating to such Bond (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iii) Upon the due date for redemption of any Bond which is redeemable in instalments, all Receipts relating to such Bond having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(iv) Where any Bond, which is a Bearer Bond and is a Fixed Rate Bond, is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, a sum equal to the aggregate amount of the missing unmatured Coupons will be deducted from the amount of principal due for payment and, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Bond is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or the Interest Commencement Date, as the case may be, or the Interest Amount payable on such date for redemption shall only be payable against presentation (and surrender if appropriate) of the relevant Bond and Coupon.

(g) Non-Business Days

Subject as provided in the relevant Final Terms or Drawdown Prospectus, if any date for payment in respect of any Bond, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in London and in the relevant place of presentation and in the cities referred to in the definition of Business Days and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

(h) *Talons*

On or after the Interest Payment Date for the final Coupon forming part of a coupon sheet issued in respect of any Bond, the Talon forming part of such coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further coupon sheet (and if necessary another Talon for a further coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 13 (*Prescription*)).

10 Taxation

All payments in respect of the Bonds, Receipts or Coupons will be made (whether by the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or, in respect of Wrapped Bonds, the Financial Guarantors) free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or charges of whatsoever nature unless the Issuer, the Guarantors, any Paying Agent or the Registrar or, where applicable, the Bond Trustee, the Security Trustee or the Financial Guarantor is required by applicable law to make any payment in respect of the Bonds, Receipts or Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer, the Guarantors, such Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor, as the case may be, shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor will be obliged to make any additional payments to the Bondholders, Receiptholders or the Couponholders in respect of such withholding or deduction. The Issuer, the Guarantors, any Paying Agent, the Registrar, the Bond Trustee, the Security Trustee or the Financial Guarantor may require holders to provide such certifications and other documents as required by applicable law in order to qualify for exemptions from applicable tax laws.

If the Issuer is obliged to make any such deduction or withholding, the amount so deducted or withheld is not guaranteed by the Financial Guarantor.

11 Events of Default

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

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

(a) *Events of Default*

If any Event of Default occurs and is continuing, subject always to the terms of the STID, the Bond Trustee may at any time (in accordance with the provisions of the Bond Trust Deed and the STID), having certified in writing that, in its opinion, the occurrence of such event is materially prejudicial to the interests of the Bondholders and shall upon the Bond Trustee being so directed or requested (i) by an Extraordinary Resolution (as defined in the Bond Trust Deed) of holders of the relevant Sub-Classes of Class A Bonds or, if there are no Class A Bonds outstanding, the Class B Bonds or (ii) in writing by holders of at least one quarter in outstanding nominal amount of the relevant Sub-Class of Class A Bonds, or if there are no Class A Bonds outstanding, the Class B Bonds and subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer and the Security Trustee that the Bonds of the relevant Sub-Class are, and they shall immediately become, due and repayable, at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(a), the "Reference Date" means the date two Business Days prior to the despatch of the notice of redemption given under this Condition 11(a)) or as specified in the applicable Final Terms or Drawdown Prospectus.

(b) *Confirmation of no Event of Default*

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

(c) *Enforcement of Security*

If the Bond Trustee gives written notice to the Issuer and the Security Trustee that an Event of Default has occurred under the Bonds of any Sub-Class, a Standstill Period shall commence. The Security Trustee may only enforce the Security acting in accordance with the STID and, subject to certain limitations on enforcement during a Standstill Period, on the instructions of the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) or pursuant to a valid Emergency Instruction Notice, in each case, pursuant to the STID.

(d) *Automatic Acceleration*

In the event of the acceleration of the Secured Liabilities (other than a Permitted Share Pledge Acceleration, a Permitted Hedge Termination, a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event as set out in the STID), the Bonds of each Series shall automatically become due and repayable at their respective Redemption Amounts determined in accordance with Condition 8(b) (*Optional Redemption*) (except that, in the case of Fixed Rate Bonds and Indexed Bonds for the purposes of this Condition 11(d), "Reference Date" means the date two Business Days prior to the date of such acceleration) or as specified in the applicable Final Terms or Drawdown Prospectus plus, in each case, accrued and unpaid interest thereon.

12 Enforcement Against Issuer

No Bondholder is entitled to take any action against the Issuer or, in the case of the holders of Wrapped Bonds, against the Financial Guarantor or against any assets of the Issuer or any Financial Guarantor to enforce its rights in respect of the Bonds or to enforce any of the Security or to enforce any Financial Guarantee unless the Bond Trustee or the Security Trustee (as applicable), having become bound so to proceed, fails or neglects to do so within a reasonable period and such failure or neglect is continuing. The Security Trustee will act (subject to Condition 11(c) (*Enforcement of Security*)) on the instructions of the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) or pursuant to a valid Emergency Instruction Notice, in each case, pursuant to the STID and neither the Bond Trustee nor the Security Trustee shall be bound to take any such action unless it is indemnified and/or secured and/or prefunded to its satisfaction against all fees, costs, expenses, liabilities, claims and demands to which it may thereby become liable or which it may incur by so doing.

Neither the Bond Trustee nor the Bondholders may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding up, reorganisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Security Agreement and subject to the STID) or other proceeding under any similar law for so long as any Bonds are Outstanding or for two years and a day after the latest Maturity Date on which any Bond of any Series is due to mature.

13 Prescription

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

14 Replacement of Bonds, Coupons, Receipts and Talons

If any Bearer Bond, Registered Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws and requirements of the London Stock Exchange (in the case of listed Bonds), if the relevant Bonds have been admitted to listing, trading and/or quotation on such a stock exchange), at the specified office of the Principal Paying Agent or, as the case may be, the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Meetings of Bondholders, Modification, Waiver and Substitution

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

The STID contains provisions dealing with the manner in which STID Matters affecting the interests of the Secured Creditors (including the Bond Trustee and the Bondholders) will be dealt with. Bondholders will (subject to various Reserved Matters and Entrenched Rights) be bound by the decisions of the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) (and additionally in a Default Situation, decisions made pursuant to the Emergency Instruction Procedure (as set out in Clause 9.14 (*Emergency Instruction Procedure*) of the STID)).

The STID provides that in respect of STID Direct Voting Matters which do not relate to the Entrenched Rights or Reserved Matters of the Bondholders (as set out in the STID) and **provided that** no Default Situation is continuing (other than in respect of a STID Matter in respect of which the relevant proposer has elected to utilise the Emergency Instruction Procedure), the holders of Class A Unwrapped Bonds (or, following the repayment in full of all Qualifying Class A Debt, the holders of Class B Unwrapped Bonds) and following an FG Event of Default in relation to a Financial Guarantor, the holders of the relevant Class A Wrapped Bonds (or, following the repayment in full of all Qualifying Class A Debt, the holders of the relevant Class B Wrapped Bonds) (the "Qualifying Bondholders") shall each be entitled to instruct the Bond Trustee through the clearing systems in accordance with the terms of the Bond Trust Deed to vote on its behalf in relation to such STID Direct Voting Matters as the DIG Representative of such Bondholder.

As more fully set out in the STID and the Bond Trust Deed, voting in connection with such STID Direct Voting Matters shall be determined on a pound-for-pound basis by reference to the Outstanding Principal Amount owed to each of the Qualifying Class A Debt Providers (or, following the repayment in full of all Qualifying Class A Debt, the Qualifying Class B Debt Providers) voting in respect of such STID Direct Voting Matters, so that all votes in favour of the proposal and all votes against the proposal from such Qualifying Debt Providers are considered on an aggregate basis, irrespective of whether a majority of such holders of Unwrapped Bonds or, as the case may be, Wrapped Bonds (following an FG Event of Default in respect of the relevant Financial Guarantor) are in favour or against the proposal.

For the purpose of voting in connection with a STID Direct Voting Matter, upon receipt thereof in accordance with the provisions of the STID, the Bond Trustee shall promptly forward a copy of such notice to the Qualifying Bondholders in accordance with Condition 17 (*Notices*) requesting them to instruct the Bond Trustee how to vote. After obtaining the instruction of the Qualifying Bondholders, the Bond Trustee will vote in relation to the relevant STID Direct Voting Matter in accordance with such instructions. The Bond Trustee shall not be entitled to convene a meeting of any one or more Sub-Class of Bondholders to consider a STID Matter unless a Default Situation is subsisting (subject to any Emergency Instruction Notice) or the STID Matter relates to an Entrenched Right or a Reserved Matter of the relevant Sub-Class or Class of Bondholders.

If a STID Matter relates to an Entrenched Right or a Reserved Matter of a Sub-Class or Class of Bondholders (whether before or whilst a Default Situation is subsisting), such STID Matter shall not be a STID Direct Voting Matter and the Bond Trustee shall be entitled to convene a meeting of any one or more Sub-Classes of Bondholders to consider such STID Matter and the Bond Trustee shall (subject to any Emergency Instruction Notice) vote in accordance with a direction by those holders of such outstanding Bonds by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

If a Default Situation has occurred and is subsisting, the Bond Trustee shall (subject to any Emergency Instruction Notice) be entitled to convene a meeting of any one or more Sub-Classes of Unwrapped Bondholders (or, following an FG Event of Default in respect of a Financial Guarantor, the relevant Sub-Class or Sub-Classes of Wrapped Bonds) to consider any STID Matter and the Bond Trustee shall vote in accordance with a direction by those holders of such outstanding Unwrapped Bonds (or, following the occurrence of an FG Event of Default in respect of a Financial Guarantor, the relevant Wrapped Bonds) (i) by means of an Extraordinary Resolution of the relevant Sub-Class of Bonds; or (ii) (in respect of a DIG Proposal to terminate a Standstill) as requested in writing by the holders of at least one quarter of the Principal Amount Outstanding of the relevant Sub-Class of Bonds then outstanding. In any case, the Bond Trustee shall not be obliged to vote unless it has been indemnified and/or secured and/or prefunded to its satisfaction.

Subject to Entrenched Rights and Reserved Matters, whilst a Default Situation is subsisting, certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee to convene Bondholder meetings. To cater for such circumstances, the STID provides for an emergency instruction procedure (the "Emergency Instruction Procedure"). In respect of any STID Matter during a Default Situation, the proposer must elect whether or not it wishes to utilise the Emergency Instruction Procedure in the event that the Bond Trustee, the Participating YWSF Bond Trustee or, as the case may be, the Non-Participating YWSF Bond Trustee convenes a Bondholder, Participating YWSF Bondholder or, as the case may be, Non-Participating YWSF Bondholder meeting and any such STID Matter will constitute a STID Direct Voting Matter for the purposes of Bondholder, Participating YWSF Bondholder or, as the case may, be Non-Participating YWSF Bondholder voting. Subject to Entrenched Rights and Reserved Matters, the Security Trustee will be required to act upon instructions contained in an emergency notice (an "Emergency Instruction Notice"). The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take and must certify that, unless such action is taken within the time frame specified in the Emergency Instruction Notice, the interests of the EIN Signatories will be materially prejudiced. An Emergency Instruction Notice must be signed by DIG Representatives (the "EIN Signatories") representing $66^2/_3$ per cent. or more of the aggregate

Outstanding Principal Amount of the Qualifying Class A Debt or, following the repayment in full of all Qualifying Class A Debt, Qualifying Class B Debt (after excluding from the proportion of Qualifying Class A Debt or, as the case may be, Qualifying Class B Debt, the Outstanding Principal Amount of (a) the Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in relation to the relevant Financial Guarantor); (b) the Unwrapped Bonds; (c) the YWSF Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in relation to the YWSF Financial Guarantor); (d) the YWSF Unwrapped Bonds; and (e) the Non-Participating YWSF Bonds which constitute Qualifying Class A Debt, in each case, in respect of which the relevant Bondholder, Participating YWSF Bondholder or, as the case may be, Non-Participating YWSF Bondholder has not voted through the clearing systems during the initial 15 Business Day Decision Period). The Emergency Instruction Notice must specify the emergency action which the Security Trustee is being instructed to take on or after the expiry of the initial 15 Business Day Decision Period and must certify that in the EIN Signatories' reasonable opinion, unless such action is taken within the timeframe specified in the Emergency Instruction Notice, the interests of the EIN Signatories would be materially prejudiced. As described above, the holders of Unwrapped Bonds and, following the occurrence of an FG Event of Default which is continuing in relation to a Financial Guarantor, the holders of the relevant Wrapped Bonds shall each be entitled to instruct the Bond Trustee through the clearing systems in accordance with the terms of the Bond Trust Deed to vote on its behalf as the DIG Representative of such Bondholder in relation to such Emergency Instruction Notice as a STID Direct Voting Matter.

(b) *Meetings of Bondholders*

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification of the Bonds, the Receipts, the Coupons or any of the provisions of the Bond Trust Deed, (in the case of Class A Wrapped Bonds and Class B Wrapped Bonds) the Financial Guarantees and any other Finance Document to which the Bond Trustee is a party (subject to the terms of the STID). Any modification may (except in relation to any Entrenched Right or Reserved Matter of the Bond Trustee (as set out in the STID) subject to the terms of the STID including, in the case of any of the Class A Wrapped Bonds or Class B Wrapped Bonds, to Entrenched Rights or Reserved Matters of any Financial Guarantor (as set out in the STID) and subject to the provisions concerning ratification and/or meetings of particular combinations of Sub-Classes of Bonds as set out in Condition 16(b) (*Exercise of rights by Bond Trustee*) and the Bond Trust Deed), be made if sanctioned by a resolution passed at a meeting of such Bondholders duly convened and held in accordance with the Bond Trust Deed by a majority of not less than three-quarters of the votes cast (an "Extraordinary Resolution") at such meeting. Such a meeting may be convened by the Bond Trustee or the Issuer, and shall be convened by the Issuer upon the request in writing of the relevant Bondholders holding not less than one-tenth in nominal amount of the relevant Bonds for the time being Outstanding.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in nominal amount of the relevant Bonds for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Bondholders, whatever the nominal amount of the relevant Bonds held or represented, provided however, that certain matters as set out in paragraph 5 of the Fourth Schedule to the Bond Trust Deed (the "Basic Terms Modifications") in respect of the holders of any particular Sub-Class of Bonds may be sanctioned only by an Extraordinary Resolution passed at a meeting of Bondholders of the relevant Sub-Class of Bonds at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the Outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Bondholders, Receiptholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) *Modification, consent and waiver*

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

(i) any modification of these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document if in the opinion of the Bond Trustee such modification is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of law;

(ii) any modification and granting any consent under or waiver or authorisation of any breach or proposed breach (or determination that any Event of Default or Potential Event of Default shall not be treated as such) of these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document which is, in the opinion of the Bond Trustee, not materially prejudicial to the interests of the Bondholders of that Sub-Class; and

(iii) (A) any modification to the Bond Trust Deed (including the Conditions), the Agency Agreement and the CP Agreement; and (B) any amendment or supplement to the Master Definitions Agreement, in each case required for the purpose of enabling Bonds to be issued under the Programme within the United States in reliance on Rule 144A under the United States Securities Act of 1933 (as amended) ("Rule 144A") to persons that are both "qualified institutional buyers" within the meaning of Rule 144A and "qualified purchasers" within the meaning of section 2(a)(51) of the United States Investment Company Act of 1940 (as amended) acting for their own account or for the account of another qualifying institutional buyer that is a qualified purchaser, **provided that**, (i) the Issuer shall have provided a certificate signed by two Directors of the Issuer certifying to the Bond Trustee that such modification, amendment or supplement is required for such purpose, (ii) the Bond Trustee is provided with confirmation, whether directly or indirectly, from the Rating Agencies that such modification, amendment and/or supplement will not cause a downgrade to the then current credit rating (or, in respect of Wrapped Bonds, the then current underlying rating) of the Senior Debt by any of the Rating Agencies (**provided that** in circumstances where a Rating Agency is not willing to issue a rating affirmation due to its then prevailing policy regarding the issue of rating affirmations, YWS has certified in writing to the Bond Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with YWS this opinion is based on consultation with such Rating Agency) such modification, amendment and/or supplement would not cause a downgrade to the then current credit ratings (or, in respect of Wrapped Bonds, the then current underlying ratings) of the Senior Debt by such Rating Agency), (iii) each party to the Bond Trust Deed and the Agency Agreement shall have consented to such amendments to the Bond Trust Deed, the Agency Agreement and the CP Agreement and/or amendment or supplement to the Master Definitions Agreement, and (iv) the requested modifications, amendments and/or supplements do not impose any additional obligations or liabilities on the Bond Trustee; and **provided further that** following the implementation of such modifications, amendments and/or supplements the Issuer shall promptly notify the Bondholders thereof.

Any such modification, consent, waiver or authorisation shall be binding on the Bondholders of that Sub-Class, and the holders of all relevant Receipts and Coupons and, if the Bond Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders of that Sub-Class as soon as practicable thereafter.

The Bond Trustee shall be entitled to assume that any such modification, consent, waiver or authorisation is not materially prejudicial to the Bondholders if the Rating Agencies confirm that there will not be any adverse effect thereof on the original issue ratings of the Bonds.

(d) *Substitution of the Issuer*

As more fully set forth in the STID (and subject to the conditions and qualifications therein), the Bond Trustee may also agree with the Issuer, without reference to the Bondholders, to the substitution of another corporation in place of the Issuer as principal debtor in respect of the Bond Trust Deed and the Bonds of all Series and subject to the Wrapped Bonds continuing to be subject to a Financial Guarantee of the relevant Financial Guarantor.

16 Bond Trustee Protections

(a) *Trustee considerations*

Subject to the terms of the STID and Condition 16(b) (*Exercise of rights by Bond Trustee*), in connection with the exercise, under these Conditions, the Bond Trust Deed, any Financial Guarantee or any Finance Document, of its rights, powers, trusts, authorities and discretions (including any modification, consent, waiver or authorisation), the Bond Trustee shall have regard to the interests of the holders of the Bonds **provided that**, if the Bond Trustee considers, in its sole opinion, that there is a conflict of interest between the interests of the holders of the Class A Bonds and the interests of the holders of the Class B Bonds, the Bond Trustee shall give priority to the interests of the holders of the Class A Bonds whose interests shall prevail. Where, in the sole opinion of the Bond Trustee, there is a conflict between holders of two or more Sub-Classes of Bonds of the same Class, it shall consider the interests of the holders of the Sub-Class of Bonds with the shortest dated maturity and, in either case, will not have regard to the consequences of such exercise for the holders of other Sub-Classes of Bonds or for individual Bondholders, resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. The Bond Trustee shall not be entitled to require from the Issuer or any Financial Guarantor, nor shall any Bondholders be entitled to claim from the Issuer, any Financial Guarantor or the Bond Trustee, any indemnification or other payment in respect of any consequence (including any tax consequence) for individual Bondholders of any such exercise.

(b) *Exercise of rights by Bond Trustee*

(1) Except as otherwise provided in these Conditions and the Bond Trust Deed, when exercising any rights, powers, trusts, authorities and discretions relating to or contained in these Conditions or the Bond Trust Deed (other than in determining or in respect of any Entrenched Right or Reserved Matter relating to the Bonds or any other Basic Terms Modification), which affects or relates to any Class A Wrapped Bonds and/or Class B Wrapped Bonds, the Bond Trustee shall only act on the instructions of the relevant Financial Guarantor(s) (provided no FG Event of Default has occurred and is continuing) in accordance with the provisions of the Bond Trust Deed and the Bond Trustee shall not be required to have regard to the interests of the Bondholders in relation to the exercise of such rights, powers, trusts, authorities and discretions and shall have no liability to any Bondholders as a consequence of so acting. As a consequence of being required to act only on the instructions of the relevant Financial Guarantor(s) in the circumstances referred to in the

previous sentence, the Bond Trustee may not, notwithstanding the provisions of these Conditions, be entitled to act on behalf of the holders of any Sub-Classes of Wrapped Bonds.

(2) Subject as provided in sub-paragraph (1) above or elsewhere in these Conditions and the Bond Trust Deed, the Bond Trustee will exercise its rights under, or in relation to, the Bond Trust Deed, the Conditions or any Financial Guarantee in accordance with the directions of the relevant Bondholders, but the Bond Trustee shall not be bound as against the Bondholders to take any such action unless it has (a) (in respect of the matters set out in Condition 11 (*Events of Default*) and Condition 15(a) (*Decisions of the Majority Creditors*) only) been so requested in writing by the holders of at least 25 per cent. in nominal amount of the relevant Sub-Classes of Bonds Outstanding; or (b) been so directed by an Extraordinary Resolution; and (ii) been indemnified and/or furnished with security and/or prefunded to its satisfaction.

(c) Decisions under STID binding on all Bondholders

Subject to the provisions of the STID and the Entrenched Rights and Reserved Matters of the Bond Trustee and the Bondholders, decisions of the Majority Creditors (**provided that** the relevant Quorum Requirement has been met) and (in a Default Situation) decisions made pursuant to the Emergency Instruction Procedure will bind the Bond Trustee and the Bondholders in all circumstances.

17 Notices

Notices to holders of Registered Bonds will be posted to them at their respective addresses in the Register and deemed to have been given on the date of posting. Other notices to Bondholders will be valid if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of the London Stock Exchange, on which the Bonds are for the time being listed. Any such notice (other than to holders of Registered Bonds as specified above) shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders and Receiptholders will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Bonds in accordance with this Condition 17.

So long as any Bonds are represented by Global Bonds, notices in respect of those Bonds may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or any other relevant clearing system as specified in the relevant Final Terms or Drawdown Prospectus for communication by them to entitled account holders in substitution for publication in a daily newspaper with general circulation in London. Such notices shall be deemed to have been received by the Bondholders on the day of delivery to such clearing systems.

18 Indemnification of the Bond Trustee and Security Trustee

(a) Indemnification of the Bond Trustee

The Bond Trust Deed contains provisions for indemnification of the Bond Trustee, and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings against any Issuer, any Financial Guarantor and or any other person unless indemnified and/or secured and/or prefunded to its satisfaction. The Bond Trustee or any of its affiliates (as defined in Condition 7 (*Indexation*)) are entitled to enter into business transactions with the Issuer, any Financial Guarantor, the other Secured Creditors or any of their respective subsidiaries or associated companies without accounting for any profit resulting therefrom.

(b) *Indemnification of the Security Trustee*

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

(c) *Directions, Duties and Liabilities*

Neither the Security Trustee nor the Bond Trustee, in the absence of its own wilful misconduct, gross negligence or fraud, and in all cases when acting as directed by or subject to the agreement of the Majority Creditors or Secured Creditors (or their representatives) (as appropriate) or pursuant to a valid Emergency Instruction Notice pursuant to the terms of the STID, shall in any way be responsible for any loss, costs, damages or expenses or other liability, which may result from the exercise or non-exercise of any consent, waiver, power, trust, authority or discretion vested in the Security Trustee or the Bond Trustee pursuant to the STID, any Finance Document or any Ancillary Document.

19 Miscellaneous

(a) *Governing Law*

The Bond Trust Deed, STID, the Security Agreement, the Bonds, the Coupons, the Receipts, the Talons (if any), the relevant Financial Guarantee (if any) and the other Finance Documents are, and any non-contractual obligations arising out of or in connection with such documents shall be governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*

The courts of England are to have exclusive jurisdiction to settle any dispute that may arise out of or in connection with the Bonds, the Coupons, the Receipts, the Talons, the relevant Financial Guarantee (if any) and the Finance Documents and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons, the Receipts, the Talons (if any) the relevant Financial Guarantee (if any) and/ or the Finance Document may be brought in such courts. The Issuer has in each of the Finance Documents irrevocably submitted to the jurisdiction of such courts.

(c) *Third Party Rights*

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any rights or remedy which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

FORMS OF THE BONDS

Form and Exchange – Bearer Bonds

Each Sub-Class of Bonds initially issued in bearer form will be issued either as a temporary global bond (the "Temporary Global Bond"), without Coupons, Receipts or Talons attached, or a permanent global bond (the "Permanent Global Bond"), without interest Coupons, Receipts or Talons attached, in each case as specified in the relevant Final Terms or Drawdown Prospectus. Each Temporary Global Bond or, as the case may be, Permanent Global Bond (each a "Global Bond") will be delivered on or prior to the issue date of the relevant Sub-Class of the Bonds to a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system on or about the Issue Date of the relevant Sub-Class.

The relevant Final Terms or Drawdown Prospectus will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "Code")) (the "TEFRA C Rules") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "TEFRA D Rules") are applicable in relation to such Bonds, or whether such Bonds are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Bonds 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 applicable Final Terms as a transaction to which TEFRA is not applicable.

Temporary Global Bond exchangeable for Permanent Global Bond

If the relevant Final Terms or Drawdown Prospectus specifies the form of Bonds as being represented by "Temporary Global Bond exchangeable for a Permanent Global Bond", then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for interests in a Permanent Global Bond, without Coupons, Receipts or Talons attached, not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, payments of interest in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Bond is to be exchanged for an interest in a Permanent Global Bond, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Bond, duly authenticated, to the bearer of the Temporary Global Bond or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Bond in accordance with its terms against:

- presentation and (in the case of final exchange) surrender of the Temporary Global Bond at the specified office of the Paying Agent; and
- receipt by the Paying Agent of a certificate or certificates of non-U.S. beneficial ownership issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Bond shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Bond exceed the aggregate initial principal amount of the Temporary Global Bond and any Temporary Global Bond representing a fungible Sub-Class of Bonds with the Sub-Class of Bonds represented by the first Temporary Global Bond.

The Permanent Global Bond will be exchangeable in whole, but not in part, at the request of the bearer of the Permanent Global Bond for Bonds in definitive form ("Definitive Bearer Bonds"):

- on the expiry of such period of notice as may be specified in the relevant Final Terms or Drawdown Prospectus;
- at any time, if so specified in the relevant Final Terms or Drawdown Prospectus;
- if the relevant Final Terms or Drawdown Prospectus specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 11(a) (Events of Default) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

If a Permanent Global Bond is exchangeable for Definitive Bearer Bonds at the option of the Bondholders or Issuer other than in the limited circumstances described in the Permanent Global Bond, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

Whenever the Permanent Global Bond is to be exchanged for Definitive Bearer Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bearer Bonds, duly authenticated and with Coupons, Receipts and Talons attached (if so specified in the relevant Final Terms or Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

Temporary Global Bond exchangeable for Definitive Bearer Bonds

If the relevant Final Terms or Drawdown Prospectus specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bearer Bonds" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole but not in part, for Definitive Bearer Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds.

If the relevant Final Terms or Drawdown Prospectus specifies the form of Bonds as being "Temporary Global Bond exchangeable for Definitive Bearer Bonds" and also specifies that the TEFRA D Rules are applicable, then the Bonds will initially be in the form of a Temporary Global Bond which will be exchangeable, in whole or in part, for Definitive Bearer Bonds not earlier than 40 days after the issue date of the relevant Sub-Class of the Bonds upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Bond is to be exchanged for Definitive Bearer Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bearer Bonds, duly authenticated and with Coupons, Receipts and Talons attached (if so specified in the relevant Final Terms or Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Temporary Global Bond so exchanged to the bearer of the Temporary Global Bond against the presentation (and in the case of final exchange, surrender) of the Temporary Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the issue of such Bonds.

Permanent Global Bond exchangeable for Definitive Bearer Bonds

If the relevant Final Terms or Drawdown Prospectus specifies the form of Bonds as being "Permanent Global Bond exchangeable for Definitive Bearer Bonds", then the Bonds will initially be in the form of a Permanent Global Bond which will be exchangeable in whole, but not in part, for Definitive Bearer Bonds:

- on the expiry of such period of notice as may be specified in the relevant Final Terms or Drawdown Prospectus;
- at any time, if so specified in the relevant Final Terms or Drawdown Prospectus;
- if the relevant Final Terms or Drawdown Prospectus specifies "in the limited circumstances described in the Permanent Global Bond", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or (b) any of the circumstances described in Condition 11(a) (*Events of Default*) occurs; or
- the Issuer certifies to the Bond Trustee that it has or will, on the next payment date for interest or principal, become subject to adverse tax consequences which would not be suffered if the Bonds are not represented by a Permanent Global Bond.

If a Permanent Global Bond is exchangeable for Definitive Bearer Bonds at the option of the Bondholders or Issuer other than in the limited circumstances described in the Permanent Global Bond, the Bonds shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination).

Whenever the Permanent Global Bond is to be exchanged for Definitive Bearer Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bearer Bonds, duly authenticated and with Coupons, Receipts and Talons attached (if so specified in the relevant Final Terms or Drawdown Prospectus), in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Paying Agent within 30 days of the bearer requesting such exchange but not earlier than 40 days after the Issue Date of such Bonds.

In the event that a Global Bond is exchanged for Definitive Bearer Bonds, such Definitive Bearer Bonds shall be issued in Specified Denominations(s) only. A Bondholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Bearer Bond in respect of such holding and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more Specified Denominations.

Conditions applicable to the Bonds

The Conditions applicable to any Definitive Bearer Bond will be endorsed on that Bond and will consist of the Conditions set out under "*Terms and Conditions of the Bonds*" above and the provisions of the relevant Final Terms or Drawdown Prospectus which supplement, amend, vary and/or replace those Conditions.

The Conditions applicable to any Global Bond will differ from those Conditions which would apply to the Definitive Bearer Bond to the extent described under "*Provisions Relating to the Global Bonds*".

Legend concerning United States persons

Global Bonds and Definitive Bearer Bonds having a maturity of more than 365 days and any Coupons, Receipts and Talons appertaining thereto where the relevant Final Terms specify that TEFRA D applies will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in such legend provide that a United States person who holds a Bond, Coupon, Receipt or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Form and Exchange – Registered Global Bonds

The following description is in respect of registered bonds issued under the Programme that are offered outside the United States in accordance with Regulation S of the Securities Act.

Registered Global Bonds

Registered Bonds held in Euroclear and/or Clearstream, Luxembourg and/or any other clearing system will be represented by a registered global bond (each a "Registered Global Bond") which will be registered in the name of a nominee for, and deposited with, a depositary for Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system on or about the Issue Date of the relevant Sub-Class. These provisions will not prevent the trading of interest in the Bonds within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Bonds may be withdrawn from the relevant clearing system.

Transfers of the holding of Bonds represented by any Registered Global Bond pursuant to Condition 2(b) (*Transfers of Registered Bonds*) may only be made in part:

(i) if the Bonds represented by the Registered Global Bond are held on behalf of Euroclear and/or Clearstream, Luxembourg and/or any other clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reasons of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does 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 (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. Where the holding of Bonds represented by a Registered Global Bond is only transferable in its entirety, the Bond issued to the transferee upon transfer of such holding shall be a Global Registered Bond. Where transfers are permitted in part, Bonds issued to transferees shall not be Global Registered Bonds unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or any other clearing system.

Rights Against Issuer

Under the Bond Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to interests in the Bonds will (subject to the terms of the Bond Trust Deed and the STID) acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Bond or Registered Global Bond became void, they had been the registered Holders of Bonds in an aggregate principal amount equal to the principal amount of Bonds they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system (as the case may be).

Provisions Relating to the Bonds while in Global Form

Clearing System Accountholders

References in the Conditions of the Bonds to "Bondholder" are references to the bearer of the relevant Global Bond or the person shown in the records of the relevant clearing system as the holder of the Registered Global Bond.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, as the case may be, as being entitled to an interest in a Global Bond or a Registered Global Bond (each an "Accountholder") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor, to such Accountholder and in relation to all other rights arising under the Global Bond or Registered Global Bond. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Bond or Registered Global Bond will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system (as the case may be) from time to time. For so long as the relevant Bonds are represented by a Global Bond or Registered Global Bond, Accountholders shall have no claim directly against the Issuer or, in the case of Wrapped Bonds, the relevant Financial Guarantor in respect of payments due under the Bonds and such obligations of the Issuer and, in the case of Wrapped Bonds, the relevant Financial Guarantor will be discharged by payment to the bearer of the Global Bond or the registered holder of the Registered Global Bond, as the case may be.

Amendment to Conditions

Global Bonds will contain provisions that apply to the Bonds which they represent, some of which modify the effect of the Conditions of the Bonds as set out in this Prospectus. The following is a summary of certain of those provisions:

- *Meeting*: The holder of a Global Bond or Registered Global Bond shall be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, the holder of a Global Bond or Registered Global Bond shall be treated as having one vote in respect of each minimum denomination of Bonds for which such Global Bond or Registered Global Bond may be exchanged.

- *Cancellation*: Cancellation of any Bond represented by a Global Bond or Registered Global Bond that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Bond or Registered Global Bond.

- *Notices*: So long as any Bonds are represented by a Global Bond or Registered Global Bond and such Global Bond or Registered Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg or any other relevant Clearing System, notices to the Bondholders may be given, subject always to listing requirements, by delivery of the relevant notice to the Euroclear, Clearstream, Luxembourg or any other relevant Clearing System for communication by it to entitled Accountholders in substitution for publication as provided in the Conditions.

- *Payment*: For the purpose of any payments made in respect of a Global Bond, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 9(g) (*Non-Business Days*).

All payments in respect of any Bond represented by a Registered Global Bond will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business

Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

PRO FORMA FINAL TERMS

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the “**Prospectus Directive**”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

[**MIFID II Product Governance** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.]

[**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA"), the Issuer has determined, and hereby notifies all relevant persons (as defined in section 309A of the SFA) that the Bonds are ["prescribed capital markets products"]/["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and ["Excluded Investment Products"]/["Specified Investment Products"] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

Final Terms dated [●]

YORKSHIRE WATER FINANCE PLC

Legal Entity Identifier (LEI): 213800O8BDOGHJMTCP32

Issue of [Sub-Class [●][●] [Aggregate Nominal Amount of Sub-Class]

[Title of Bonds]

[unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest

by

[**Name of Financial Guarantor**]]

under the £8,000,000,000 Guaranteed Bond 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 [●] 2019 [and the supplemental Prospectus dated [●]] which [together] constitute[s] (i) a base prospectus for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Bonds 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 Bonds 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: http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Prospectus dated [●] and incorporated by reference into the Prospectus [current date] [and the supplemental Prospectus dated [●]. This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated [●] 2019 [and the supplemental Prospectus dated [●], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [●] [and the supplemental Prospectus dated [●]] and are attached hereto. Full information on the Issuer, the Guarantors and the offer of the Bonds is only available on the basis of the combination of these Final Terms and the Prospectus dated [●] 2019 [and the supplemental Prospectuses dated [●] and [●]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing at: http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.]

[Repayment of the principal and payment of any interest or premium in connection with the Bonds has not been guaranteed by any Financial Guarantor or by any other financial institution.]

1	(i)	Issuer:	Yorkshire Water Finance plc
	(ii)	Guarantors:	Yorkshire Water Services Holdings Limited, Yorkshire Water Services Limited, Yorkshire Water Services Finance Limited
	(iii)	Financial Guarantors:	[●]
2	(i)	Series Number:	[●]
	(ii)	Sub-Class Number:	[●]
3		Relevant Currency or Currencies:	[●]
4		Aggregate Nominal Amount:	
	(i)	Series:	[●]
	(ii)	Sub-Class:	[●]
	(iii)	Tranche:	[●]
5	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
	(ii)	Net proceeds:	[●]
6	(i)	Specified Denominations:	[●] [€100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No

		Bonds in definitive form will be issued with a denomination above [€199,000].] [Note: in relation to any issue of Bonds which are either a Temporary or a Permanent Global Bond exchangeable for Definitive Bearer Bonds in circumstances other than in the limited circumstances specified in the Permanent Global Bond, such Bonds may only be issued in denominations equal to, or greater than €100,000 (or equivalent) and multiples thereof.]
	(ii) Calculation Amount:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date (if different from the Issue Date):	[●]
8	Maturity Date:	[●]
9	Instalment Date:	[Not applicable/[●]]
10	Interest Basis:	[[●] per cent. Fixed Rate] [[specify reference] +/-[●] per cent. Floating Rate] [Index Linked Interest]
11	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Instalment] [●]
12	Change of Interest or Redemption/Payment Basis:	[●]
13	Call Options:	Issuer Call Option [●]
14	(i) Status of the Bonds:	Class [A / B] [Wrapped / Unwrapped] Bonds
	(ii) Status of the Guarantees:	Senior
	(iii) Status of the Financial Guarantee:	The Financial Guarantee will rank *pari passu* with all unsecured obligations of the Financial Guarantor.
	(iv) FG Event of Default:	[●]
	(v) [Date [Board] approval for issuance of Bonds [and Guarantee] obtained:	[●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15	Fixed Rate Bond Provisions:	[Applicable/Not Applicable]

	(i) Interest Rate:	[●] 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 (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual]360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis][30E/360 (ISDA)]
	(vi) Determination Date:	[●] in each year
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[Not Applicable/[●]]
	(viii) Reference Gilt:	[[●]/Not Applicable]
16	Floating Rate Bond Provisions:	[Applicable/Not Applicable]
	(i) Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii) First Interest Payment Date:	[●]
	(iii) Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other]
	(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(v) Party responsible for calculating the Rate(s) of Interest, Interest Amount(s) and Redemption Amount (if not the Agent Bank):	[Not Applicable/Calculation Agent]
	(vi) Screen Rate Determination:	[Applicable/Not Applicable]
	- Specified Duration:	[●]
	- Relevant Time:	[●]
	- Relevant Rate:	[●]
	- Interest Determination Date(s):	[●]
	- Relevant Screen Page:	[EURIBOR / LIBOR]
	(vii) ISDA Determination:	[Applicable/Not Applicable]
	- Floating Rate Option:	[●]
	- Specified Duration:	[●]
	- Reset Date:	[●]
	- [ISDA Definitions]	[2000/2006]

	(viii)	Margin(s):	[+/-][●] per cent. per annum
		[Step-Up Fees:]	[●]
		[Step-Up Date:]	[●]
	(ix)	Minimum Interest Rate:	[[●] per cent. per annum]/[Not Applicable]
	(x)	Maximum Interest Rate:	[[●] per cent. per annum]/ [Not Applicable]
	(xi)	Day Count Fraction:	[Actual/Actual (ICMA)] [Actual/Actual or Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360(ISDA)] [●]
	(xii)	Additional Business Centre(s):	[●]
	(xiii)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Conditions:	[●]
	(xiv)	Relevant Financial Centre:	[●]
	(xv)	Representative Amount:	[●]
17	Indexed Bond Provisions:		[Applicable/Not Applicable]
	(i)	Index/Formula:	[●]
	(ii)	Base Index Figure:	[●]
	(iii)	Index Figure applicable:	[As determined in accordance with Condition 7(a); [3/8] months lag applies]
	(iv)	Interest Rate:	[●] per cent. (as adjusted for indexation in accordance with Condition 7 (*Indexation*))
	(v)	Party responsible for calculating the Rate(s) of Interest, Interest Amount and Redemption Amount(s) (if not the Agent Bank):	[Not Applicable / Calculation Agent]
	(vi)	Provisions for determining Coupon where calculation by reference to index and/or formula is impossible or impracticable:	Applicable. See Conditions 7(c) and 7(e)
	(vii)	Interest Payment Dates:	[●]
	(viii)	First Interest Payment Date:	[●]
	(ix)	Business Day Convention:	[Following Business Day Convention / Modified Following Business Day Convention/ Preceding Business Day Convention/[●]]
	(x)	Business Centres:	[●]
	(xi)	Minimum Indexation Factor:	[Not Applicable/[●]]

(xii) Maximum Indexation Factor:	[Not Applicable/[●]]
(xiii) Limited Indexation Month(s):	[●]
(xiv) Reference Gilt:	[[●]/Not Applicable]
(xv) Day Count Fraction:	[Actual/Actual ICMA] [Actual/365 or Actual/Actual] [Actual/365 (Fixed)] [Actual/360] [30/360 or 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] [●]
(xvi) Determination Date(s):	[●]
(xvii) Rate for purposes of Condition 8(b)(iii)(2)(B)	[[●]/Not Applicable]

PROVISIONS RELATING TO REDEMPTION

18 Call Option:	[Applicable in accordance with Condition 8(b)/Not Applicable]
(i) Optional Redemption Date(s):	Any Interest Payment Date [In the case of Floating Rate Bonds, not before [●] and at a premium of [●], if any.]
(ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s):	[●] per Calculation Amount [Make-Whole Amount]
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[Not Applicable]
(b) Maximum Redemption Amount:	[Not Applicable]
(iv) Notice period (if other than as set out in the Conditions):	[Not Applicable]
19 Final Redemption Amount:	[●] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE BONDS

20 Form of Bonds:	[Bearer/Registered]
(i) If issued in Bearer form:	[Temporary Global Bond exchangeable for a Permanent Global Bond which is exchangeable for Definitive Bearer Bonds on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.] [Temporary Global Bond exchangeable for Definitive Bearer Bonds on [●] days' notice]. [Permanent Global Bond exchangeable for Definitive Bearer Bonds on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Bond/for tax reasons.]
(ii) If Registered Bonds:	[Registered Global Bond exchangeable for Definitive Registered Bonds in the limited

		circumstances specified in the Registered Global Bond.]
21	Relevant Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/[●]]
22	Talons for future Coupons or Receipts to be attached to Definitive Bearer Bonds (and dates on which such Talons mature):	[Yes/No]
23	Details relating to Instalment Bonds:	[Not Applicable/[●]]
	(i) Instalment Date:	[●]
	(ii) Instalment Amount:	[●]
24	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable / The provisions [in Condition 19 / annexed to this Final Terms] apply]

DISTRIBUTION

25	Method of distribution:	[Syndicated/Non-syndicated]
26	(i) If syndicated, names of Managers:	[Not Applicable/[●]]
	(ii) Stabilising Manager (if any):	[Not Applicable/[●]]
27	If non-syndicated, name of Dealer:	[Not Applicable/[●]]
28	U.S. Selling Restrictions:	[Reg. S Compliance Category 2, TEFRA C/TEFRA D/TEFRA not applicable]

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the details required for issue and admission to trading on the London Stock Exchange's Regulated Market and admission to the Official List of the UK Listing Authority of the Bonds described herein pursuant to the listing of the Programme for the issuance of up to £8,000,000,000 Guaranteed Bonds financing Yorkshire Water Services Limited.

Signed on behalf of the Issuer:

By: ....

Duly authorised

Signed on behalf of Yorkshire Water Services Limited:

By: ....

Duly authorised

Signed on behalf of Yorkshire Water Services Holdings Limited:

By: ....

Duly authorised

Signed on behalf of Yorkshire Water Services Finance Limited:

By: ....

[Signed on behalf of the Financial Guarantor:

By: ....

Duly authorised]

PART B - OTHER INFORMATION

1 **Listing**

(i) Listing:	Listed on the Official List of the UKLA
(ii) Admission to trading:	[Application has been made for the Bonds to be admitted to trading on London Stock Exchange's Main Market with effect from [●].]
(iii) Estimate of total expenses related to admission to trading:	[●]

2 **Ratings**

Ratings:	The Bonds to be issued have been rated:
	[S&P Global Ratings Europe Limited: [●]]
	[Moody's Investors Service Limited: [●]]
	[Fitch Ratings Limited: [●]]
	[and endorsed by [●]]

3 **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]**

[●]

4 **[Reasons for the offer, estimated net proceeds and total expenses**

(i) [Reasons for the offer:	[●] *(See "Use of Proceeds"in the Prospectus)*
(ii) [Estimated net proceeds:	[●]
(iii) [Estimated total expenses:	[●]]

5 **[YIELD**

Indication of yield:	[●] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6 **[Floating Rate Bonds Only - HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].]

7 **[Index-Linked or other variable-linked Bonds only – PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING**

(i) Name of underlying index:	[UK Retail Price Index (RPI) (all items) published by the Office for National Statistics] / [any comparable index which may replace the UK Retail Price Index] / [UK Consumer Price Index (CPI) (all items) published by the Office for National Statistics] / [UK Consumer Price Index including owner occupiers' housing costs (CPIH) (all items) published by the Office for National Statistics].

	(ii) Information about the Index, its volatility and past and future performance can be obtained from:	More information on [RPI/CPI/CPIH/comparable index which may replace RPI/CPI/CPIH] including past and current performance and its volatility and fall back provisions in the event of a disruption in the publication of [RPI/CPI/CPIH], can be found at [www.statistics.gov.uk / relevant replacing website / www.ons.gov.uk/economy/inflationandpriceindices]
8	**Operational information**	
	ISIN:	[●]
	Common Code:	[●]
	[CFI:	[Not Applicable/[●]]
	[FISN:	[Not Applicable/[●]]
	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking SA 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):	[●]
9	**Green Bonds**	[Applicable]/Not Applicable]
10	**Social Bonds**	[Applicable]/Not Applicable]
11	**Sustainability Bonds**	[Applicable]/Not Applicable]

CHAPTER 9
USE OF PROCEEDS

The proceeds from each issue of Bonds by the Issuer under the Programme have been or will be on-lent to YWS under the terms of an Issuer/YWS Loan Agreement to be applied by YWS for its general corporate purposes or used to repay or service YWS's Financial Indebtedness.

If, in respect of an issue of Bonds, there is a particular use of proceeds, this will be stated in the applicable Final Terms.

Green Bonds:

Where the applicable Final Terms denote a Series of Bonds as "Green Bonds" ("**Green Bonds**"), the proceeds of the Bonds will be on-lent by the Issuer to YWS for the financing and/or refinancing of, and/or investment in, the Eligible Green Portfolio (as defined below) falling within the Green Eligible Categories (as defined below).

For the purposes of this Chapter:

"Eligible Green Portfolio" means a portfolio of one or more Eligible Green Investments.

"Eligible Green Investments" means investments which fall within the Green Eligible Categories.

"Green Eligible Categories" means the categories prepared by the Issuer and/or YWS as set out in the Yorkshire Water Sustainable Finance Framework (which shall be made available at www.keldagroup.com).

A third party consultant will review the Green Eligible Categories published as at the date of this Prospectus, and in respect of the Green Bonds issued, such third party consultant will review the Eligible Green Portfolio and issue a report and/or opinion based on the Green Eligible Categories (an "External Review"). The External Review will be made available at www.keldagroup.com.

The Issuer and/or YWS will establish systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Green Portfolio falling within the Green Eligible Categories.

Social Bonds

Where the applicable Final Terms denote a Series of Bonds as "Social Bonds" ("**Social Bonds**"), the proceeds of the Bonds will be on-lent by the Issuer to YWS for the financing and/or refinancing of, and/or investment in, the Eligible Social Portfolio (as defined below) falling within the Social Eligible Categories (as defined below).

For the purposes of this Chapter:

"Eligible Social Investments" means investments which fall within the Social Eligible Categories.

"Eligible Social Portfolio" means a portfolio of one or more Eligible Social Investments.

"Social Eligible Categories" means the categories prepared by the Issuer and/or YWS as set out in the Yorkshire Water Sustainable Finance Framework (which shall be made available at www.keldagroup.com).

A third party consultant will review the Social Eligible Categories published as at the date of this Prospectus, and in respect of the Social Bonds issued, such third party consultant will review the Eligible Social Portfolio and issue a report and/or opinion based on the Social Eligible Categories (an "External Review"). The External Review will be made available at www.keldagroup.com.

The Issuer and/or YWS will establish systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Social Portfolio falling within the Social Eligible Categories.

Sustainability Bonds:

Where the applicable Final Terms denote a Series of Bonds as "Sustainability Bonds" ("Sustainability Bonds"), the proceeds of the Bonds will be on-lent by the Issuer to YWS for the financing and/or refinancing of, and/or investment in, the Eligible Sustainability Portfolio (as defined below) falling within the Sustainability Eligible Categories (as defined below).

For the purposes of this Chapter:

"Eligible Sustainability Portfolio" means a portfolio of one or more Eligible Sustainability Investments.

"Eligible Sustainability Investments" means investments which fall within the Sustainability Eligible Categories.

"Sustainability Eligible Categories" means the categories prepared by the Issuer and/or YWS as set out in the Yorkshire Water Sustainable Finance Framework (which shall be made available at www.keldagroup.com).

A third party consultant will review the Sustainability Eligible Categories published as at the date of this Prospectus, and in respect of the Sustainability Bonds issued, such third party consultant will review the Eligible Sustainability Portfolio and issue a report and/or opinion based on the Sustainability Eligible Categories (an "External Review"). The External Review will be made available at www.keldagroup.com.

The Issuer and/or YWS will establish systems and/or processes to monitor and account for the net proceeds for investment in the Eligible Sustainability Portfolio falling within the Sustainability Eligible Categories.

Reporting in relation to Green bonds, Social Bonds, and Sustainability Bonds:

The Issuer is expected to issue a report on: (i) the Eligible Green Portfolio to which proceeds of Green Bonds have been allocated and the amounts allocated; (ii) the expected impact of the Eligible Green Portfolio; (iii) the Eligible Social Portfolio to which proceeds of Social Bonds have been allocated and the amounts allocated; (iv) the expected impact of the Eligible Social Portfolio; (v) the Eligible Sustainability Portfolio to which proceeds of Sustainability Bonds have been allocated and the amounts allocated; (vi) the expected impact of the Eligible Sustainability Portfolio; and (vii) the balance of unallocated cash and/or cash equivalent investments. Such report will be issued within one year from the date of the first issuance of Green Bonds, Social Bonds or Sustainability Bonds under the Programme and annually thereafter and as necessary in the event of material developments. In addition, the Issuer is expected to provide regular information through its website www.keldagroup.com on the environmental and/or social outcomes of the Eligible Green Portfolio, Eligible Social Portfolio and the Eligible Sustainability Portfolio.

CHAPTER 10
DESCRIPTION OF THE HEDGE COUNTERPARTIES

The information contained herein with respect to the Hedge Counterparties relates to and has been obtained from each Hedge Counterparty, respectively.

Banco Santander, S.A., London Branch

Banco Santander, S.A., London Branch, which operates under the trading name “Santander Corporate & Investment Banking”, is a branch of Banco Santander, S.A. with its principal place of business located at 2 Triton Square, Regents Place, London, NW1 3AN. It is authorised by the Bank of Spain (BoS) and subject to regulatory oversight on certain matters by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Banco Santander, S.A. is a Spanish company incorporated on 3 March 1856 in Spain with the legal form of a limited liability company (sociedad anónima) and has its registered office at Paseo de Pereda, numbers 9 to 12, 39004, Santander, Spain. It is subject to special legislation applicable to credit entities and private banking in general, and the supervision, control and regulation of the Bank of Spain and the ECB; and, as a listed company, the regulatory oversight of the CNMV. It is also registered in the Special Register of Banks and Bankers under code number 0049. Its headquarters are located at Ciudad Grupo Santander, Avda. de Cantabria s/n, 28660 Boadilla del Monte, in the province of Madrid.

The Santander Group (which includes Banco Santander, S.A. and its subsidiaries and branches) is a financial group operating principally in Spain, the United Kingdom, other European countries, Brazil and other Latin American countries and the United States, offering a wide range of financial products. In Latin America, the Santander Group has majority shareholdings in banks in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

Barclays Bank PLC

Barclays Bank PLC (in this subsection, the "Bank", and together with its subsidiary undertakings, the "Bank Group") is a public limited company registered in England and Wales under number 1026167. The liability of the members of the Bank is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). The Bank was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, the Bank was re-registered as a public limited company and its name was changed from 'Barclays Bank International Limited' to 'Barclays Bank PLC'. The whole of the issued ordinary share capital of the Bank is beneficially owned by Barclays PLC. Barclays PLC (together with its subsidiary undertakings, the "Group") is the ultimate holding company of the Group.

The Group is a transatlantic consumer and wholesale bank offering products and services across personal, corporate and investment banking, credit cards and wealth management, with a strong presence in the Group's two home markets of the UK and the US. The Group is focused on two core divisions – Barclays UK and Barclays International.

Both Barclays UK and Barclays International have historically operated within the legal entity Barclays Bank PLC. However, on 1 April 2018 the Barclays UK division formally separated into a new legal entity – Barclays Bank UK PLC ("BBUKPLC"), which is the Group's UK ring-fenced bank. BBUKPLC offers everyday products and services to retail and consumer customers and small to medium sized enterprises based in the UK. Products and services designed for the Group's larger corporate, wholesale and international banking clients will continue to be offered by Barclays International from within the Bank. BBUKPLC will operate alongside, but have the ability to take decisions independently from, the Bank as part of the Group under Barclays PLC.

The short term unsecured obligations of the Bank are rated A-1 by S&P Global Ratings Europe Limited, UK Branch, P-1 by Moody's Investors Service Ltd. and F1 by Fitch Ratings Limited and the long-term unsecured unsubordinated obligations of the Bank are rated A by S&P Global Ratings Europe Limited, UK Branch, A2 by Moody's Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Bank Group's audited financial information for the year ended 31 December 2017, the Bank Group had total assets of £1,129,343m (2016: £1,213,955m), total net loans and advances[2] of £401,762m (2016: £436,417m), total deposits[3] of £467,332m (2016: £472,917m), and total equity of £65,734m (2016: £70,955m) (including non-controlling interests of £1m (2016: £3,522m)). The profit before tax of the Bank Group for the year ended 31 December 2017 was £3,166m (2016: £4,383m) after credit impairment charges and other provisions of £2,336m (2016: £2,373m). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Bank for the year ended 31 December 2017.

Based on the Bank Group's unaudited financial information for the six months ended 30 June 2018, the Bank Group had total assets of £903,345m (30 June 2017: £1,136,867m), total net loans and advances[4] of £226,369m (30 June 2017: £427,980m), total deposits[5] of £279,438m (30 June 2017: £488,162m), and total shareholders' equity of £48,192m (30 June 2017: £66,167m) (including non-controlling interests of £2m (30 June 2017: £84m). The profit before tax from continuing operations of the Bank Group for the six months ended 30 June 2018 was £725m (30 June 2017: £1,731m) after credit impairment charges and other provisions of £156m (30 June 2017: £656m). The financial information in this paragraph is extracted from the unaudited condensed consolidated interim financial statements of the Bank for the six months ended 30 June 2018.

BNP Paribas

BNP Paribas is a French multinational bank and financial services company with its registered office located at 16 boulevard des Italiens 75009 Paris, France, and its corporate website in English is http://www.bnpparibas.com/en.

BNP Paribas, together with its consolidated subsidiaries (the "BNP Paribas Group") is a global financial services provider, conducting retail, corporate and investment banking, private banking, asset management, insurance and specialized and other financial activities throughout the world.

The BNP Paribas Group, one of Europe's leading providers of banking and financial services, has four domestic retail banking markets in Europe, namely in Belgium, France, Italy and Luxembourg.

It operates in 74 countries and has more than 198,000 employees, including more than 150,000 in Europe. BNP Paribas holds key positions in its two main businesses:

- **Retail Banking and Services, which includes:**
    - Domestic Markets comprising:

2 Total net loans and advances include balances relating to both bank and customer accounts.

3 Total deposits include deposits from bank and customer accounts.

4 Total net loans and advances include balances relating to both bank and customer accounts. As a result of a voluntary change in presentation following the adoption of IFRS 9, 'loans and advances to banks' and 'loans and advances to customers' have been disaggregated and are now reported in 'loans and advances at amortised cost' and 'cash collateral and settlement balances'.

5 Total deposits include deposits from bank and customer accounts. As a result of a voluntary change in presentation following the adoption of IFRS 9, 'deposits from banks' and 'customer accounts' have been disaggregated and are now reported in 'deposits at amortised cost' and 'cash collateral and settlement balances'.

        - French Retail Banking (FRB),
        - BNL banca commerciale (BNL bc), Italian retail banking,
        - Belgian Retail Banking (BRB),
        - Other Domestic Markets activities, including Luxembourg Retail Banking (LRB);
    - International Financial Services, comprising:
        - Europe-Mediterranean,
        - BancWest,
        - Personal Finance,
        - Insurance,
        - Wealth and Asset Management;
- **Corporate and Institutional Banking (CIB)**
    - Corporate Banking,
    - Global Markets,
    - Securities Services.

BNP Paribas SA is the parent company of the BNP Paribas Group.

At 30 June 2018, the BNP Paribas Group had consolidated assets of €2,234.5 billion (compared to €1,952.2 billion at 31 December 2017), consolidated loans and receivables due from customers of €747.8 billion (compared to €735 billion at 31 December 2017), consolidated items due to customers of €783.9 billion (compared to €760.9 billion at 31 December 2017) and shareholders' equity (Group share) of €98.7 billion (compared to €102 billion at 31 December 2017).

At 30 June 2018, pre-tax income was €5.7 billion (compared to €6.2 billion at the end of June 2017). Net income, attributable to equity holders, for the first half of the year 2018 was €3.9 billion (compared to €4.3 billion for the first half of the year 2017).

At the date of this Propspectus, the BNP Paribas Group currently has long-term senior debt ratings of "A" with positive outlook from S&P, "Aa3" with stable outlook from Moody's Investors Service, Inc. and "AA (low)" with stable outlook from DBRS and a long-term issuer default rating of "A+" with stable outlook from Fitch Ratings, Ltd.

The information contained in this section relates to and has been obtained from BNP Paribas. The information concerning BNP Paribas and the BNP Paribas Group contained herein is furnished solely to provide limited introductory information regarding BNP Paribas and the BNP Paribas Group and does not purport to be comprehensive.

The delivery of the information contained in this section shall not create any implication that there has been no change in the affairs of BNP Paribas or the BNP Paribas Group since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

For up-to-date financial information, including quarterly results since the last fiscal year end, please refer to http://invest.bnpparibas.com/en.

Commonwealth Bank of Australia

Commonwealth Bank of Australia (ABN 48 123 123 124) (referred to in this section as "CBA") is a public company with a market capitalisation of A$127,316 million as at 14 January 2019. CBA is governed by, and operates in accordance with, the objects set out within its constitution, the Corporations Act 2001 of the Commonwealth of Australia, the Listing Rules of the Australian Securities Exchange (which constitute the corporate governance regime of Australia) and certain provisions of the Commonwealth Banks Act 1959 of the Commonwealth of Australia (the "1959 Act").

CBA was incorporated on 17 April 1991 in the Australian Capital Territory and has Australian Business Number 48 123 123 124. Its registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW, Australia, 2000, telephone number +61 2 9118 1339.

At 30 June 2018, CBA and its consolidated subsidiaries had total assets of A$975 billion and international harmonised CET1 ratio of 15.5 per cent. Net profit after income tax (statutory basis), for the year ended 30 June 2018 was A$9,375 million.

As at the date of this Prospectus, CBA has been rated AA- by S&P, Aa3 by Moody's and AA- by Fitch. CBA and its subsidiaries, with a full-time equivalent staff of over 49,000 at 30 June 2018, provides a comprehensive range of banking, financial and funds management services in Australia, New Zealand, throughout Asia, the United States of America and in the United Kingdom. As at the date of this Prospectus, CBA was Australia's largest bank in terms of market capitalisation, loans and advances and deposits (source: Australian Prudential Regulatory Authority monthly Banking Statistics August 2017 (issued 29 September 2017) (Tables 2 and 4)).

HSBC Bank plc

HSBC Bank plc and its subsidiaries form a group providing a range of banking products and services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name Midland Bank Limited, which it held until 1982 when it re-registered and changed its name to Midland Bank plc. In 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc, whose group head office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in 1999.

The HSBC Group is one of the world's largest banking and financial services organisations, with approximately 3,800 offices in 66 countries and territories in Europe, Asia, Middle East and North Africa, North America and Latin America. The HSBC Group's total assets at 30 September 2018 were U.S.$2,603 billion. HSBC Bank plc is one of the HSBC Group's principal operating subsidiary undertakings in Europe.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are, as at the date of this Prospectus, rated P-1 by Moody's and A-1+ by Standard & Poor's and HSBC Bank plc has a short term issuer default rating of F1+ from Fitch. The long term senior unsecured and unguaranteed obligations of HSBC Bank plc are rated Aa3 by Moody's and AA- by Standard & Poor's and HSBC Bank plc has a long term issuer default rating of AA- from Fitch.

HSBC Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. HSBC Bank plc's principal place of business in the United Kingdom is 8 Canada Square, London E14 5HQ.

Lloyds Bank Corporate Markets plc

Lloyds Bank Corporate Markets plc ("Lloyds Bank Corporate Markets") is a wholly owned subsidiary of Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, "Lloyds Banking Group"), was incorporated under the laws of England and Wales on 28 September 2016 (registration number 10399850) and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority and the PRA. Lloyds Bank Corporate Markets's registered office is at 25 Gresham Street, London EC2V 7HN, United Kingdom.

Lloyds Bank Corporate Markets was created in response to the Financial Services (Banking Reform) Act 2013, which takes effect from 1 January 2019 and requires the separation of certain commercial banking activities and international operations from the rest of the Lloyds Banking Group.

Lloyds Bank Corporate Markets and its subsidiaries provides deposit taking, lending and transaction banking products and services to customers (both new and existing) and is also responsible for the provision of certain wholesale banking products and services (including loan markets, bonds and asset securitisation and elements of foreign exchange, commodities and rate management). Lloyds Bank Corporate Markets has a client-led strategy, focused on UK based clients and international clients with a link to the UK.

Additional information on Lloyds Bank Corporate Markets, and Lloyds Banking Group's approach to ring-fencing, is available from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN or from the following internet website address: http://www.lloydsbankinggroup.com. The information on this website does not form part of this Prospectus.

National Australia Bank Limited (ABN 12 004 044 937)

National Australia Bank Limited ("NAB") is registered in the State of Victoria with Australian Business Number (ABN 12 004 044 937). NAB was incorporated on 23 June 1893.

NAB is a public limited company incorporated in the Commonwealth of Australia and it operates under Australian legislation including the Corporations Act 2001 of Australia. Its registered office is Level 4, 800 Bourke Street, Docklands, Victoria 3008, Australia (telephone number +61 3 8872 2461). NAB and its controlled entities ("**NAB Group**") is an international financial services group that provides a comprehensive and integrated range of financial products and services, with approximately 33,000 employees, operating through a network of more than 900 locations, and serving nearly 9 million customers.

NatWest Markets Plc

NatWest Markets Plc (in this subsection, the 'Bank') is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (in this subsection, the 'holding company'), a banking and financial services group. The Bank provides corporate and institutional customers with financing and risk management solutions, with a focus on rates, currencies and financing products.

In this subsection, the 'NWM Group' comprises the Bank and its subsidiary and associated undertakings. In this subsection, the 'RBS Group' comprises the holding company and its subsidiary and associated undertakings, including the NWM Group.

The UK Government has passed legislation which requires banks to separate their retail and investment banking activities by 1 January 2019. To comply with this legislation, the RBS Group has undertaken a reorganisation of its group legal entity structure and business model. Following the reorganisation, the RBS Group has been split into ring-fenced and non ring-fenced entities. The NWM Group will sit outside the ring fence. During 2018, activities which must only be provided by a ring-fenced entity have been moved out of the NWM Group together with certain activities that may be provided within a ring-fenced or non ring-fenced entity, but which the RBS Group believes are best provided from inside the ring-fence. Certain activities are also being moved from ring-fenced entities into the NWM Group, which, amongst other things, is expected to result in NatWest Markets N.V., the RBS Group's banking entity in the Netherlands, becoming a subsidiary of the Bank.

As part of the reorganisation of the RBS Group, the NWM Group affected a capital reduction exercise on 1 July 2018 which reduced the share capital and cancelled the share premium account and capital redemption reserve of the Bank. As at 30 June 2018 (but excluding assets disclosed as disposal groups which comprised substantially of all those disposed of in the capital reduction exercise), the NWM Group had total assets of £269.6 billion and owners' equity of £11.4 billion, and the Bank had a total capital ratio of 32.8% and a CET1 capital ratio of 20.7%. Full financial information relating to the NWM Group can be found in its latest financial results release (https://investors.rbs.com/~/media/Files/R/RBS-IR/results-center/03-aug-2018/natwest-markets-h1-2018-results-announcement.pdf).

The long-term, unsecured and unsubordinated debt obligations of the Bank are rated BBB+ by Standard & Poor's and Fitch and Baa2 by Moody's.

As at the date of this Prospectus, the Bank has securities admitted to trading on the regulated market of the London Stock Exchange.

Santander UK Plc

Santander UK Plc (in this subsection, "Santander UK") is a public limited liability company that was incorporated in England and Wales on 12 September 1988 (then called Abbey National plc) under the companies act 1985 with registered number 2294747 and is the successor company to which Abbey National Building Society transferred its business in July 1989.

The principal executive office and registered office of Santander UK is at 2 Triton Square, Regent's Place, London NW1 3AN.

Santander UK is a wholly-owned subsidiary of Santander UK Group Holdings plc. Banco Santander, S.A. and its subsidiary Santusa Holding, S.L. together hold the entire issued share capital of Santander UK Group Holdings plc.

CHAPTER 11
TAX CONSIDERATIONS

UK Taxation

The following is a general summary of the UK withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds. It is based on current law as applied in England and Wales and the practice of Her Majesty's Revenue and Customs ("HMRC"), which may not be binding on HMRC and may be subject to change, sometimes with retrospective effect. The comments do not deal with other UK tax aspects of acquiring, holding or disposing of Bonds. The comments are made on the assumption that the Issuer of the Bonds is resident in the UK for UK tax purposes. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds. The comments do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. Prospective Bondholders should be aware that the particular terms of issue of any series of Bonds may affect the tax treatment of that and other series of Bonds. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Bondholders who are in any doubt as to their tax position should consult their professional advisers. Bondholders who may be liable to taxation in jurisdictions other than the UK in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain UK taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

The references to "interest" in this section mean "interest" as understood in UK tax law. The statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

The following description of the UK withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 8(c) or 15(d) of the Bonds or otherwise and does not consider the tax consequences of any such substitution.

Payment of Interest by the Issuer on the Bonds

Bonds which carry a right to interest 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. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of UK income tax.

Securities will be regarded as "listed on a recognised stock exchange" for this purpose if (and only if) they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the UK official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the UK in which there is a recognised stock exchange.

The London Stock Exchange is a recognised stock exchange, and accordingly the Bonds will constitute quoted Eurobonds provided they are and continue to be included in the UK official list and admitted to trading on the London Stock Exchange.

In all cases falling outside the exemption described above, interest on the Bonds will generally fall to be paid under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other relief or exemption which may apply. However, this withholding will not apply if the relevant interest is paid on Bonds with a Maturity Date of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such Bonds part of a borrowing with a total term of a year or more. If UK withholding tax is imposed, the Issuer will not pay additional amounts in respect of the Bonds.

Payments by Guarantor or Financial Guarantor

The UK withholding tax treatment of payments by the Guarantor or Financial Guarantor under the terms of the Guarantee or Financial Guarantee in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) is uncertain. In particular, such payments by a Guarantor or Financial Guarantor may not be eligible for the exemptions described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor or Financial Guarantor makes any such payments, these may be subject to UK withholding tax at the basic rate (currently 20 per cent.). If UK withholding tax is imposed, no Guarantor or Financial Guarantor will pay additional amounts in respect of the Bonds.

Foreign Account Tax Compliance Act (“FATCA”) Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“foreign passthru payments”) to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the UK) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Bonds issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional tranches of a Sub-Class of Bonds (as described under “Terms and Conditions—Form, Denomination and Title—Fungible Issues of Bonds comprising a Sub-Class”) that are not distinguishable from other tranches of such Sub-Class issued prior to the expiration of such grandfathering period are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then, withholding agents may treat all Bonds in such Sub-Class, including grandfathered tranches of Bonds of the same Sub-Class, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person would be required to pay additional amounts as a result of the withholding.

CHAPTER 12
SUBSCRIPTION AND SALE

Dealership Agreement

Bonds may be sold from time to time by the Issuer to any one or more of Banco Santander, S.A., Bank of China Limited, London Branch, Barclays Bank PLC, BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc, NatWest Markets Plc, MUFG Securities EMEA plc and any other dealer appointed from time to time in respect of the Programme or a particular Issue Date (the "Dealers") pursuant to the dealership agreement dated 15 July 2009 as amended, supplemented, restated and/or novated from time to time, made between, amongst others, YWS, the Issuer, the Arranger and the Dealers (the "Dealership Agreement"). The arrangements under which a particular Sub-Class of Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the Dealership Agreement and the subscription agreements relating to each Sub-Class of Bonds. Any such agreement will, inter alia, make provision for the form and terms and conditions of the relevant Bonds, the price at which such Bonds will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series, Class or Sub-Class of Bonds.

In the Dealership Agreement, the Issuer, failing whom YWS, have each agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and maintenance of the Programme and the issue of Bonds under the Dealership Agreement and each of the Obligors has agreed to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

Selling and Transfer Restrictions of the United States of America

Selling Restrictions

The Bonds and any guarantees in respect thereof have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them in Regulation S.

Bearer Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and U.S. Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has 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 Bonds, deliver Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Bonds comprising the relevant Sub-Class, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Sub-Class of Bonds to or through more than one Dealer, by each of such Dealers as to the Bonds of such Sub-Class purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meaning given to them in Regulation S.

In addition, until 40 days after the commencement of the offering of Bonds comprising any Sub-Class, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. 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 the Bonds outside the United States pursuant to Regulation S and each subsequent purchaser of such Bonds in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Bonds, will be deemed to have represented, agreed and acknowledged that:

(a) It is, or at the time the Bonds are purchased will be, the beneficial owner of such Bonds and (i) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (ii) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(b) It understands that such Bonds 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 Bonds 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.

(c) It understands that such Bonds, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend to the following:

"THIS BOND 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."

(d) 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, and each further Dealer appointed under the Programme will be required to represent and agree, 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 Bonds which are the subject of the offering contemplated by this Prospectus as completed by the relevant Final Terms or Drawdown Prospectus 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 Bonds to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 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

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (a) to (c) 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 Bonds to the public" in relation to any Bonds 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 Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and, for the purposes of this section, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended by Directive 2010/73/EU) and includes any relevant implementing measure in each Relevant Member State.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

    (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) ***No deposit-taking***: in relation to any Bonds having a maturity of less than one year:

    (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

    (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons:

        (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

        (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) ***Financial Promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of FSMA does not apply to the Issuer; and

(c) ***General Compliance***: it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

General

Save for obtaining the approval of the Prospectus by the UK Listing Authority in accordance with Part VI of the FSMA for the Bonds to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Market, no action has been or will be taken in any jurisdiction by the Issuer, the other Obligors or the Dealers that would permit a public offering of Bonds, or possession or distribution of the Prospectus or any other offering material, in any jurisdiction where action for that purpose is required. Each Dealer shall to the best of its knowledge comply with all applicable laws, regulations and directives in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute the Prospectus or any other offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific country or jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in the official interpretation, after the date of the Dealership Agreement, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms or Drawdown Prospectus (in the case of a supplement or modification relevant only to a particular Sub-Class of Bonds) or (in any other case) in a supplement to this Prospectus.

CHAPTER 13
GENERAL INFORMATION

Authorisation

The establishment of the Programme, the issue of Bonds thereunder and the giving of the guarantee by Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited of the obligations of YWS and YWSF were duly authorised by resolutions of the Board of Directors (the "Board") of Yorkshire Water Services Bradford Finance Limited passed at a meeting of the Board held on 24 June 2009 and by resolutions of the Board of Directors of Yorkshire Water Services Odsal Finance Limited passed at a meeting of the Board held on 24 June 2009. The accession of the Issuer into the YW Financing Group and as the issuer of Bonds, and the giving of the guarantee has been duly authorised by resolutions of the Board of Directors of the Issuer passed at a meeting of the Board held on 27 July 2018. On 16 August 2018, the Issuer entered into all relevant Finance Documents as an Obligor and replaced Yorkshire Water Services Bradford Finance Limited and Yorkshire Water Services Odsal Finance Limited as the issuer of the Bonds. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.

The giving of the guarantees by each of YWS, YWSF, and YWH has been duly authorised by a resolution of the Board of Directors of each of YWS, YWSF, and YWH, respectively, each of which is dated 24 June 2009. The 2019 update of the Programme has been duly authorised by further resolutions of the Board of Directors and/or Board Committee of each of YWS, the Issuer, YWH and YWSF (as applicable), the last such authorisation having been obtained on 29 January 2019.

Listing of Bonds

It is expected that each Sub-Class of Bonds which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a Global Bond or Bonds initially representing the Bonds of such Sub-Class. In the case of each Sub-Class of Wrapped Bonds, admission to the Official List and to trading on the Market is subject to the issue of the relevant Financial Guarantee by the relevant Financial Guarantor in respect of such Sub-Class. The listing of the Programme in respect of Bonds was granted on 15 July 2009 and is expected to be updated on or around 6 February 2019.

Documents Available

For so long as the Programme remains in effect or any Bonds shall be Outstanding, copies of the following documents may (when published) be inspected during normal business hours (in the case of Bearer Bonds) at the specified office of the Principal Paying Agent, (in the case of Registered Bonds) at the specified office of the Registrar and the Transfer Agents and (in all cases) at the registered office of the Bond Trustee:

(i) the Memorandum and Articles of Association of the Issuer and the other Obligors;

(ii) the annual audited financial statements of YWS, YWSF, and YWH for the year ended 31 March 2018;

(iii) the annual audited financial statements of YWS, YWSF, and YWH for the year ended 31 March 2017;

(iv) a copy of this Prospectus;

(v) a copy of the Prospectus dated 13 April 2017;

(vi) a copy of the Prospectus dated 27 November 2015;

(vii) a copy of the Prospectus dated 15 October 2014;

(viii) a copy of the Prospectus dated 14 February 2014;

(ix) a copy of the Prospectus dated 26 September 2012;

(x) a copy of the Prospectus dated 2 August 2011;

(xi) a copy of the Prospectus dated 3 August 2010;

(xii) a copy of the Prospectus dated 24 July 2009;

(xiii) any Final Terms or Drawdown Prospectus relating to Bonds which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Bonds which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Final Terms or Drawdown Prospectus will only be available for inspection by the relevant Bondholders);

(xiv) each Investors' Report;

(xv) each Financial Guarantee and all related endorsements relating to each Sub-Class of Wrapped Bonds issued under the Programme;

(xvi) each G&R Deed; and

(xvii) the Bond Trust Deed.

Clearing Systems

The Bonds will be accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code, ISIN, FISN and CFI for each Sub-Class of Bonds to be allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms or Drawdown Prospectus. If the Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms or Drawdown Prospectus.

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 or Drawdown Prospectus.

Significant or Material Change

There has been no significant change in the financial or trading position of YWH, YWS or YWSF since 31 March 2018. There has been no material adverse change in the financial position or prospects of YWH, YWS or YWSF since 31 March 2018.

Save as described in the section "*Removal of Subsidiaries Incorporated in the Cayman Islands*" above, there has been no significant change in the financial or trading position of the Issuer since its date of incorporation on 2 July 2018. Save as described in the section "*Removal of Subsidiaries Incorporated in the Cayman Islands*" above, there has been no material adverse change in the financial position or prospects of the Issuer since its date of incorporation on 2 July 2018.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which YWS is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of YWS and its subsidiaries (being the Issuer and YWSF).

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which YWH is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of YWH, its subsidiary (being YWS) and YWS's subsidiaries (being the Issuer and YWSF).

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which YWSF is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of YWSF.

Availability of Financial Statements

The audited annual financial statements of the Issuer, YWS, YWSF, and YWH will be prepared as of 31 March in each year. While the Issuer has commenced operations, no audited annual financial statements of the Issuer are presently available as of the date of this Prospectus as it was recently incorporated on 2 July 2018.

No interim financial statements will be prepared for YWH or the Issuer, but each of YWS and YWSF publish semi-annual unaudited financial statements. The unaudited interim financial statements of YWS and YWSF will be prepared as of 30 September in each year. All future audited annual financial statements (and any published interim financial statements) of each of the Issuer, YWS, YWSF, and YWH will be available free of charge in accordance with "*Documents Available*" above.

Auditor

The Auditor of YWS, YWH, YWSF and the Issuer is Deloitte LLP, of 1 City Square, Leeds, LS1 2AL. Deloitte LLP is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales.

The statutory audited accounts of YWS have been prepared in accordance with generally accepted accounting standards in the United Kingdom, including FRS 102, for the year ended 31 March 2018; the statutory audited accounts of YWH and YWSF have been prepared in accordance with generally accepted accounting standards in the United Kingdom, including FRS 101 "Reduced Disclosure Framework", for the year ended 31 March 2018; and in each case the Auditor has given unmodified reports which contained no statement under section 498(2) or (3) of the Companies Act. The audited accounts of YWS, YWH and YWSF have been delivered to the Registrar of Companies.

Bond Trustee's reliance on reports and legal opinions

Certain of the reports of experts to be provided in connection with the Programme and/or the issue of Bonds thereunder may be provided on terms whereby they contain a limit on the liability of such accountants or other experts. The Bond Trustee will not necessarily be an addressee to such reports.

Under the terms of the Programme, the Bond Trustee will not necessarily receive a legal opinion in connection with each issue of Bonds.

Legend

Global Bonds and Definitive Bearer Bonds and any Receipts, Talons and Coupons appertaining thereto where the relevant Final Terms specify that TEFRA D applies will bear a legend substantially to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds such Bond, Coupon, Receipt or Talon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond, Coupon, Receipt or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

Information in respect of the Bonds

The Issue Price and the amount of the relevant Bonds will be determined, before filing of relevant Final Terms or Drawdown Prospectus of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance *information* in relation to any issues of Bonds; however, see the requirement to deliver an Investors' Report in accordance with the CTA as described in Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

The Arranger, Dealers and Affiliates

Certain of the Arranger, Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Arranger, Dealers and their affiliates may have positions, deal or make markets in the Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Arranger, Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Arranger, Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Arranger, Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Bonds issued under the Programme or whether a specified barrier or level is reached. The Arranger, Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

GLOSSARY OF DEFINED TERMS

The defined terms used in this Prospectus and set out in this Glossary are disclosed on a conformed basis to reflect the Master Definitions Agreement. While the defined terms used in this Prospectus and set out in this Glossary reflect the Master Definitions Agreement, including any rules of interpretation or construction included in the Master Definitions Agreement, the terms of the definitions actually used in the Master Definitions Agreement may be different.

The Bondholders and other Secured Creditors are reminded that the defined terms in the Master Definitions Agreement govern and apply, not the conformed defined terms used in this Prospectus and set out in this Glossary, which are for disclosure purposes only.

A copy of the Master Definitions Agreement is available for inspection during normal business hours at the specified offices of the Bond Trustee and the Principal Paying Agent (in the case of bearer Bonds) or the specified offices of the Transfer Agents and the Registrar (in the case of registered Bonds).

The following terms are used throughout this Prospectus:

"**2018 Reorganisation**" means the removal of Yorkshire Water Services Bradford Finance Limited, Yorkshire Water Services Odsal Finance Limited, Yorkshire Water Services Odsal Finance Holdings Limited from the YW Financing Group.

"**2014 Final Determination**" means the final price determination made by Ofwat in respect of the AMP6 Period.

"**2010 PD Amending Directive**" means the EU Directive 2010/73/EU which amends the Prospectus Directive 2003/71/EC and the Transparency Directive 2004/109/EC.

"**Acceleration of Liabilities**" or "Acceleration" means an acceleration of any Secured Liabilities or termination of a commitment (or equivalent action) (excluding the taking of any Independent Enforcement Action) including:

(a) the delivery of a termination notice from a Finance Lessor or YWS terminating the leasing of Equipment under a Finance Lease;

(b) the delivery of a notice by YWS or a Finance Lessor requesting the prepayment of any Rentals under a Finance Lease;

(c) the early termination of any hedging obligations (whether by reason of an event of default, termination event or other right of early termination) under a Hedging Agreement; or

(d) the taking of any other steps to recover any payment due in respect of any Secured Liabilities, which have matured for repayment and are overdue, by a Secured Creditor or Secured Creditors, pursuant to the terms of the applicable Finance Document or, as the case may be, Non-Participating YWSF Bonds and in accordance with the STID,

and "**acceleration**" and "**accelerate**" will be construed accordingly.

"**Accession Memorandum**" means (a) with respect to the STID, each memorandum to be entered into pursuant to Clause 2 (*Accession*) or Clause 19 (*Benefit of Deed*) (as applicable) of the STID; (b), with respect to the Bond Trust Deed, a memorandum in substantially the form set out in (i) Schedule 5 (*Form of Accession Memorandum - Financial Guarantor*) to the Bond Trust Deed, pursuant to which a Financial Guarantor accedes to the Bond Trust Deed; or (ii) Schedule 6 (*Form of Accession Memorandum - Guarantor*) to the Bond Trust Deed pursuant to which a Guarantor accedes to the Bond Trust Deed; (c) with respect to the Agency Agreement, a memorandum in substantially the form set out in Schedule 3 (*Form of Accession Memorandum*) to the Agency Agreement pursuant to which a Guarantor accedes to the Agency Agreement; (d) with respect to the Tax Deed of Covenant, a memorandum in substantially the form set out in the Schedule (*Form of Accession Memorandum*) to the Tax Deed of Covenant pursuant to which a Permitted Subsidiary accedes to the Tax Deed of Covenant; (e) with respect to the Dealership Agreement, a memorandum in substantially the form set out in Schedule 3 (*Form of Accession Memorandum*) to the Dealership Agreement, pursuant to which a Permitted Subsidiary accedes to the Dealership Agreement; (f) with respect to the Account Bank Agreement, a memorandum in substantially the form set out in Schedule 2 (*Form of Accession Memorandum*) to the Account Bank Agreement pursuant to which a Permitted Subsidiary accedes to the Account Bank Agreement.

"**Account**" means any bank account of any Obligor.

"**Account Bank**" means National Westminster Bank plc or any successor account bank appointed pursuant to the Account Bank Agreement.

"**Account Bank Agreement**" means the account bank agreement dated on the Closing Date between, among others, the Obligors, the Standstill Cash Manager, the Account Bank and the Security Trustee, and to which the Issuer has acceeded.

"**Acquisition Term Facility**" means the £789,000,000 senior term loan facility made available to YWS under the Senior Facilities Agreement.

"**Addendum**" means any deed of amendment dated the Closing Date between certain Finance Lessors and YWS in respect of the Finance Leases entered into on or prior to the Initial Issue Date.

"**Additional Secured Creditor**" means any person not already a Secured Creditor which becomes a Secured Creditor pursuant to the accession provisions of the STID.

"**Adjusted Lease Reserve Amount**" means, in respect of any Finance Lease and from the commencement of a Standstill in any Test Period commencing on 1 April in any year, the relevant portion of the Annual Finance Charge for such Test Period or, as the case may be, the Pre-Test Period relating to such Finance Lease as calculated pursuant to paragraph 9.11 of Schedule 11 (*Cash Management*) of the CTA or, where paragraph 8 (*Lease Calculation Cashflow*) of Part 1 of Schedule 12 (*Provisions Relating to Finance Leases*) to the CTA applies, as calculated pursuant to such paragraph 8.

"**Adoption of Private Sewers**" means any Capital Expenditure incurred or to be incurred by YWS as a result of the adoption of private sewers into the public sewerage network.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "Affiliate" has the meaning given to it in that Hedging Agreement).

"**Agency Agreement**" means the agreement originally dated on the Closing Date (as amended, supplemented, restated and/or novated from time to time) between, among others, YWS and the Agents referred to therein, under which, amongst other things, the Principal Paying Agent is appointed as issuing agent, principal paying agent and agent bank for the purposes of the Programme and to which the Issuer has acceded as issuer.

"**Agent**" means the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent and any Paying Agent or any other agent appointed by the Issuer pursuant to the Agency Agreement or Calculation Agency Agreement.

"**Agent Bank**" means Deutsche Bank AG, London Branch (or any successor thereto) in its capacity as agent bank under the Agency Agreement in respect of the Bonds.

“**AMP**” means an asset management plan submitted by YWS to Ofwat in respect of a five-year period and in this respect:

(a) “AMP4” means the asset management plan prepared for the AMP4 Period;

(b) “AMP5” means the asset management plan prepared for the AMP5 Period; and

(c) “AMP6” means the asset management plan to be prepared for the AMP6 Period.

(d) “AMP Period” means a five-year period in relation to which an AMP is submitted by YWS to Ofwat and in this respect;

(e) “AMP4 Period” means the AMP Period commencing on 1 April 2005;

(f) “AMP5 Period” means the AMP Period commencing on 1 April 2010;

(g) “AMP6 Period” means the AMP Period commencing on 1 April 2015; and

(h) “AMP7 Period” means the AMP Period commencing on 1 April 2020.

“**Ancillary Documents**” means the valuations, reports, legal opinions, tax opinions, accountants’ reports and the like addressed to or given for the benefit of the Security Trustee, any Obligor or any Secured Creditor in respect of the Security Assets.

“**Annual Finance Charge**” means, in respect of the Pre-Test Period and thereafter in respect of each 12 month period commencing 1 April in any subsequent year, the aggregate of all interest (or amounts in the nature of interest (including, but not limited to, lease rentals and hedge payments) due or to become due (after taking account of the impact on interest rates of any Hedging Agreements then in place) during that Pre-Test Period or 12 month period on the Class A Debt and the Class B Debt (including, for the avoidance of doubt, all interest due on the Class B Debt but not yet payable as a result of the restrictions imposed on the payment of that indebtedness contained in the Finance Documents), all Financial Guarantee Fees payable to any Financial Guarantor within that Pre-Test Period or 12 month period, all fees and commissions payable to each Finance Party within that Pre-Test Period or 12 month period and the Lease Reserve Amounts or, during a Standstill Period, the Adjusted Lease Reserve Amounts falling due in that Pre-Test Period or 12 month period, excluding all indexation of principal, all costs incurred in raising such debt, amortisation of the costs of issue of such debt in that Pre-Test Period or Test Period and all other costs incurred in connection with the raising of such debt less all interest received or, in respect of forward-looking ratios, receivable by any member of the YW Financing Group from a third party during such period (excluding interest received or receivable under the Intra-Group Loans or any loan or other forms of Financial Indebtedness to Affiliates).

“**Applicable Accounting Principles**” means accounting principles, standards and practices generally accepted in the United Kingdom as applied from time to time and making such adjustments (if any) as the Auditor may consider appropriate arising out of changes to applicable accounting principles or otherwise from time to time.

“**Appointed Business**” or “**Regulated Business**” means the appointed business of a “relevant undertaker” (as that term is defined by Section 219 of the WIA).

“**Appointee**” means any attorney, manager, agent, delegate, nominee, custodian or other person appointed by the Bond Trustee under the Bond Trust Deed.

“**Arranger**” means NatWest Markets Plc.

“**Associate**” means:

(a) any person who has a Controlling interest in any member of the YW Financing Group; or

(b) any person who is Controlled by a member of the YW Financing Group,

and, in each case, any Affiliate of such person.

"**Auditor**" means Deloitte LLP or such other firm of accountants of international repute as may be appointed by YWS in accordance with the CTA as the statutory auditor for the YW Financing Group.

"**Authorised Credit Facility**" means any facility or agreement entered into by the Issuer, YWS or YWSF for Class A Debt or Class B Debt as permitted by the terms of the CTA or for the issue of Financial Guarantees in relation thereto, the providers of which are parties to, or have acceded to, the STID and the CTA, and includes, without limitation, the Liquidity Facilities, the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements, the YWSF/YWS Loan Agreements, the Existing Authorised Credit Facilities, the Bond Trust Deed, the Participating YWSF Bond Trust Deed, the Bonds, the Participating YWSF Bonds, the Finance Leases, the Hedging Agreements, the Financial Guarantee Fee Letters, the G&R Deeds and any other document entered into in connection with the foregoing facilities or agreements or the transactions contemplated in the foregoing facilities or agreements (excluding, however, the Dealership Agreement and the Common Agreements).

"Authorised Credit Provider" means a lender or other provider of credit or financial accommodation under any Authorised Credit Facility and includes each Issuing Bank, each Financial Guarantor, for so long as any Financial Guarantee issued by that Financial Guarantor is outstanding, each Bondholder and each Participating YWSF Bondholder.

"**Authorised Investments**" means:

(a) securities issued by the Government;

(b) demand or time deposits, certificates of deposit and short-term unsecured debt obligations, including commercial paper, **provided that** the issuing entity or, if such investment is guaranteed, the guaranteeing entity, is rated the Minimum Short-Term Rating;

(c) any other obligations **provided that** in each case the relevant investment has the Minimum Short-Term Rating and is either denominated in pounds sterling or (following the date on which the UK becomes a Participating Member State) euro or has been hedged in accordance with the Hedging Policy; or

(d) any money market funds or equivalent investments which have a rating of at least A- by S&P, A3 by Moody's and A-by Fitch.

"**Authorised Signatory**" means any person who is duly authorised by any Obligor or any Party and in respect of whom a certificate has been provided signed by a director of that Obligor or such Party setting out the name and signature of that person and confirming such person's authority to act.

"**Base Cash Flows**" means the annual cash flows of the amount of costs netted off against the amount of receipts and savings in respect of each Relevant Change of Circumstance (as defined in the Instrument of Appointment), Notified Item and relevant disposal of land.

"**Base Currency**" means pounds sterling.

"**Bearer Bonds**" means those of the Bonds which are in bearer form.

"**Bondholders**" means the holders from time to time of the Bonds.

"**Bonds**" means the Class A Bonds and/or the Class B Bonds, as the context may require, and "Bond" shall be construed accordingly.

"**Bond Trust Deed**" means the bond trust deed dated on the Closing Date as amended, supplemented, restated and/or novated from time to time, between, among others, the Issuer and the Bond Trustee, under which Bonds will, on issue, be constituted and any bond trust deed supplemental thereto.

"**Bond Trustee**" means Deutsche Trustee Company Limited or any successor trustee appointed pursuant to the Bond Trust Deed for and on behalf of the relevant Bondholders.

"**Business**" means Appointed Business and Permitted Non-Appointed Business or otherwise as permitted under the Finance Documents.

"**Business Day**" means (other than in any Hedging Agreement where "Business Day" has the meaning given to it in that Hedging Agreement):

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus;

(b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the currency in which such financial indebtedness is denominated (which in the case of a payment in U.S. dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus; and

(c) in relation to the definition of Lease Calculation Date, a day on which commercial banks and foreign exchange markets settle payments generally in London.

"**Calculation Agency Agreement**" means, in relation to the Bonds of any Tranche, an agreement in or substantially in the form of Schedule 1 (*Form of Calculation Agency Agreement*) to the Agency Agreement.

"**Calculation Agent**" means, in relation to any Tranche of Bonds, the person appointed as calculation agent in relation to such Tranche of Bonds by the Issuer pursuant to the provisions of a Calculation Agency Agreement (or any other agreement) and shall include any successor calculation agent appointed in respect of such Tranche of Bonds.

"**Calculation Date**" means (other than in any Hedging Agreement where "Calculation Date" has the meaning given to it in that Hedging Agreement), 31 March and 30 September in each year starting on 30 September 2009 or any other calculation date agreed as a result of a change in the financial year end date of any Obligor.

"**Capex Contract**" means any agreement pursuant to which YWS outsources goods and services which are Capital Expenditure.

"**Capital Expenditure**" means Capital Maintenance Expenditure and any expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the YWS Business Financial Model) relating to the acquisition of equipment, fixed assets, real property, intangible assets and other assets of a capital nature, or for the replacements or substitutions therefor or additions or improvements thereto, that in any such case have a useful life of more than one year together with costs incurred in connection therewith and **provided that** such expenditure is incurred in respect of maintenance non-infrastructure, infrastructure renewals expenditure or quality and supply-demand and other service enhancement expenditure.

"**Capital Maintenance Expenditure**" means expenditure (net of associated grants and contributions) incurred (or, in respect of any future period, forecast to be incurred in the YWS Business Financial Model) on maintaining base service levels in the Appointed Business but excluding any expenditure relating to increases in capacity or enhancement of service levels, quality or security of supply.

"**Cash Cover Account**" means (i) one or more cash cover accounts set up to provide cash cover (as defined in the Senior Facilities Agreement) in accordance with the terms of the Senior Facilities Agreement in the context of a Letter of Credit; and (ii) any other cash cover account set up in accordance with the terms of any other Authorised Credit Facility pursuant to which a letter of credit facility is provided.

"**Cash Expenses**" means the aggregate of all expenses including Capital Expenditure incurred by YWS in any period (excluding depreciation, IRC and interest on Financial Indebtedness).

"**Cash Manager**" means the Standstill Cash Manager during and after a Standstill Period (except where a Standstill Period is terminated pursuant to clause 13.4.1(c) (*Termination of Standstill)* of the STID), and at all other times YWS.

"**CAT**" means the Competition Appeal Tribunal of the United Kingdom.

"**CCD**" means expenditure designated under the heading "*current cost depreciation*" in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to YWS in Ofwat's most recent Final Determination adjusted as appropriate for any subsequent interim determination and for Out-turn Inflation, **provided that**, for the purposes of calculating any financial ratio for any Test Period where there is no Final Determination, the "CCD" shall be YWS's good faith estimate of such expenditure for such Test Period.

"**CC Water**" means the Consumer Council for Water.

"**CD Amounts**" means all amounts stated as payable for the account of out of the proceeds of Financial Indebtedness raised on the Closing Date which are stipulated to be applied in accordance with the Settlement and Acknowledgment Deed, including any amounts required to be paid in connection with the rolling of certain Hedging Agreements on or about the Closing Date in order to meet the requirements of the Hedging Policy.

"**Class**" means (i) in relation to the Bonds, each class of Bonds, the available classes of Bonds being Class A Wrapped Bonds, Class A Unwrapped Bonds, Class B Wrapped Bonds and Class B Unwrapped Bonds; (ii) in relation to the Participating YWSF Bonds, each tranche of Participating YWSF Bonds; and (iii) in relation to the Non-Participating YWSF Bonds, each tranche of Non-Participating YWSF Bonds.

"**Class A Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest during such Test Period.

"**Class A Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Class A Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Class A Bonds**" means the Class A Wrapped Bonds and the Class A Unwrapped Bonds.

"**Class A Debt**" means any financial accommodation that is, for the purposes of the STID, to be treated as Class A Debt and includes:

(a) as at the Closing Date, all debt outstanding under:

   (i) the Class A Unwrapped Bonds issued by Yorkshire Water Services Bradford Finance Limited (which has now been succeded by the Issuer);

   (ii) the Class A Unwrapped Bonds issued by Yorkshire Water Services Odsal Finance Limited (which has now been succeded by the Issuer);

   (iii) the Participating YWSF Bonds;

(iv) the Existing Authorised Credit Facilities;

(v) the Finance Leases entered into on or prior to the Initial Issue Date; and

(vi) certain Hedging Agreements; and

(b) following the Closing Date, all debt outstanding under paragraph (a) above and:

(i) any Non-Participating YWSF Bonds which become Participating YWSF Bonds following the Closing Date;

(ii) any Class A Wrapped Bonds issued by Yorkshire Water Services Bradford Finance Limited (which has been succeded by the Issuer) following the Closing Date;

(iii) any Class A Unwrapped Bonds issued by Yorkshire Water Services Bradford Finance Limited (which has been succeded by the Issuer) following the Closing Date;

(iv) any Hedging Agreements in respect of Class A Debt;

(v) any Financial Guarantee Fee Letter;

(vi) any G&R Deed in respect of Class A Wrapped Bonds;

(vii) any DSR Liquidity Facilities;

(viii) any O&M Reserve Facilities;

(ix) each Authorised Credit Facility designated as Class A Debt;

(x) each Finance Lease entered into after the Closing Date; and

(xi) any other financial accommodation that is, for the purposes of the STID, to be treated as Class A Debt.

"**Class A Debt Instructing Group**" or "**Class A DIG**" means a group of representatives (each, a "**Class A DIG Representative**") of Qualifying Class A Debt Providers in respect of Qualifying Class A Debt comprising:

(a) in respect of each Sub-Class of Class A Wrapped Bonds and the YWSF Wrapped Bonds (if no FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds), the Financial Guarantor of such Sub-Class of Class A Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds;

(b) in respect of each Sub-Class of Class A Wrapped Bonds and the YWSF Wrapped Bonds (after an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of those Wrapped Bonds or, as the case may be, the YWSF Wrapped Bonds) and each Sub-Class of Class A Unwrapped Bonds and each Class of YWSF Unwrapped Bonds, the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee, (**provided that**, unless:

(i) a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice); or

(ii) such proposal is the subject of an Entrenched Right or a Reserved Matter of the Class A Bondholders or, as the case may be, the Participating YWSF Bondholders,

the Class A Wrapped Bondholders (in respect of each such Sub-Class or Class of Class A Wrapped Bonds), the Participating YWSF Bondholders (in respect of such YWSF Wrapped Bonds), the Class A Unwrapped Bondholders (in respect of each Sub-Class of Class A Unwrapped Bonds) or, as the case may be, the Participating YWSF Bondholders (in respect of each Class of YWSF Unwrapped

Bonds), shall each be entitled to participate directly in the Class A DIG and direct the Bond Trustee or, as the case may be, the Participating YWSF Bond Trustee to vote in respect of any STID Direct Voting Matters through the clearing system voting mechanics as described in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Bondholder Voting*");

(a) (in respect of a Non-Participating YWSF Bond Voting Matter only) in respect of each Class of Non-Participating YWSF Bonds, the Non-Participating YWSF Bond Trustee, **provided that**:

(i) the Non-Participating YWSF Bond Trustee and the Non-Participating YWSF Bondholders of a Class of Non-Participating YWSF Bonds in relation to which a Non-Participating YWSF Bond Refusal Date has occurred shall have no entitlement to vote or direct the Security Trustee under the STID on any matter (including a Non-Participating YWSF Bond Voting Matter) following such date and, accordingly, shall not form part of the Class A DIG;

(ii) the Non-Participating YWSF Bond Trustee and the Non-Participating YWSF Bondholders of a Class of Non-Participating YWSF Bonds in relation to which no Non-Participating YWSF Bond Refusal Date has occurred shall have no entitlement to vote on or direct the Security Trustee in relation to any matter under the STID other than a Non-Participating YWSF Bond Voting Matter, a Non-Participating YWSF Bond Entrenched Right or a Non-Participating YWSF Bond Reserved Matter and, accordingly, shall not form part of the Class A DIG for such matters; and

(iii) (subject at all times to the other provisos contained in this paragraph (c)), unless

(A) a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice); or

(B) such proposal is the subject of an Entrenched Right or a Reserved Matter of the Non-Participating YWSF Bondholders,

the Non-Participating YWSF Bondholders (in respect of each Class of Non-Participating YWSF Bonds), shall each be entitled to participate directly in the Class A DIG and direct the Non-Participating YWSF Bond Trustee to vote in respect of any STID Direct Voting Matters (to the extent that such STID Direct Voting Matters are in respect of Non-Participating YWSF Bond Voting Matters) through the clearing system voting mechanics as described in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed – Bondholder Voting*");

(b) in respect of the Existing Authorised Credit Facilities, the relevant Existing Authorised Credit Provider;

(c) in respect of each Finance Lease, the relevant Finance Lessor; and

(d) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) to (e) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class A Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in the relevant Accession Memorandum as the Class A DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

"**Class A Debt Interest**" means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

(a) all interest and recurring fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the YW Financing Group's obligations under or in connection with all Class A Debt, any Permitted Financial Indebtedness which is unsecured and all Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds);

(b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Class A Wrapped Bonds or YWSF Wrapped Bonds; and

(c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the YW Financing Group's obligations under and in connection with all Class A Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force (excluding, for the purposes of calculating the Class A Adjusted ICR, the Conformed Class A Adjusted ICR, the Class A Average Adjusted ICR and the Conformed Class A Average Adjusted ICR only in respect of any forward looking element of a Test Period, in respect of any Type 2 Hedging Agreement, the impact on interest rates of such Type 2 Hedging Agreement)) (excluding all indexation of principal, amortisation of the costs of issue of any Class A Debt or Non-Participating YWSF Bonds within such Test Period and all other costs incurred in connection with the raising of such Class A Debt or issue of Non-Participating YWSF Bonds) less all interest received or in respect of forward-looking ratios receivable by any member of the YW Financing Group from a third party during such period (excluding any interest received or receivable by YWS under any Intra-Group Loan or any other loan or other forms of Financial Indebtedness to Affiliates).

"**Class A Debt Provider**" means a provider of, or Financial Guarantor of, Class A Debt.

"**Class A Debt Service Reserve Account**" means the accounts of each of the Issuer and YWSF titled "**Class A Debt Service Reserve Account**" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

"**Class A ICR**" means the ratio of Net Cash Flow for each Test Period to Class A Debt Interest for each of the same Test Periods.

"**Class A Net Indebtedness**" means, as at any date, the aggregate of the YW Financing Group's nominal Financial Indebtedness outstanding (or, in respect of a future date, forecast to be outstanding) on such date:

(a) under and in connection with any Class A Debt:

   (i) including accretions by indexation to the notional amount under any RPI Linked Hedging Agreement; and

   (ii) excluding any un-crystallised mark to market amount relating to any Hedging Agreement; and

(b) pursuant to paragraphs (f) and (g) of the definition of Permitted Financial Indebtedness (excluding the Exchanged YWSF Bonds),

in each case, together with all indexation accrued on any such liabilities which are indexed,

less:

(a) the value of all Authorised Investments and other amounts standing to the credit of any Account (other than any Excluded Accounts and other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date),

provided that, where such debt is denominated other than in Sterling, the nominal amount outstanding will be calculated: (i) in respect of debt with an associated Currency Hedging Agreement, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreement; or (ii) in respect of debt with no associated Currency Hedging Agreement, by reference to the Exchange Rate on such date.

"**Class A RAR**" means, on any Calculation Date, the ratio of Class A Net Indebtedness to RCV at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Class A Required Balance**" means:

(a) if the Senior RAR as calculated at the most recently occurring Calculation Date for each Test Period (taking into account the incurrence of any Financial Indebtedness pursuant to paragraph (1) of the definition of Permitted Financial Indebtedness following such Calculation Date) is equal to or less than 67.5 per cent., zero; and

(b) if the Senior RAR as calculated at the most recently occurring Calculation Date for any Test Period (taking into account the incurrence of any Financial Indebtedness pursuant to paragraph (1) of the definition of Permitted Financial Indebtedness following such Calculation Date) is greater than 67.5 per cent., an amount equal to the next 12 months' interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) and other finance charges (falling within the definition of Class A Debt Interest) forecast to be due on the Class A Debt of the YW Financing Group, after taking into account anticipated real flow receipts under any Hedging Agreement then in place in respect of any Class A Debt.

"**Class A Unwrapped Bonds**" means the Class A Bonds that do not have the benefit of a Financial Guarantee.

"**Class A Unwrapped Debt**" means the Class A Debt that does not have the benefit of a Financial Guarantee which includes the Class A Unwrapped Bonds and the YWSF Unwrapped Bonds.

"**Class A Wrapped Bonds**" means the Class A Bonds that have the benefit of a Financial Guarantee.

"**Class B Bonds**" means the Class B Wrapped Bonds and the Class B Unwrapped Bonds.

"**Class B Debt**" means any financial accommodation that is, for the purposes of the STID, to be treated as Class B Debt and includes all debt outstanding under: (a) the Class B Wrapped Bonds and the Class B Unwrapped Bonds issued by Yorkshire Water Services Bradford Finance Limited (which has been succeded by the Issuer) after the Closing Date; and (b) the G&R Deed in respect of the Class B Wrapped Bonds.

"**Class B Debt Instructing Group**" or "**Class B DIG**" means a group of representatives (each a "**Class B DIG Representative**") of Qualifying Class B Debt Providers in respect of Qualifying Class B Debt, comprising:

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

(b) in respect of each Sub-Class of Class B Wrapped Bonds (after an FG Event of Default, has occurred and is continuing in respect of the relevant Financial Guarantor) and each Sub-Class of Class B Unwrapped Bonds, the Bond Trustee (**provided that**, unless:

   (i) a Default Situation has occurred and is continuing (other than in respect of a STID Matter the subject of an Emergency Instruction Notice); or

(ii) such proposal is the subject of an Entrenched Right or a Reserved Matter of the Class B Bondholders,

the Class B Wrapped Bondholders (in respect of each such Sub-Class or Class of Class B Wrapped Bonds) or the Class B Unwrapped Bondholders (in respect of each Sub-Class of Class B Unwrapped Bonds) shall each be entitled to participate directly in the Class B DIG and direct the Bond Trustee to vote in respect of any STID Direct Voting Matters through the clearing system voting mechanics described in Chapter 7 "*Overview of the Financing Agreements – Security Trust and Intercreditor Deed – Bondholder Voting*" above); and

(c) in respect of any other Secured Liabilities of the type referred to in paragraphs (a) and (b) above or (with the approval of the Majority Creditors) other types of Secured Liabilities that rank *pari passu* with all other Class B Debt, the relevant representative appointed under the terms of the relevant Finance Document and named in relevant Accession Memorandum, as the Class B DIG Representative,

each of which provides an appropriate indemnity to the Security Trustee each time it votes irrespective of whether it is a Majority Creditor.

"**Class B Debt Provider**" means a provider of, or Financial Guarantor of, Class B Debt.

"**Class B Debt Service Reserve Account**" means any account of the Issuer titled "Class B Debt Service Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

"**Class B Required Balance**" means, on any Payment Date, an amount equal to the next 12 months' interest (including Lease Reserve Amounts and Adjusted Lease Reserve Amounts) and other finance charges (falling within the definition of Senior Debt Interest and relating to Class B Debt) forecast to be due on the Class B Debt of the YW Financing Group after taking into account the anticipated real flow receipts under any Hedging Agreement then in place in respect of any Class B Debt.

"**Class B Unwrapped Bonds**" means the Class B Bonds that do not have the benefit of a Financial Guarantee.

"**Class B Unwrapped Debt**" means the Class B Debt that does not have the benefit of a Financial Guarantee, which includes the Class B Unwrapped Bonds.

"**Class B Wrapped Bonds**" means the Class B Bonds that have the benefit of a Financial Guarantee.

"**Clearstream, Luxembourg**" means Clearstream Banking, SA.

"**Closing Date**" means 24 July 2009.

"**Common Agreements**" means any Security Document, the Bond Trust Deed, the CTA, the Master Definitions Agreement, the Account Bank Agreement, the CP Agreement, the Tax Deed of Covenant, the Calculation Agency Agreement and any Finance Document to which no Secured Creditor other than the Security Trustee and/or the Issuer and/or any Agent is a party.

"**Common Terms Agreement**" or "**CTA**" means the common terms agreement entered into on the Closing Date (as amended, supplemented or restated from time to time) between, among others, the Obligors, the Finance Lessors and the Security Trustee, and which contains certain representations and covenants of the Obligors and Events of Default, and to which the Issuer has acceded.

"**Companies Act**" means the Companies Act 1985 and, where applicable, the Companies Act 2006 (including the Companies Act 1985 or the Companies Act 2006, as applicable, as it applies to limited liability partnerships) and any regulations made pursuant to those Acts.

"**Compensation Account**" means the account of YWS entitled the "Compensation Account" held at the Account Bank and includes any sub account relating to that account and any replacement account from time to time.

"**Competition Act**" means the United Kingdom Competition Act 1998.

"**Compliance Certificate**" means a certificate, substantially in the form of Schedule 9 (*Form of Compliance Certificate*) of the CTA in which each of the Issuer, YWSF and YWS, periodically, provides certain financial statements to the Security Trustee and each Rating Agency as required by the CTA.

"**Conditions**" means the terms and conditions of the Bonds set out in the Bond Trust Deed as may from time to time be amended, modified, varied or supplemented in the manner permitted under the STID.

"**Conformed Class A Adjusted ICR**" means, in respect of a Test Period, the ratio of:

(a) Net Cash Flow less:

(i) Depreciation;

(ii) IRE not already deducted in the calculation of Net Cash Flow or Depreciation; and

(iii) (Fast/Slow Adjustment,

during such Test Period in each case without double-counting; to

(b) (Class A Debt Interest during such Test Period.

"**Conformed Class A Average Adjusted ICR**" means the sum of:

(a) the ratios of:

(i) Net Cash Flow less:

(A) Depreciation;

(B) IRE not already deducted in the calculation of Net Cash Flow or Depreciation; and

(C) Fast/Slow Adjustment,

in each case without double-counting; to

(ii) Class A Debt Interest,

for each of the Test Periods comprised in a Rolling Average Period,

(b) divided by three.

"**Conformed Senior Adjusted ICR**" means, in respect of a Test Period, the ratio of:

(a) Net Cash Flow less:

(i) Depreciation;

(ii) IRE not already deducted in the calculation of Net Cash Flow or Depreciation; and

(iii) Fast/Slow Adjustment,

during such Test Period in each case without double-counting; to

(b) Senior Debt Interest during such Test Period.

"**Conformed Senior Average Adjusted ICR**" means the sum of:

(a) the ratios of:

(i) Net Cash Flow less:

(A) Depreciation;

(B) IRE not already deducted in the calculation of Net Cash Flow or Depreciation; and

(C) Fast/Slow Adjustment,

in each case without double-counting; to

(ii) Senior Debt Interest,

for each of the Test Periods comprised in a Rolling Average Period,

(b) divided by three.

"**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.

"**Contracting Secured Creditor**" means a Ring-fenced Secured Creditor (other than the Security Trustee) party to an Authorised Credit Facility.

"**Contractor**" means any person (being either a single entity, consortium or joint venture) that is a counterparty to an Outsourcing Agreement or Capex Contract.

"**Control**" of one person by another person means (other than in the Tax Deed of Covenant where it has the meaning defined therein) that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise and whether acting alone or in concert with another or others) has the power to appoint and/or remove the majority of the members of the governing body of that person or otherwise controls or has the power to control the affairs and policies of that person (and references to "Controlled" and "Controlling" shall be construed accordingly).

"**COPI**" means the Construction Output Price Index.

"**Coupon**" means an interest coupon appertaining to a Definitive Bearer Bond and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**Couponholders**" means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders.

"**Court**" means the High Court of England and Wales.

"**CP Agreement**" means the conditions precedent agreement, dated 15 July 2009 between, among others, the Bond Trustee, the Security Trustee and the Obligors.

"**CRA Regulation**" means Regulation (EC) No 1060/2009 on credit rating agencies.

"**Cross Currency Hedging Agreement**" means certain Hedging Agreement and each Hedging Agreement designated as such in the relevant Accession Memorandum to the STID.

"**Currency Hedging Agreement**" means any Hedging Agreement with a Hedge Counterparty in respect of one or more Hedging Transactions to hedge against exposure to currency exchange rates.

"**Date Prior**" means, at any time, the date which is one day before the next Periodic Review Effective Date.

"**Dealers**" means Banco Santander, S.A., Bank of China Limited, London Branch, Barclays Bank PLC, BNP Paribas, HSBC Bank plc, Lloyds Bank Corporate Markets plc, NatWest Markets Plc, MUFG Securities EMEA plc, together with any other dealer appointed from time to time by the Issuer and the other Guarantors pursuant to the Dealership Agreement and references to a "relevant Dealer" or the "relevant Dealer(s)" mean, in relation to any Tranche of Bonds, the Dealer or Dealers with whom the Issuer has agreed the issue of the Bonds of such Tranche and "Dealer" means any one of them.

"**Dealership Agreement**" means the agreement originally dated 15 July 2009 as amended, supplemented, restated and/or novated from time to time, between the Issuer, the other Obligors and the Dealers named therein (or deemed named therein) concerning the purchase of Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto.

"**Debt Service Payment Account**" means the account of YWS entitled the "Debt Service Payment Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account from time to time.

"**Debt Service Reserve Account**" means each of the Class A Debt Service Reserve Accounts and the Class B Debt Service Reserve Account.

"**Default**" means (a) an Event of Default; (b) a Trigger Event; or (c) a Potential Event of Default.

"**Default Situation**" means any period during which there subsists an Event of Default.

"**Deferral of K**" means, in respect of any Financial Year, an amount equal to the difference between the total revenue that is projected by YWS to be raised during such Financial Year on the basis of the announced charges and the revenue that would have accrued if YWS had established prices at the full price cap available to it under the Instrument of Appointment.

"**Definitive Bearer Bond**" means a Bearer Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed in exchange for either a Temporary Global Bond or part thereof or a Permanent Global Bond (all as indicated in the applicable Final Terms or Drawdown Prospectus), such Bearer Bond in definitive form being in the form or substantially in the form set out in Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Talons*), Part C (*Form of Definitive Bearer Bond*) to the Bond Trust Deed and having the Conditions endorsed thereon and having the relevant information supplementing the Conditions appearing in the applicable Final Terms or Drawdown Prospectus endorsed thereon or attached thereto and having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

"**Definitive Registered Bond**" means a Registered Bond in definitive form issued or to be issued by the Issuer in accordance with the provisions of the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s), the Agency Agreement and the Bond Trust Deed either on issue or in exchange for a Registered Global Bond or part thereof (all as indicated in the applicable Final Terms or Drawdown Prospectus), such Registered Bond in definitive form being in the form or substantially in the form set out in Schedule 3 to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference as indicated in the applicable Final Terms or Drawdown Prospectus and having the relevant information supplementing the Conditions appearing in the applicable Final Terms or Drawdown Prospectus endorsed thereon or attached thereto and having a Form of Transfer endorsed thereon.

"**DEFRA**" means the United Kingdom Department for the Environment, Food and Rural Affairs.

"**Depreciation**" means, in relation to a period of time, the "total RCV run-off" (or other term(s) used to mean the depreciation charges applicable to the RCV) in respect of such period (interpolated as necessary for Out-turn Inflation) as last determined and notified to YWS by Ofwat at the most recent "Periodic Review" (as defined in the Instrument of Appointment) or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a "Periodic Review".

"**Determination Date**" means the date which is seven Business Days prior to each Payment Date or, as the case may be, each Non-Participating YWSF Bond Payment Date.

"**DETR**" means the Department of the Environment, Transport and the Regions which had responsibility for the Environment prior to DEFRA.

"**DGWS**" or "**Director General**" means the Director General of Water Services in England and Wales.

"**DIG Directions Request**" means a written notice of each DIG Proposal sent by the Security Trustee to the relevant DIG Representatives pursuant to the STID.

"**DIG Proposal**" means a proposal pursuant to the STID requiring a Majority Creditor decision in relation to the resignation of the Security Trustee or any vote to terminate or extend Standstill in accordance with the STID.

"**DIG Representative**" means each Class A DIG Representative or, as the case may be, Class B DIG Representative.

"**Directors**" means the Board of Directors for the time being of the relevant Obligor.

"**Discharge Date**" means the date on which all obligations of the Obligors under the Finance Documents have been irrevocably satisfied in full and no further obligations are capable of arising under the Finance Documents.

"**Distribution**" means, any payments (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any Associate other than:

(a) payments made to such persons pursuant to arrangements entered into for the provision of management and know-how services and which are entered into on bona fide arm's length terms in the ordinary and usual course of trading (including pursuant to a Management Services Agreement and pursuant to any agreement made or to be made between YWS or any other member of the YW Financing Group and Citi Infrastructure Investors in relation to the provision of financial, operational or corporate advisory services) to the extent that the aggregate of all such payments does not exceed 1 per cent. of RCV in any consecutive 12 month period;

(b) any payments made to such persons pursuant to any Outsourcing Agreements and/or Capex Contracts which were entered into and remain in compliance with the Outsourcing Policy save that if any Outsourcing Agreement and/or Capex Contract should cease to comply in all material respects with the Outsourcing Policy, all payments thereunder made by YWS shall only be made as Distributions where such non-compliance has remained unremedied for a period in excess of 365 days from the date on which YWS became aware of such non-compliance;

(c) payments made to such persons pursuant to arrangements entered into on terms that are not bona fide and arm's length in the ordinary and usual course of trading to the extent that the aggregate of all such payments does not exceed 0.1 per cent. of RCV in any consecutive 12 month period; or

(d) any payments made to such persons in respect of a Permitted Post Closing Event.

"**Drawdown Prospectus**" means a separate prospectus specific to a Tranche of the Bonds.

"**Drought Order**" means a drought order, which may be issued by the Secretary of State (in England) or the National Assembly for Wales (in Wales) on application by a Regulated Company, pursuant to section 73(1) of the WRA (as amended by the Environment Act 1995 and the Water Act 2003).

"**DSR Liquidity Facility**" means a debt service reserve liquidity facility made available under a DSR Liquidity Facility Agreement.

"**DSR Liquidity Facility Agreement**" means the DSR Liquidity Facility Agreement entered into between, *inter alios*, the Yorkshire Water Services Bradford Finance Limited (which has been succeded by the Issuer), Yorkshire Water Services Odsal Finance Limited (which has been succeded by the Issuer), YWSF and certain DSR Liquidity Facility Providers on 7 April 2011 as amended and restated on 23 September 2011, as further amended and restated on 26 September 2012 (as may be further amended and restated from time to time) and as renewed from time to time.

"**DSR Liquidity Facility Provider**" means a lender from time to time under a DSR Liquidity Facility.

"**DWI**" means the England and Wales Drinking Water Inspectorate.

"**EA**" or "**Environment Agency**" means the England and Wales Environment Agency.

"**Early Bond Redemption Agreement**" means the agreement dated the Closing Date originally between YWS, Yorkshire Water Services Odsal Finance Limited, YWSF and the Security Trustee pursuant to which YWS, Yorkshire Water Services Odsal Finance Limited and YWSF agree to make certain payments as between themselves in respect of an early redemption of the Exchanged YWSF Bonds.

"**Early Redemption Amount**" has the meaning, in relation to a Sub-Class of Bonds, given to such term in the Conditions relating to such Sub-Class of Bonds.

"**EIB**" means the European Investment Bank.

"**EIB Amendment Agreement**" means the amendment agreement dated on the Closing Date between the EIB and YWS relating to the EIB Authorised Credit Facilities.

"**EIB Authorised Credit Facilities**" means certain existing term facilities made available to YWS and any further facilities made available to YWS by the EIB pursuant to the EIB Authorised Credit Finance Contracts.

"**EIB Authorised Credit Finance Contracts**" means each of:

(a) the finance contract dated 3 October 1997 between the EIB and YWS in respect of Yorkshire Water Project X (identification number: 0.9793);

(b) the finance contract dated 17 December 2001 between the EIB and YWS in respect of Yorkshire Water Project XI (identification number: 21.403);

(c) the finance contract dated 16 December 2004 between the EIB and YWS in respect of Yorkshire Water Project XII (identification number: 22.854);

(d) the finance contract dated 16 March 2006 between the EIB and YWS in respect of Yorkshire Water Project XIII (identification number: 23.436); and

(e) any other finance contract which shall be entered into between the EIB and YWS and which shall be agreed between the parties thereto to be designated as an "EIB Authorised Credit Finance Contract",

in the case of paragraphs (a) to (d), as amended by the EIB Amendment Agreement on the Closing Date.

"**EIN Signatories**" means the DIG Representatives representing $66^{2}/_{3}$ per cent. or more of (i) the aggregate Outstanding Principal Amount of Qualifying Class A Debt or (ii) following the repayment in full of the Qualifying Class A Debt, Qualifying Class B Debt (after excluding from Qualifying Class A Debt or, as the case may be, Qualifying Class B Debt (as applicable), the Outstanding Principal Amount of (a) the Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the Financial Guarantor of such Sub-Class of Wrapped Bonds); (b) the Unwrapped Bonds; (c) the YWSF Wrapped Bonds (following the occurrence of an FG Event of Default which is continuing in respect of the YWSF Financial Guarantor; (d) the YWSF Unwrapped Bonds; and (e) the Non-Participating YWSF Bonds which constitute Qualifying Class A Debt, in each case, in respect of which the relevant Bondholder, Participating YWSF Bondholder or, as the case may be, Non-Participating YWSF Bondholder, has not voted through the clearing systems during the initial 15 Business Day Decision Period pursuant to the STID.

"**Emergency**" means the disruption of the normal service of the provision of water or wastewater services which is treated as an emergency under YWS's policies, standards and procedures for emergency planning manual.

"**Emergency Drought Order**" means an emergency drought order, which may be issued by the Secretary of State (in England) or the National Assembly for Wales (in Wales) on application by a Regulated Company, pursuant to section 73(2) of the WRA (as amended by the Environment Act 1995 and the Water Act 2003).

"**Emergency Instruction Notice**" means a notice, setting out the written instructions of the EIN Signatories given to the Security Trustee after the date specified in the STID Directions Request or, as the case may be, DIG Directions Request, being not less than 15 Business Days after the date that the STID Directions Request or DIG Directions Request (as applicable) is deemed to be given in accordance with Clause 17.3 (*Effectiveness*) of the CTA.

"**Emergency Instruction Procedure**" means an emergency instruction procedure provided for in the STID, subject to Entrenched Rights and Reserved Matters, to cater for circumstances when a Default Situation is subsisting, and certain decisions and instructions may be required in a timeframe which does not allow the Bond Trustee, the Participating YWSF Bond Trustee or, as the case may be, the Non-Participating YWSF Bond Trustee to convene bondholder meetings.

"**Enforcement Action**" means any step (other than the exercise of any rights of inspection of any asset or other immaterial actions taken under any Finance Lease) that a Secured Creditor is entitled to take to enforce its rights against an Obligor under a Finance Document or, as the case may be, the Non-Participating YWSF Bonds following the occurrence of an Event of Default (or, in the case of the Non-Participating YWSF Bonds, an event of default under the terms and conditions thereof) including (without limitation), the declaration of an Event of Default (or, as the case may be, an event of default under the terms and conditions of the Non-Participating YWSF Bonds), the institution of proceedings, the making of a demand for payment under a Guarantee (or the guarantee by YWS in respect of the Non-Participating YWSF Bonds), the making of a demand for cash collateral under a Guarantee (or, as the case may be, the guarantee under the terms and conditions of the Non-Participating YWSF Bonds) or the Acceleration of Liabilities (other than a Permitted Lease Termination, a Permitted Hedge Termination or a Permitted EIB Compulsory Prepayment Event) or the cancellation following an Event of Default of any remaining commitments under an Authorised Credit Facility in full or, as the case may be, an acceleration by a Secured Creditor or Secured Creditors pursuant to the terms of the applicable Finance Documents or, as the case may be, the Non-Participating YWSF Bonds.

"**Enforcement Order**" means an enforcement order, a final enforcement order or a provisional enforcement order, each as referred to and defined in the WIA.

"**Enterprise Act**" means the Enterprise Act 2002.

"**Entrenched Rights**" means (i) the rights of the Secured Creditors (other than the Non-Participating YWSF Bond Trustee and any Non-Participating YWSF Bondholder) provided by the terms of Clauses 8.3 (*Entrenched Rights of Class A Debt Providers*) to 8.9 (*Entrenched Rights of the Hedge Counterparties*) (inclusive) of the STID and summarised in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Prospectus; and (ii) the Non-Participating YWSF Bond Entrenched Rights.

"**Environmental Claim**" means any claim, proceeding, formal notice or investigation by the relevant duly appointed person pursuant to any Environmental Law.

"**Environmental Law**" means any applicable law (including DETR Circular 02/2000) in force in any jurisdiction in which YWS or any of its Subsidiaries or any Joint Venture in which it has an interest conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

"**Environmental Permits**" or "**Environmental Approvals**" shall, in either case where used, mean any permit, licence, consent, approval or other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Business conducted on or from the properties owned or used by YWS.

"**Equipment**" means, in relation to a Finance Lease, any items of equipment, plant and/or machinery, system, asset, software licence, Intellectual Property Right, software and any other item leased under that Finance Lease.

"**Equivalent Amount**" means the amount in question expressed in the terms of the Base Currency, calculated on the basis of the Exchange Rate.

"**EU**" means the European Union.

"**EURIBOR**" has the meaning given to that term in the relevant Finance Document.

"**Euro**" or "**€**" means the single currency introduced at the start of the third stage of the 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 SA/NV as operator of the Euroclear System.

"**Event of Default**" means (other than in any Hedging Agreement when used in relation to a Hedge Counterparty, where "Event of Default" has the meaning given to it in that Hedging Agreement) an event specified as such in Schedule 6 (*Events of Default*) to the CTA as more particularly described in

Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*" of this Prospectus.

"**Exchange Offer**" means the exchange offer made by Yorkshire Water Services Odsal Finance Limited to certain YWSF Bondholders on the Closing Date.

"**Exchange Rate**" means the spot rate at which the Non-Base Currency is converted to the Base Currency as quoted by the Agent Bank as at 11.00 a.m.:

(a) for the purposes of Clause 9.3 (*Notice to Secured Creditors of STID Proposal*) and Clause 9.6 (*DIG Directions Request*) of the STID, respectively, on the date that the STID Proposal or DIG Proposal (as applicable) is dated; and

(b) in any other case, on the date as of which calculation of the Equivalent Amount of the Outstanding Principal Amount is required,

and, in each case, as notified by the Agent Bank to the Security Trustee.

"**Exchanged YWSF Bonds**" means the Non-Participating YWSF Bonds transferred to the Exchange Issuer as part of the Exchange Offer on the Closing Date, and subsequently transferred back to YWSF and cancelled as part of the 2018 Reorganisation.

"**Excluded Accounts**" means:

(a) the O&M Reserve Accounts, to the extent that the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant O&M Reserve Facility;

(b) the Debt Service Reserve Accounts, to the extent that the balance standing to the credit of such accounts is attributable to a Standby Drawing under the relevant DSR Liquidity Facility;

(c) the Non-Participating YWSF Bond Reserve Account, to the extent that the balance standing to the credit of such account is attributable to a Standby Drawing under the relevant DSR Liquidity Facility;

(d) each Cash Cover Account; and

(e) each Swap Collateral Account.

"**Excluded Property**" means (other than in respect of any Protected Land):

(a) any residential property;

(b) any leasehold property; and

(c) any other property or properties where together in aggregate the market value of the Obligors' interest(s) in all such properties does not exceed 0.1 per cent. of RCV,

provided that any such property or interest falling within (a), (b) and/or (c) above will not be Excluded Property where the aggregate market value of the Obligors' interest(s) in any and all properties and interests constituting Excluded Property would exceed 5 per cent. of RCV;

"**Existing Authorised Credit Facilities**" means, among others, the EIB Authorised Credit Facilities.

"**Existing Authorised Credit Finance Contracts**" means the EIB Authorised Credit Finance Contracts and the Senior Facilities Agreement, in each case as amended and/or restated on the Closing Date.

"**Existing Authorised Credit Providers**" means among others, the EIB.

"**Existing Bulk Water Supply Contracts**" means the following contracts for the bulk supply of water to YWS:

(a) the contract with Severn Trent Water Limited entered into on 1 October 1989 in respect of the supply of untreated water from the Derwent Valley Reservoirs to Rivelin Wastewater Treatment Works in Sheffield;

(b) the contract with Northumbrian Water Limited entered into on 19 July 1995 in respect of the supply of water from Scaling Dam; and

(c) the contract with British Waterways Board entered into on 1 January 2005 in respect of the use of the British Waterways Board's reservoirs within the Colne Valley.

"**Extraordinary Resolution**" means, in relation to the Bonds, a resolution passed by a meeting of Bondholders, duly convened and held in accordance with the Bond Trust Deed, by a majority of not less than three-quarters of the votes cast at such meeting and, in relation to the Participating YWSF Bonds, a resolution passed by a meeting of Participating YWSF Bondholders, duly convened and held in accordance with the relevant Participating YWSF Bond Trust Deed.

"**Facility Agent**" means any facility agent under any Authorised Credit Facility.

"**Fast/Slow Adjustment**" means, in respect of a period of time, Funded Fast Money minus Notional Fast Money.

"**FG Event of Default**" means, in relation to any Financial Guarantor, such events as are specified in that Financial Guarantor's G&R Deed or equivalent document; in relation to Wrapped Bonds, such events as are set out in the relevant Final Terms; and, in relation to YWSF Wrapped Bonds, such events as are set out in the terms and conditions thereof.

"**FG Excepted Amounts**" means any additional amounts relating to premium, prepayment or acceleration, accelerated amounts and Subordinated Step-up Fee Amounts.

"**Final Business Plan**" means the YWS final business plan for the 2015-2020 AMP Period.

"**Final Determination**" means the final price determination made by Ofwat on a five-yearly basis.

"**Final Terms**" means the final terms issued in relation to each Sub-Class or Tranche of Bonds as a supplement to the Conditions and giving details of the Sub-Class or Tranche.

"**Finance Documents**" means:

(a) the Security Documents;

(b) the Bond Trust Deed;

(c) the Participating YWSF Bond Trust Deeds;

(d) the Bonds (including the applicable Final Terms or Drawdown Prospectus);

(e) the Participating YWSF Bonds (including the applicable final terms);

(f) each Financial Guarantee;

(g) each G&R Deed;

(h) each Financial Guarantee Fee Letter;

(i) the Finance Lease Documents;

(j) the Hedging Agreements and any other credit support or collateral documentation entered into in connection therewith or pursuant thereto;

(k) the CTA;

(l) the Issuer/YWS Loan Agreements;

(m) the Issuer/YWS Bond Loan Agreements;

(n) the YWSF/YWS Loan Agreements;

(o) each Liquidity Facility Agreement;

(p) the Agency Agreement;

(q) the Master Definitions Agreement;

(r) the Account Bank Agreement;

(s) the CP Agreement;

(t) the Tax Deed of Covenant;

(u) the Existing Authorised Credit Finance Contracts (including the EIB Amendment Agreement and each Senior Finance Document (as defined in the Senior Facilities Agreement));

(v) each Indemnification Deed;

(w) any other Authorised Credit Facilities;

(x) the Early Bond Redemption Agreement; and

(y) each agreement or other instrument between the Issuer, YWS, or YWSF (as applicable) and an Additional Secured Creditor designated as a Finance Document by the Issuer, YWS, or YWSF (as applicable), the Security Trustee and such Additional Secured Creditor in the Accession Memorandum for such Additional Secured Creditor.

"**Finance Lease Documents**" means each Finance Lease together with any related or ancillary documentation.

"**Finance Leases**" means the Finance Leases entered into on or prior to the Initial Issue Date and any other finance lease entered into by YWS in respect of plant, machinery, software, computer systems or equipment (provided that such leases have not terminated), the counterparty to which has acceded to, and is bound by, the terms of the STID and the CTA (each a "Finance Lease").

"**Finance Lessors**" means any person which has entered into or which will enter into a Finance Lease with YWS, as permitted by the CTA and the STID, who accedes to the STID and the CTA as a Finance Lessor (each a "Finance Lessor").

"**Finance Party**" means any person providing financial accommodation pursuant to an Authorised Credit Facility (including any Issuing Bank) including all arrangers, agents and trustees appointed in connection with any such Authorised Credit Facility.

"**Financial Guarantee**" means any financial guarantee issued by a Financial Guarantor in respect of any Wrapped Bond or in relation to the YWSF Wrapped Bonds.

"**Financial Guarantee Fee**" means any fees and/or premia payable to the Financial Guarantor under a Financial Guarantee Fee Letter.

"**Financial Guarantee Fee Letter**" means any letter or other agreement between a Financial Guarantor and one or more of the Obligors setting out the terms on which premia are payable in relation to one or more Financial Guarantees issued or to be issued by that Financial Guarantor.

"**Financial Guarantor**" means any person which provides a financial guarantee, including any Financial Guarantees, in respect of any of the Wrapped Bonds and the YWSF Financial Guarantor, and "Financial Guarantors" means all of them if there is more than one at any time.

"**Financial Indebtedness**" means (without double-counting) any indebtedness for or in respect of:

(a) monies borrowed or raised (whether or not for cash);

(b) any documentary or standby letter of credit facility;

(c) any acceptance credit;

(d) any bond, note, debenture, loan stock or other similar instrument;

(e) any finance or capital lease or hire purchase contract which would, in accordance with Applicable Accounting Principles, be treated as such;

(f) any amount raised pursuant to any issue of shares which are capable of redemption;

(g) receivables sold or discounted (other than on a non-recourse basis);

(h) the amount of any liability in respect of any advance or deferred purchase agreement if either one of the primary reasons for entering into such agreement is to raise finance or the relevant payment is advanced or deferred for a period in excess of 90 days;

(i) any termination amount due from any member of the YW Financing Group in respect of any Treasury Transaction that has terminated;

(j) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity granted in the ordinary course of YWS's trading and upon terms usual for such trade);

(k) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; and

(l) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (k) above (other than any guarantee or indemnity in respect of obligations owed by one member of the YW Financing Group to another).

"**Financial Statements**" means, at any time, the most recent financial statements (excluding for the avoidance of doubt, regulatory accounts) of an Obligor, consolidated where applicable, most recently delivered to the Security Trustee.

"**Financial Year**" means the 12 months ending on 31 March in each year or such other period as may be approved by the Security Trustee.

"**First Kelda Holdco Loan**" means a £308,935,000 intercompany loan originally between Saltaire Water Limited (as borrower) and YWS as lender dated 6 August 2008 and novated to Kelda Holdco Limited (as borrower) on 6 August 2008, and subsequently novated by Kelda Holdco Limited to Kelda Junior Holdco Limited (as borrower) on 22 December 2014; novated by Kelda Junior Holdco Limited to Kelda Buffer Limited (as borrower) on 22 December 2014; novated by Kelda Buffer Limited to Kelda Non-Reg Holdco Limited (as borrower) on 22 December 2014; and novated by Kelda Non-Reg Holdco Limited to Kelda Eurobond Co Limited (as borrower) on 26 March 2015.

"**Fitch**" means Fitch Ratings Limited, or any successor to the rating business of Fitch Ratings Limited.

"**Fixed Rate Bond**" means a Bond on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus (as applicable)).

"**Floating Rate Bond**" means a Bond on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus (as applicable)).

"**Form of Transfer**" means the form of transfer endorsed on a Definitive Registered Bond in the form or substantially in the form set out in Schedule 3, Part B (*Form of Definitive Registered Bond*) to the Bond Trust Deed.

"**FSMA**" means the Financial Services and Markets Act 2000, as amended.

"**Funded Fast Money**" means the product of:

(a) the pay-as-you-go rate as set out in YWS's relevant published Final Determination, in respect of a period of time; and

(b) "Totex" as set out in YWS's relevant published Final Determination, in respect of a period of time.

"**FWM Act**" means the Flood and Water Management Act 2010.

"**G&R Deed**" means a guarantee and reimbursement deed (or agreement of similar name and effect) between, among others, the Issuer and a Financial Guarantor in connection with a particular Tranche of Bonds or between YWSF and the YWSF Financial Guarantor in connection with the YWSF Wrapped Bonds.

"**Global Bond**" means a Temporary Global Bond and/or a Permanent Global Bond and/or a Registered Global Bond and/or a Regulatory S Global Bond and/or a Rule 144A, as the context may require.

"**Good Industry Practice**" means the standards, practices, methods and procedures as practised in the United Kingdom conforming to all applicable laws and the degree of skill, diligence, prudence and foresight which would reasonably be expected from a skilled and experienced person undertaking all or part of the Business, as the case may be, under the same or similar circumstances as those applying to YWS having regard to the regulatory pricing allowances and practices in England and Wales' regulated water and sewerage industry at the relevant time.

"**Government**" means the government of the United Kingdom.

"**Guarantee**" means, in relation to each Guarantor, the guarantee of such Guarantor given by it pursuant to the Security Document to which it is a party.

"**Guaranteed Amounts**" has the meaning given to such term in the relevant Financial Guarantee.

"**Guarantors**" means YWH, YWS, the Issuer and YWSF in their capacity as Guarantors pursuant to the Security Agreement, together with any other entity which accedes to the Security Agreement as a chargor in accordance with the terms thereof, (each a "Guarantor").

"**Hedge Counterparties**" means any counterparty to a Hedging Agreement which is or becomes party to the STID, in accordance with the STID, and "Hedge Counterparty" means any of such parties.

"**Hedging Agreement**" means any Treasury Transaction entered or to be entered into by the Issuer and/or YWS and/or YWSF with Hedge Counterparties in accordance with the Hedging Policy and references to "Hedging Agreements" shall be construed accordingly.

"**Hedging Transaction**" means any Treasury Transaction evidenced by a confirmation entered or to be entered into pursuant to a Hedging Agreement by the Issuer and/or YWS and/or YWSF with a

Hedge Counterparty in accordance with the Hedging Policy, and references to "Hedging Transactions" shall be construed accordingly.

"**Hedging Policy**" means the initial hedging policy applicable to YWS, YWSF, and the Issuer set out in Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA as such hedging policy may be, subject to the provisions of the STID, amended from time to time by agreement between the Security Trustee, YWS, YWSF, the Issuer and, in certain circumstances, the Hedge Counterparties in accordance with the STID.

"**Holding Company**" means a holding company within the meaning of section 736 of the Companies Act.

"**Hull City Enhanced Flood Projection**" means any Capital Expenditure incurred or to be incurred by YWS under the multi-agency agreement entered into in response to the Hull flooding of 2007, or as required directly by Ofwat.

"**Humber UWWTD Sensitive Water Designation**" means any Capital Expenditure incurred or to be incurred by YWS as a result of the designation of the Humber Estuary as "sensitive area" under the Urban Waste Water Treatment Directive.

"**Income**" means any interest, dividends or other income arising from or in respect of an Authorised Investment.

"**Indemnification Deed**" means, with respect to any Financial Guarantor, the deed so named and entered into on or about the date of the relevant Subscription Agreement (or, in the case of the YWSF Financial Guarantor, on or about the issue date of the YWSF Wrapped Bonds) between the Obligors, the Financial Guarantor and the Dealers.

"**Independent Enforcement Action**" means:

(a) in the case of the Non-Participating YWSF Bondholders of any Class of Non-Participating YWSF Bonds:

  (i) the delivery of any notice from the Non-Participating YWSF Bond Trustee or any Non-Participating YWSF Bondholder to YWSF and/or YWS and/or any other Obligor pursuant to which all or any of the Non-Participating YWSF Bonds are declared or become prematurely due and payable or fall to be redeemed prior to their specified maturity date; or

  (ii) the taking of formal steps for the commencement of Insolvency Proceedings against YWSF and/or YWS and/or any other Obligor by the Non-Participating YWSF Bond Trustee or any Non-Participating YWSF Bondholder,

  in each case, at any time other than following the termination of a Standstill (except if such Standstill is terminated due to a waiver by the Majority Creditors (subject to the relevant Quorum Requirement being met) and any other Secured Creditor whose consent is required to be obtained in respect of such waiver pursuant to the Entrenched Rights or the remedy of the Event of Default giving rise to the Standstill Period); and

(b) in the case of any other Secured Creditor (other than the Security Trustee, the Non-Participating YWSF Bond Trustee and the Non-Participating YWSF Bondholders) and only for so long as there are any Non-Participating YWSF Bonds outstanding, any breach by such Secured Creditor of any of the provisions imposing restrictions on the Secured Creditors in respect of taking independent action against any Obligor as set out in Clause 11.1 (*Undertakings of Secured Creditors*) of the STID.

"**Independent Review**" means an independent review resulting from a Trigger Event as set out in Paragraph 2 (*Further Information and Remedial Plan*), Part 2 (*Trigger Event Consequences*) of Schedule 5 (*Trigger Events*) to the CTA and set out in Chapter 7 "*Overview of the Financing Agreements*" under "*Common Terms Agreement*".

"**Indexed Bond**" means a bond in respect of which the amount payable in respect of principal and interest is calculated by reference to an index and/or formula as the Issuer (as the case may be) and the relevant Dealer(s) may agree (as indicated in the relevant Final Terms or Drawdown Prospectus (as applicable)).

"I**ndex Event**" has the meaning given to it in Condition 8(c).

"**Initial Issuer/YWS Loan Agreement**" means the loan agreement originally entered into between Yorkshire Water Services Odsal Finance Limited (as lender, which has been succeeded by the Issuer) and YWS (as borrower) on the Closing Date, pursuant to which drawings under certain Authorised Credit Facilities, including any O&M Reserve Facility and any DSR Liquidity Facility will be on-lent to YWS.

"**Initial Issue Date**" means the date of issue of the first Sub-Class of Bonds under the Programme (being the Closing Date).

"**Initial Issuing Bank**" means The Royal Bank of Scotland plc.

"**Initial Issuer/YWS Loan Agreement**" means the loan agreement originally entered into between the Yorkshire Water Services Bradford Finance Limited (which has been succeded by the Issuer) and YWS on the Closing Date.

"**Initial Senior Facilities Arrangers**" means The Royal Bank of Scotland plc, HSBC Bank plc and Abbey National Treasury Services Plc.

"**Initial YWSF/YWS Loan Agreement**" means the loan agreement entered into between YWSF and YWS on the Closing Date.

"**Insolvency Act**" means the Insolvency Act 1986.

"**Insolvency Event**" means, in respect of any company:

(a) the initiation of or consent to Insolvency Proceedings by such company or any other person or the presentation of a petition or application for the making of an administration order (other than in the case of the Issuer or YWSF, by the Security Trustee) and, in the opinion of the Security Trustee, such proceedings are not being disputed in good faith with a reasonable prospect of success;

(b) the giving of notice of appointment of an administrator or the making of an administration order or an administrator being appointed in relation to such company;

(c) an encumbrancer (excluding, in relation to the Issuer or YWSF, the Security Trustee or any receiver appointed by the Security Trustee) taking possession of the whole or any part of the undertaking or assets of such company;

(d) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any substantial part of the undertaking or assets of such company (excluding, in relation to the Issuer or YWSF, by the Security Trustee or any receiver appointed by the Security Trustee) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 30 days;

(e) the making of an arrangement, composition, scheme of arrangement, reorganisation with or conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally;

(f) the passing by such company of an effective resolution or the making of an order by a court of competent jurisdiction for the winding up, liquidation or dissolution of such company (except, in the case of the Issuer or YWSF, a winding up for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution);

(g) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any substantial part of the undertaking or assets of such company;

(h) save as permitted in the STID, the cessation or suspension of payment of its debts generally or a public announcement by such person of an intention to do so; or

(i) save as provided in the STID, a moratorium is declared in respect of any indebtedness of such person.

"**Insolvency Official**" means, in connection with any Insolvency Proceedings in relation to a company, a liquidator, provisional liquidator, administrator, Special Administrator, administrative receiver, receiver, manager, nominee, supervisor, trustee, conservator, guardian or other similar official in respect of such company or in respect of all or substantially all of the company's assets or in respect of any arrangement or composition with creditors.

"**Insolvency Proceedings**" means, in respect of any company, the winding-up, liquidation, dissolution, administration of such company, or any equivalent or analogous proceedings under the law of the jurisdiction in which such company is incorporated or of any jurisdiction in which such company carries on business, including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

"**Instalment Bonds**" means any Bonds specified as being instalment bonds in the relevant Final Terms or Drawdown Prospectus.

"**Instrument of Appointment**" means the instrument of appointment dated August 1989 under sections 11 and 14 of the Water Act 1989 (as in effect on 1 September 1989) under which the Secretary of State for the Environment appointed YWS as a water undertaker under that Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

"**Instrument of Appointment Condition**" means any of the conditions contained in the Instrument of Appointment.

"**Intellectual Property Right**" means all right, title and interest in:

(a) any trade mark, service mark, trade name, logo, patent, invention, design or similar right;

(b) any designs, copyright, semi-conductor topography, database and know-how or intellectual property right; and

(c) all such similar rights which may subsist in any part of the world, in each case whether registered or not, whether in existence now or in the future, and includes any related application.

"**Intercreditor Arrangements**" means the arrangements between the Secured Creditors of the YW Financing Group in the STID summarised in Chapter 7 "*Overview of the Financing Agreements*" under "*Security Trust and Intercreditor Deed*".

"**Interest Commencement Date**" means, in the case of interest-bearing Bonds, the date specified in the applicable Final Terms or Drawdown Prospectus (as applicable) from (and including) which such Bonds bear interest, which may or may not be the Issue Date.

"**Interest Payment Date**" means any date upon which interest or payments equivalent to interest become payable under the terms of any Authorised Credit Facility.

"**Interest Rate Hedging Agreement**" means any Hedging Agreement with a Hedge Counterparty in respect of one or more Treasury Transactions to hedge exposure to interest rates, including any RPI Linked Hedging Agreement or any other Hedging Agreement specified as such in the relevant Accession Memorandum to the STID.

"**Interest Rate Hedging Transaction**" means any Hedging Transaction with a Hedge Counterparty to hedge exposure to interest rates, including any RPI Linked Hedging Transaction or any other Hedging Transaction specified as such in the relevant Accession Memorandum to the STID.

"**Intra-Group Debt Service Distribution**" means any distribution or payment in respect of a Permitted Tax Loss Transaction between members of the YW Financing Group.

"**Intra-Group Loans**" means the amounts outstanding, from time to time, in respect of any financial indebtedness between members of the YW Financing Group.

"**Investment Grade**" means a rating of at least Baa3 by Moody's, BBB- by S&P and BBB- by Fitch.

"**Investors' Report**" means each report produced by YWS, the Issuer to be delivered within the earlier of 45 days after publication of the relevant Financial Statements or within 120 days from 31 March or 90 days from 30 September in each year substantially in the form set out in the CTA.

"**IRC**" means the amounts set out under the heading infrastructure renewals charge in the financial projections contained in the supplementary report issued by Ofwat detailing the numbers and assumptions specific to YWS in Ofwat's most recent Final Determination adjusted as appropriate for any subsequent interim determination and for Out-turn Inflation, **provided that** for the purposes of calculating any financial ratio for any Test Period for which there is no Final Determination, "IRC" shall be YWS's good faith present estimate of such infrastructure renewals charge for such Test Period.

"**IRE**" means, in relation to a period of time, the aggregate of infrastructure renewals expenditure as set out in YWS's relevant published Final Determination.

"**ISDA Master Agreement**" means an agreement in the form of the 1992 or 2002 ISDA Master Agreement (Multi-Currency Cross Border) or any successor thereto published by ISDA unless otherwise agreed by the Security Trustee.

"**Issue Date**" means the date of issue of any Tranche of Bonds or the date upon which all conditions precedent to a utilisation under any other Authorised Credit Facility have been fulfilled or waived and YWS, the Issuer or, as the case may be, YWSF makes a utilisation of that facility.

"**Issue Price**" means the price as stated in the relevant Final Terms or Drawdown Prospectus (as applicable), generally expressed as a percentage of the nominal amount of the Bonds, at which the Bonds will be issued.

"**Issuer**" means the Yorkshire Water Finance plc.

"**Issuer DSR Proportion**" means a proportion of the Class A Required Balance attributable to the Issuer calculated on a *pro rata* basis according to the Outstanding Principal Amount of (i) the Issuer's Class A Debt; and (ii) YWSF's Class A Debt.

“**Issuer/YWS Bond Loan Agreements**” means each of the loan agreements originally entered into between Yorkshire Water Services Odsal Finance Limited (which has been succeeded by the Issuer), YWS and the Security Trustee on the Closing Date each corresponding to the relevant Class of Bonds issued by Yorkshire Water Services Odsal Finance Limited in connection with the Exchange Offer and each an “Issuer/YWS Bond Loan Agreement”.

“**Issuer/YWS Loan Agreements**” means any loan agreement originally entered into between Yorkshire Water Services Odsal Finance Limited (as lender, which has been succeeded by the Issuer) and YWS (as borrower), (other than the Issuer/YWS Bond Loan Agreements) including the Initial Issuer/YWS Loan Agreement and each an “Issuer/YWS Loan Agreement”.

“**Issuing Bank**” means the Initial Issuing Bank and any other financial institution that agrees to become an issuing bank under an Authorised Credit Facility (in accordance with the terms thereof) and accedes to the terms of the STID and CTA, together the “Issuing Banks”).

“**Joint Venture**” means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to, required for or conducive to the operation of the Business or Permitted Non-Appointed Business by YWS but shall exclude any arrangements or framework agreements entered into with a Contractor which are in accordance with and subject to the Outsourcing Policy.

“**June Return**” means the detailed annual return of regulatory information submitted to Ofwat by all undertakers.

“**K**” means the adjustment factor set for each year by Ofwat by which charges made by Regulated Companies for water supply and sewerage services may be increased, decreased or kept constant.

“**Kelda Group**” means Kelda Holdings Limited and its Subsidiaries.

“**Keyland Development**” means Keyland Development Limited, a company to whom YWS from time to time disposes of land and connected assets on arm’s length terms.

“**KGL**” means Kelda Group Limited, a company incorporated in England and Wales with limited liability (registered number 02366627).

“**Lead Manager**” means, in relation to any Tranche of Bonds, the person named as the lead manager in the relevant Subscription Agreement.

“**Lease Calculation Cashflow**” means, in respect of any Test Period commencing on 1 April in any year or, as the case may be, the Pre-Test Period, for any Finance Lease, a cashflow statement produced by the relevant Finance Lessor on, or as soon as reasonably practicable after, its Lease Calculation Date occurring prior to the commencement of such Test Period and in accordance with its terms, the CTA and the terms of the relevant Accession Memorandum, and using, *inter alia*, for the purposes of calculating the amount shown for each Rental Payment Date falling within the relevant Test Period or, as the case may be, the Pre-Test Period under the heading “interest” (or the equivalent thereof (howsoever worded)) in such cashflow statement, a rate of LIBOR, estimated, as at its Lease Calculation Date, by reference to the average of those rates per annum being offered by certain reference banks to prime banks in the London interbank market for entry into 12 month (or such other period as is equal to the relevant Rental Period under such Finance Lease) forward contracts, commencing on each Rental Payment Date arising during the period commencing on such Lease Calculation Date and ending on the last Rental Payment Date to occur during the relevant Test Period and as agreed between YWS and the relevant Finance Lessor (**provided that**, where any Finance Lease contains Rentals which are calculated by reference to a fixed rate of interest or where, in respect of a Finance Lease a rate of interest in respect of a Test Period, or as the case may be, the Pre-Test Period, in question has previously been determined prior to the relevant Lease Calculation Date in accordance with the terms of that Finance Lease, any Lease Calculation Cashflow produced in respect of that Finance Lease shall reflect the actual fixed rate of interest or, as the case may be, such previously determined rate of interest, implicit in such Rental calculations), **provided that** where in respect of any Finance Lease there has been a change of assumption resulting in an increase or decrease in the Rental payable thereunder during any Test Period commencing on 1 April in any year or the Pre-Test Period, as the case may be, the Lease Calculation Cashflow applicable to that Finance Lease for such Test Period or the Pre-Test Period shall also include a cashflow statement, produced as soon as reasonably practicable after the time of recalculating the Rental and in accordance with its terms, and the terms of the relevant Accession Memorandum and using, in such cashflow statement, the same estimated interest rates as were used in preparation of the original cashflow statement prepared on or as soon as reasonably practicable after the Lease Calculation Date applicable to that Test Period or the Pre-Test Period, as the case may be.

"**Lease Calculation Date**" means in respect of any Finance Lease entered into on or prior to the Initial Issue Date:

(a) the Closing Date;

(b) the date falling 10 days before the Rental Payment Date immediately preceding 1 April 2010; and

(c) each yearly anniversary of the date referred to in paragraph (b) above,

and, in respect of any other Finance Lease, means:

(i) the date of the Accession Memorandum executed by the relevant Finance Lessor relating to such Finance Lease; and

(ii) the date falling 10 days before the Rental Payment Date immediately preceding the commencement date of the first Test Period to commence on 1 April immediately after the date referred to in paragraph (i) above; and

(iii) each anniversary of the date referred to in paragraph (ii) above,

save that, where any date referred to in paragraphs (b), (c), (i), (ii) or (iii) is not a Business Day, such date shall be deemed to be the preceding Business Day.

"**Lease Reserve Amount**" means, in respect of any Finance Lease in any Test Period commencing on 1 April in any year or the Pre-Test Period, the lower of (i) the aggregate Notional Amount calculated with respect to such Finance Lease; and (ii) the aggregate amount of rental payments payable to the Finance Lessor under such Finance Lease during such Test Period or, as the case may be, the Pre-Test Period (inclusive of VAT) (after adding back any additional rentals (inclusive of VAT) payable and deducting any estimated rental rebates (inclusive of any credit for VAT), in each case as determined in accordance with the provisions of the relevant Finance Lease).

"**Letter of Credit**" means:

(a) a letter of credit, substantially in the form of the schedule to the Senior Facilities Agreement or in any other form requested by the Exchange Issuer and agreed by the Senior Facilities Agent and the Issuing Bank; or

(b) any guarantee, indemnity or other instrument in a form requested by the Exchange Issuer and agreed by the Senior Facilities Agent and the Issuing Bank.

"**LIBOR**" has the meaning given to that term in the relevant Finance Document.

"**Liquidity Facility**" means a DSR Liquidity Facility or an O&M Reserve Facility made under a Liquidity Facility Agreement and "Liquidity Facilities" means all of them.

"**Liquidity Facility Agent**" means, in respect of any Liquidity Facility Agreement, the facility agent under such Liquidity Facility Agreement.

"**Liquidity Facility Agreement**" means each liquidity facility agreement which has the characteristics set out in Schedule 13 (*DSR Liquidity Facility/O&M Reserve Facility Terms*) of the CTA, as established in connection with each Sub-Class of Bonds or Class of Participating YWSF Bonds issued by, or other Authorised Credit Facility provided to, the Issuer, YWSF or YWS (as the case may be) or with shortfalls in funding for Projected Operating Expenditure or projected Capital Maintenance Expenditure, each counterparty to which has acceded to the terms of the STID and the CTA.

"**Liquidity Facility Arranger**" means, in respect of any Liquidity Facility Agreement, the arranger under such Liquidity Facility Agreement.

"**Liquidity Facility Provider**" means any lender from time to time under a Liquidity Facility Agreement that has agreed to be bound by the terms of the STID and the CTA, including the DSR Liquidity Facility Providers and the O&M Reserve Facility Providers.

"**Listing Rules**" means the Listing Rules of the Financial Conduct Authority.

"**Loan Notes**" means the unsecured loan notes maturing in June 2009 issued by YWS to certain loan note holders on 9 March 1999 in an aggregate principal amount of £563,077 as at 1 June 2009.

"**London Stock Exchange**" means The London Stock Exchange plc.

"**Major Capex Project**" means each of (a) the Humber UWWTD Sensitive Water Designation; (b) the Hull City Enhanced Flood Projection; (c) the Adoption of Private Sewers; and (d) any other substantive capital expenditure project to be undertaken by YWS in connection with its Appointed Business where the net present value of the estimated total capital expenditure is equal to or greater than 10 per cent. of RCV.

"**Majority Creditors**" means the Class A DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class A Debt or following repayment in full of the Qualifying Class A Debt, Class B DIG Representatives in respect of more than 50 per cent. of the Voted Qualifying Class B Debt (in each case, subject to Clause 8 (*Modifications, Consents and Waivers*) and Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID) as set out in Chapter 7 "*Overview of the Financing Agreements*").

"**Make-Whole Amount**" means any amount above par payable on redemption of any Senior Debt except where such amount is limited to accrued interest.

"**Management Services Agreement**" means any agreement between YWS and an Associate pursuant to which such Associate provides management services to YWS, including, but not limited to, in respect of tax, treasury, insurance, accounts and/or audit functions and/or the provision of directors to the YW Financing Group.

"**Mandatory Cost Rate**" means, in relation to any Authorised Credit Facility, the addition to the interest rate payable to compensate that Authorised Credit Provider for the cost of compliance with the requirements of the Bank of England and/or the Financial Conduct Authority (or, in either case, any other authority which replaces all or any of its functions) in accordance with the formula(e) set out in the relevant Authorised Credit Facility.

"**Market**" means the London Stock Exchange's Regulated Market.

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement entered into on the Closing Date as amended, supplemented or restated from time to time between, among others, the Obligors, the Bond Trustee and the Security Trustee and amended from time to time.

"**Material Adverse Effect**" means the effect of any event or circumstance which is materially adverse, taking into account the timing and availability of any rights or remedies under the WIA or the Instrument of Appointment, to:

(a) the financial condition of YWS, the Issuer, YWSF or of the YW Financing Group taken as a whole;

(b) the ability of any member of the YW Financing Group to perform its material obligations under any Finance Document;

(c) the validity or enforceability of any Finance Document or the rights or remedies of any Secured Creditor thereunder; or

(d) the ability of YWS to perform or comply with any of its material obligations under the Instrument of Appointment or the WIA.

"**Material Capex Contract**" means:

(a) any Capex Contract; and/or

(b) any series of Capex Contracts entered into by YWS with one or more contractors within the same corporate group (but excluding any such Capex Contracts which have expired and/or terminated),

where, in the case of (a) and/or (b) above, the aggregate annual value of such Capex Contract or all such Capex Contracts is equal to or greater than 5 per cent. of RCV.

"**Material Outsourcing Agreement**" means:

(a) any Outsourcing Agreement; and/or

(b) any series of Outsourcing Agreements entered into by YWS with one or more contractors within the same corporate group (but excluding any such Outsourcing Agreements which have expired and/or terminated),

where, in the case of (a) and/or (b) above, the aggregate annual value of such Outsourcing Agreement or all such Outsourcing Agreements is equal to or greater than 5 per cent. of RCV.

"**Maturity Date**" means the date on which a Bond is expressed to be redeemable or any other Authorised Credit Facility is expressed to be repayable in full.

"**Megalitre**" means a million litres.

"**Member State**" means a member state of the European Union.

"**Minimum Short-Term Rating**" means, in respect of any person or investment, such person's or investment's short-term unsecured debt obligations being rated, in the case of Moody's, "Prime-1" in the case of S&P, "A-1" and, in the case of Fitch, "F1", or, in each case, such other rating as the relevant Rating Agency agrees, **provided that**, such other rating would not cause a rating downgrade of the Senior Debt.

"**Ml/d**" means Megalitres per day.

"**Monthly Payment Amount**" has the meaning set out in paragraph 6.11 of Schedule 11 (*Cash Management*) to the CTA, approximately (and subject to adjustment) equal to 1/12th of YWS's Annual Finance Charge for the relevant twelve month period (or, in the case of the Pre-Test Period, the PTP Amount).

"**Moody's**" means Moody's Investors Service Limited, or any successor to the rating agency business of Moody's Investors Service Limited.

"**Net Cash Flow**" means:

(a) in respect of any historical element of a Test Period, the aggregate of net cash flow from operating activities as shown in the YWS financial statements (after adding back, without double counting, and to the extent that such items are included in net cash flow from operating activities, any exceptional items (including the initial transaction fees payable on or about the Closing Date) to the extent such items represent expenditure of YWS and/or are included in the net cash flow from operating activities as shown in YWS's financial statements, any recoverable VAT, any Capital Expenditure, any movement in debtors and/or creditors relating to Capital Expenditure and any Deferrals of K) minus any exceptional items to the extent such items represent receipts of YWS and/or are included in the net cash flow from operating activities as shown in YWS's financial statements and corporation tax paid (which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any Intra-Group Debt Service Distribution), during such Test Period; and

(b) in respect of any forward-looking element of a Test Period, the aggregate of anticipated net cash flow from operating activities (after adding back, without double counting and to the extent that such items are included in the anticipated net cash flow from operating activities, any exceptional items to the extent such items represent expenditure of YWS and/or are included in the net cash flow from operating activities as shown in YWS's financial statements, any recoverable VAT, any Capital Expenditure any movement in debtors and/or creditors relating to Capital Expenditure and any Deferrals of K in each case anticipated to occur during such Test Period) minus any exceptional items to the extent such items represent receipts of YWS and/or are included in the net cash flow from operating activities as shown in YWS's financial statements and corporation tax (which shall exclude payments in respect of a Permitted Tax Loss Transaction as part of any Intra-Group Debt Service Distributions) anticipated to be paid during such Test Period less any anticipated net cash flow from operating activities of its business other than its Appointed Business and after adding back corporation tax anticipated to be paid as a result of such businesses during such Test Period,

provided that

(i) for the avoidance of doubt, for the purposes of calculating the Class A Adjusted ICR, the Conformed Class A Adjusted ICR, the Class A Average Adjusted ICR, the Conformed Class A Average Adjusted ICR, the Senior Adjusted ICR, the Conformed Senior Adjusted ICR, the Senior Average Adjusted ICR and the Conformed Senior Average Adjusted ICR only in respect of any forward looking elements of a Test Period. Net Cash Flow shall not take account of any payments made or due to be made or receipts received or due to be received under any Type 2 Hedging Agreement; and

(ii) following the establishment or acquisition of a Permitted Subsidiary pursuant to paragraph (g) of the definition of Permitted Acquisition, references in this definition to YWS will be construed as references to YWS and such Permitted Subsidiary.

"**New Money Advance**" means any drawing during a Standstill under any Authorised Credit Facility which is not made (or to the extent not made) for the purpose of refinancing a drawing under such Authorised Credit Facility.

"**Non-Appointed Expense**" means any expense incurred in connection with activities other than Appointed Business.

"**Non-Base Currency**" means a currency other than pounds sterling.

"**Non-Participating YWSF Bond Accession Date**" means in respect of each Class of Non-Participating YWSF Bonds, the date on which the Non-Participating YWSF Bond Trustee accedes to the STID, the CTA and the MDA as the Secured Creditor Representative of the Non-Participating YWSF Bondholders of such Class.

"**Non-Participating YWSF Bond Accession Resolution**" means, in respect of each Class of Non-Participating YWSF Bonds, a resolution of the Non-Participating YWSF Bondholders of such Class, instructing the Non-Participating YWSF Bond Trustee to accede to the STID, the CTA and the MDA as the Secured Creditor Representative of such Non-Participating YWSF Bondholders and assenting to and authorising the Non-Participating YWSF Bond Trustee to agree such modifications to the Non-Participating YWSF Bond Trust Deed(s) (including the terms and conditions of the Non-Participating YWSF Bonds) applicable to such Class of Non-Participating YWSF Bonds to ensure that, among other things, the Non-Participating YWSF Bondholders of such Class have substantially the same rights to vote in relation to Non-Participating YWSF Bond Voting Matters and Non-Participating YWSF Bond Entrenched Rights as have been accorded to Bondholders in relation to STID Matters in respect of such Non-Participating YWSF Bond Voting Matters and Non-Participating YWSF Bond Entrenched Rights, respectively, in the Bond Trust Deed.

"**Non-Participating YWSF Bondholders**" means the holders from time to time of the Non-Participating YWSF Bonds.

"**Non-Participating YWSF Bond Payment Date**" means each date upon which a payment is made or is scheduled to be made by YWSF or YWS in respect of any Non-Participating YWSF Bonds.

"**Non-Participating YWSF Bond Refusal Date**" means, in respect of any Class of Non-Participating YWSF Bonds, the date on which the Non-Participating YWSF Bond Accession Resolution is put to a meeting of the Non-Participating YWSF Bondholders of such Class and not passed (other than for want of quorum in circumstances where the Non-Participating YWSF Bond Accession Resolution will be put to an adjourned meeting of such Non-Participating YWSF Bondholders).

"**Non-Participating YWSF Bond Required Balance**" means an amount equal to the next 18 months' interest and principal forecast to be due on the Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds), after taking into account anticipated real flow receipts under any Hedging Agreement then in place in respect of any Non-Participating YWSF Bonds.

"**Non-Participating YWSF Bond Reserve Account**" means the account of YWSF titled "Non-Participating YWSF Bond Reserve Account" held at the Account Bank and includes any sub account relating to that account and any replacement from time to time.

"**Non-Participating YWSF Bonds**" means any YWSF Bonds in issue and a primary obligation of YWSF and/or YWS which are not Participating YWSF Bonds (including, unless stated to the contrary, all Exchanged YWSF Bonds).

"**Non-Participating YWSF Bond Trust Deeds**" means the YWSF Bond Trust Deeds relating to the Non-Participating YWSF Bonds.

"**Non-Participating YWSF Bond Trustee**" means The Law Debenture Trust Corporation p.l.c. or any successor thereto appointed pursuant to the relevant Non-Participating YWSF Bond Trust Deed.

"**Non-Participating YWSF Bond Voting Matter**" is a matter which:

(a) relates to removal of the Security Trustee or appointment of a successor Security Trustee in accordance with Clause 19.6 (*Resignation of Security Trustee*) of the STID;

(b) is the subject of a DIG Proposal and/or DIG Directions Request to terminate or extend Standstill pursuant to Clause 13.4 (*Termination of Standstill*) or Clause 13.5 (*Extension of Standstill*) of the STID; or

(c) is the subject of a STID Matter in respect of the enforcement of any of the Shared Security,

and "**Non-Participating YWSF Bond Voting Matters**" means all of them.

"**Non-YW Financing Group**" means any member of the Kelda Group which is not a member of the YW Financing Group.

"**Notice**" or "**notice**" means, in respect of a notice to be given to Bondholders, a notice validly given pursuant to Condition 17 (*Notices*).

"**Notified Item**" means any item formally notified by Ofwat to YWS as not having been allowed for in full or part in K **provided that** there has been no Periodic Review subsequent to that notification.

"**Notional Amount**" means, in respect of any Finance Lease, a sum, certified by any Authorised Signatory of the relevant Finance Lessor on each Lease Calculation Date and using the relevant Lease Calculation Cashflow relating thereto as being, for the succeeding Test Period commencing on 1 April, the amount shown for each Rental Payment Date falling in that relevant Test Period or, as the case may be, the Pre-Test Period under the headings "interest" and "margin" (or any equivalents thereof (howsoever worded)) in such Lease Calculation Cashflow, together with an amount equal to the VAT on such amount at the rate applicable to rentals payable under the relevant Finance Lease.

"**Notional Fast Money**" means, in respect of a period of time, operating expenditure as set out in YWS's relevant published Final Determination and IRE.

"**O&M Reserve**" means the amounts standing to the credit of the O&M Reserve Accounts.

"**O&M Reserve Accounts**" means the account of YWS and the Issuer entitled "O&M Reserve Account" held at the Account Bank and includes any sub-account relating to that account and any replacement account or accounts from time to time.

"**O&M Reserve Facility**" means any operation and maintenance reserve liquidity facility made available under a Liquidity Facility Agreement.

"**O&M Reserve Facility Agreement**" means the O&M Reserve Facility Agreement originally entered into between, *inter alios*, the Exchange Issuer and certain O&M Reserve Facility Providers on 7 April 2011 as amended and restated on 23 September 2011, as further amended and restated on 26 September 2012 (as may be further as amended and restated from time to time) and renewed from time to time, and to which the Issuer has replaced Yorkshire Water Services Odsal Finance Limited as the Borrower pursuant to the 2018 Reorganisation.

"**O&M Reserve Facility Provider**" means a lender from time to time under an O&M Reserve Facility.

"**O&M Reserve Required Amount**" means not less than:

(a) if the Senior RAR as calculated at the most recently occurring Calculation Date for each Test Period (taking into account the incurrence of any Financial Indebtedness pursuant to paragraph (1) of the definition of Permitted Financial Indebtedness following such Calculation Date) is equal to or lower than 67.5 per cent., zero; and

(b) if the Senior RAR as calculated at the most recently occurring Calculation Date for any Test Period (taking into account the incurrence of any Financial Indebtedness pursuant to paragraph (1) of the definition of Permitted Financial Indebtedness following such Calculation

Date) is greater than 67.5 per cent., 10 per cent. of YWS's Projected Operating Expenditure and Capital Maintenance Expenditure for the next succeeding 12 months,

in each case, as determined on 31 March in each year in its budget for that Test Period.

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

"**Official List**" means the official list of the UK Listing Authority.

"**Ofwat**" means the WSRA including its successor office or body.

"**Operating Accounts**" means each account at the Account Bank specified in the Account Bank Agreement as an Operating Account including any sub-account and any replacement account or other operating accounts from time to time.

"**Order**" means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

"**Other Parties**" means the Hedge Counterparties, the Liquidity Facility Providers, the Authorised Credit Providers, the Finance Lessors, the Agents, the Account Bank, the Standstill Cash Manager and members of the Kelda Group (other than the Obligors).

"**Outsourcing Agreement**" means any agreement pursuant to which YWS sub-contracts, tenders or outsources either the day-to-day operation of its assets, business services and service delivery (including any maintenance expenditure) or acquires technical know-how and access to other Intellectual Property Rights in relation to water services that, in the case of any outsourcing YWS could, if not outsourced, perform itself.

"**Outsourcing Policy**" means the outsourcing policy set out in Schedule 8 (*Outsourcing Policy*) to the CTA (as amended or replaced from time to time).

"**Outstanding**" means, in relation to the Bonds of all or any Sub-Class, all the Bonds of such Sub-Class issued other than:

(a) those Bonds which have been redeemed pursuant to the Bond Trust Deed;

(b) those Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Conditions has occurred and the redemption monies (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 17 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons;

(c) those Bonds which have been purchased and cancelled in accordance with Conditions 8(f) (*Purchase of Bonds*) and 8(h) (*Cancellation*);

(d) those Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 13 (*Prescription*);

(e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*);

(f) (for the purpose only of ascertaining the nominal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*); and

(g) in the case of Bearer Bonds, any Global Bond to the extent that it shall have been exchanged for Definitive Bearer Bonds or another Global Bond and, in the case of Registered Bonds, any Registered Global Bond to the extent that it shall have been exchanged for Definitive Registered Bonds, and, in each case, pursuant to its provisions, the provisions of the Bond Trust Deed and the Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the holders of the Bonds of any Sub-Class;

(ii) the determination of how many and which Bonds of any Sub-Class are for the time being outstanding for the purposes of Condition 15 (*Meetings of Bondholders, Modification, Waiver and Substitution*), Clause 9 (*Voting, Instructions and Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID and Paragraphs 2, 5, 6 and 13 of Part A of Schedule 4 to the Bond Trust Deed;

(iii) any discretion, power or authority (whether contained in the Bond Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Bonds of any Sub-Class; and

(iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Bonds of any Sub-Class,

those Bonds of the relevant Sub-Class (if any) which are for the time being held by or on behalf of the Issuer, the other Obligors, any Subsidiary of the Issuer or the other Obligors, or any Associate of the Issuer or the other Obligors (other than any Associate which is a licensed or regulated financial institution which holds Bonds in the ordinary course of its business), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain Outstanding.

"**Outstanding Principal Amount**" means, as at any date that the same falls to be determined:

(a) in respect of Wrapped Bonds and the YWSF Wrapped Bonds (unless an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds), aggregate of any unpaid amounts owing to a Financial Guarantor under a G&R Deed to reimburse it for any amount paid by it under a Financial Guarantee in respect of unpaid principal on such Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds and the Principal Amount Outstanding (or the Equivalent Amount) under such Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds (including, any premium);

(b) in respect of Wrapped Bonds and the YWSF Wrapped Bonds (if an FG Event of Default has occurred and is continuing in respect of the Financial Guarantor of such Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds), the Principal Amount Outstanding (or the Equivalent Amount) of such Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds (including any premium);

(c) in respect of Unwrapped Bonds, the Principal Amount Outstanding (or the Equivalent Amount) of such Unwrapped Bonds;

(d) in respect of YWSF Unwrapped Bonds, the Principal Amount Outstanding (or the Equivalent Amount) of such YWSF Unwrapped Bonds;

(e) in respect of Non-Participating YWSF Bonds, the Principal Amount Outstanding (or the Equivalent Amount) of such Non-Participating YWSF Bonds;

(f) in respect of any other Unwrapped Debt, the principal amount outstanding (or the Equivalent Amount) of such Unwrapped Debt;

(g) in respect of each Finance Lease, the Equivalent Amount of either (i) prior to an Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) under such Finance Lease and subject to any increase or reduction calculated in accordance with Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID, the highest termination value which may fall due during the Rental Period encompassing such date, calculated upon the assumptions set out in the cashflow report provided by the relevant Finance Lessor on the first day of each such Rental Period (or in the most recently generated cashflow report which is current on such date) or (ii) following any Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event) under such Finance Lease, the actual amount (if any) that would be payable to the relevant Finance Lessor in respect of a termination of the leasing of the Equipment on the date of such Acceleration of Liabilities (other than a Permitted Lease Termination or a Permitted EIB Compulsory Prepayment Event);

(h) in respect of each Hedging Agreement, the Equivalent Amount of the amount (if any) that would be payable to the relevant Hedge Counterparty if an early termination date was designated on such date in respect of the transaction or transactions arising under the Hedging Agreement pursuant to the ISDA Master Agreement governing such transaction or transactions and subject to the overriding provisions contained in the CTA and/or the STID; and

(i) in respect of any other Secured Liabilities not covered elsewhere, the Equivalent Amount of the outstanding principal amount of such debt on such date in accordance with the relevant Finance Documents,

all as most recently certified or notified to the Security Trustee, pursuant to Clause 9.9 (*Notification of Outstanding Principal Amount of Qualifying Debt*) of the STID.

"**Out-turn Inflation**" means, in respect of any period for which the relevant indices have been published, the actual inflation rate applicable to such period determined by reference to movements in the Retail Price Index adjusted, as appropriate, in the case of capital additions, for any divergence between the actual movement of national construction costs, as evidenced by the Construction Output Price Index (or such other index as Ofwat may specify for the purposes of Instrument of Appointment Condition B or otherwise) relative to the Retail Price Index from their base levels as used in the most recent Final Determination or interim determination and their relative movement as projected by Ofwat for the purposes of that determination, and, in respect of any period, including future periods, for which the relevant indices have not yet been published, by reference to forecast rates consistent with the average monthly movement in such indices over the previous 12 months for which published indices are available.

"**Pari Passu Interest Rate Hedging Agreement**" means each Interest Rate Hedging Agreement designated as such in the relevant Accession Memorandum to the STID.

"**Participating Member State**" means a member state of the European Community that adopts or has adopted the euro as its lawful currency under the legislation of the European Union for European Monetary Union.

"**Participating YWSF Bondholders**" means the holders from time to time of the Participating YWSF Bonds.

"**Participating YWSF Bonds**" means any YWSF Bonds in respect of which (i) the Participating YWSF Bond Trustee is party to or has acceded to the STID as a Secured Creditor Representative and a Class A DIG Representative; and (ii) their terms and conditions have been amended to comply with the Finance Documents on or about the Closing Date or, as the case may be, on or about the date of accession of the Participating YWSF Bond Trustee to the STID in respect thereof.

"**Participating YWSF Bond Trust Deeds**" means the YWSF Bond Trust Deeds relating to Participating YWSF Bonds in each case as amended on or about the date of accession to the STID, CTA and MDA of the Participating YWSF Bond Trustee in relation to any Class of Participating YWSF Bonds.

"**Participating YWSF Bond Trustee**" means Deutsche Trustee Company Limited or any successor thereto appointed pursuant to the relevant Participating YWSF Bond Trust Deeds.

"**Party**" means, in relation to a Finance Document, a party to such Finance Document.

"**Paying Agents**" means, in relation to all or any Sub-Class of the Bonds, the several institutions (including, where the context permits, the Principal Paying Agent and/or the Registrar) at their respective specified offices initially appointed as paying agents in relation to such Bonds by the Issuer and the other Obligors pursuant to the Agency Agreement and/or, if applicable, any successor paying agents at their respective specified offices in relation to all or any Sub-Classes of the Bonds.

"**Payment Date**" means each date on which a payment is made or is scheduled to be made by an Obligor in respect of any obligations or liability under any Authorised Credit Facility.

"**Payment Priorities**" means the order of priority of the Permitted Payments to be made by YWS on each Payment Date as set out in Chapter 7 "*Overview of the Financing Agreements*" under "*Cash Management*" as adjusted following the termination of a Standstill (other than pursuant to a waiver or revocation by the Majority Creditors or a Secured Creditor (as applicable)) in accordance with Paragraph 9.3 of Schedule 11 (*Cash Management*) to the CTA.

"**Periodic Information**" means the following documents (or documents which include such information):

(a) YWS's annual charges scheme with details of tariffs;

(b) a summary of YWS's strategic business plan at each Periodic Review;

(c) YWS's current Procurement Plan (if any);

(d) YWS's annual drinking water quality report;

(e) YWS's annual environmental report;

(f) YWS's annual conservation and access report; and

(g) such other material periodic information compiled by YWS for Ofwat.

"**Periodic Review**" means the periodic review of price limits as provided for in Instrument of Appointment Condition B, being the process by which annual price limits are set for companies holding appointments as water undertakers or as water and sewerage undertakers.

"**Periodic Review Effective Date**" means the date with effect from which the new price limits will take effect, following a Periodic Review.

"**Periodic Review Period**" means the period commencing on a Periodic Review Effective Date and ending on the next Date Prior.

"**Permanent Global Bond**" means, in relation to any Sub-Class of Bearer Bonds, a global bond in the form or substantially in the form set out in Schedule 2 (*Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Talons*), Part B (*Form of Permanent Global Bond*) to the Bond Trust Deed with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the Relevant Dealers, together with the copy of each applicable Final Terms or Drawdown Prospectus (as applicable) annexed thereto, comprising some or all of the Bearer Bonds of the same Sub-Class, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed in exchange for the whole or part of any Temporary Global Bond issued in respect of such Bearer Bonds.

"**Permitted Acquisition**" means any of the following carried out by YWS:

(a) an acquisition (including of Authorised Investments), but not of any company or shares therein, partnership or Joint Venture, made on arm's length terms and in the ordinary course of trade;

(b) an acquisition of assets required to replace surplus, obsolete, worn-out, damaged or destroyed assets which in the reasonable opinion of YWS are required for the efficient operation of its Business or in accordance with the Finance Leases;

(c) an acquisition of assets (but not of any company or shares therein, partnership or Joint Venture) made on arm's length terms entered into for bona fide commercial purposes in furtherance of YWS's statutory and regulatory obligations;

(d) all contracts entered into by YWS from time to time in relation to supplies of electricity, gas or water;

(e) an acquisition of an inset business in the United Kingdom which is or will be included in RCV and which breaches neither the Instrument of Appointment nor the WIA;

(f) an acquisition (including of any shares in a company) made in connection with a Permitted Joint Venture;

(g) the establishment or acquisition of a Permitted Leasing Subsidiary;

(h) an acquisition made with the consent of the Security Trustee; and

(i) the acquisition by the Issuer of the Exchanged YWSF Bonds,

in each case to the extent that such acquisition would not contravene the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or WIA.

"**Permitted Book Debt Disposal**" means the disposal of book debts in each financial year with a nominal value of up to 0.1 per cent. of RCV (or a greater amount with the prior consent of the Security Trustee) by YWS on arm's length terms to any person other than an Affiliate, where:

(a) such book debts are sold to a person or persons whose business is the recovery of debts;

(b) YWS has made a prudent provision in its accounts against the non-recoverability of such debts;

(c) any write-back of any provision for non-recoverability arising from the sale can only be treated as operating profit for the purposes of the financial ratios once the relevant recourse period against YWS has expired; and

(d) the YWS Business Financial Model is updated to ensure that the transaction is taken into account in calculating all relevant financial ratios under the CTA.

"**Permitted Disposal**" means any disposal made by YWS (and, in the case of paragraph (o) below, any Permitted Leasing Subsidiary) which:

(a) is made in the ordinary course of trading of the disposing entity or in connection with an arm's length transaction entered into for *bona fide* commercial purposes for the benefit of the Business;

(b) is of assets in exchange for other assets comparable or superior as to type, value and quality;

(c) is of Equipment pursuant to or to be leased under a Finance Lease;

(d) would not result in the Senior RAR, calculated for each Test Period by reference to the most recently occurring Calculation Date (adjusted on a pro-forma basis to take into account the proposed disposal), being more than 0.90:1;

(e) is a disposal for cash on arm's length terms of any surplus or obsolete or worn-out assets which, in the reasonable opinion of YWS, are not required for the efficient operation of its Business and which does not cause a Trigger Event under Paragraph 1, Part 1 (*Trigger Events*) of Schedule 5 (*Trigger Events*) to the CTA;

(f) is made pursuant to the Outsourcing Policy;

(g) is a Permitted Book Debt Disposal;

(h) is a disposal of Protected Land (as that term is defined in the WIA) in accordance with the terms of the Instrument of Appointment;

(i) is a disposal or surrender of tax losses which is a Permitted Tax Loss Transaction;

(j) is the disposal of assets owned by YWS which form part of its Permitted Non-Appointed Business;

(k) is any other disposal which is in accordance with the Instrument of Appointment, **provided that** the consideration (both cash and non-cash) received by YWS (or which would be received by YWS if such disposal was made on arm's length terms for full commercial value to an unconnected third party) in respect of any such disposal when aggregated with all other such disposals by it made in (i) the immediately preceding 12 month period does not exceed 2.5 per cent. of RCV (or its equivalent) and (ii) in the immediately preceding five-year period does not exceed 10 per cent. of RCV (or its equivalent);

(l) is a disposal of assets to a partnership or a Permitted Joint Venture made on arm's lengths terms entered into for *bona fide* commercial purposes in furtherance of YWS's statutory and regulatory obligations;

(m) is a disposal pursuant to any vehicle purchase or leasing arrangements;

(n) is a disposal of property to Keyland Development **provided that** such disposal is on arm's length terms; or

(o) is a disposal of water assets recorded as fixed assets on the balance sheet of YWS to a Permitted Leasing Subsidiary by way of sale or by way of finance or operating lease arrangements and/or is a disposal pursuant to any lease of such assets granted by a Permitted Leasing Subsidiary to YWS or to another Permitted Leasing Subsidiary,

provided that in each case (i) such disposal does not cause any of the Trigger Event Ratio Levels to be breached and (ii) such disposal would not contravene the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or WIA.

"**Permitted EIB Compulsory Prepayment Event**" means:

(a) a demand for prepayment of an EIB Authorised Credit Facility by the EIB pursuant to Article 4.03(A) (*Compulsory Prepayment*), or, as the case may be, 4.03(1) (*Compulsory Prepayment*) of the relevant EIB Authorised Credit Finance Contract, together with any amount due under any indemnity relating to such prepayment contained in the relevant EIB Authorised Credit Finance Contract, as calculated in accordance with such EIB Authorised Credit Finance Contract; or

(b) a demand for prepayment or payment of an EIB Authorised Credit Finance Contract entered into after the Closing Date in accordance with compulsory prepayment provisions in respect of project costs therein similar to those mentioned above,

provided that, YWS will not make payment to the EIB of any sums due and payable in respect of such demand for prepayment or payment if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations and Permitted EIB Compulsory Prepayment Events in respect of other EIB Authorised Credit Facilities) has occurred; or (ii) a Default Situation is subsisting or would occur as a result of such payment.

"**Permitted Emergency Action**" means any remedial action taken by YWS during an Emergency which is in accordance with the policies, standards and procedures for emergency planning manual (EMPROC) of YWS (as amended from time to time), Ofwat guidance notes and Public Procurement Rules and which YWS considers necessary and which continues only so long as required to remedy the Emergency but in any event no longer than 60 days or such longer period as is agreed by YWS and the Security Trustee.

"**Permitted Existing Non-Appointed Business**" means any business other than the Appointed Business which is carried on by YWS at the Closing Date and (a) which falls within the Permitted Non-Appointed Business Limits applicable to Permitted Existing Non-Appointed Business; (b) in respect of which all material risks related thereto are insured in accordance with the provisions relating to insurance contained in the CTA; and (c) which does not give rise to any material actual or contingent liabilities for YWS that are not properly provided for in its financial statements.

"**Permitted Financial Indebtedness**" means:

(a) Financial Indebtedness incurred under the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements or the YWSF/YWS Loan Agreements;

(b) Financial Indebtedness incurred by one member of the YW Financing Group to another member if the recipient of that Financial Indebtedness is an Obligor (including in respect of the Exchanged YWSF Bonds);

(c) Financial Indebtedness incurred under any Finance Document as at the Closing Date;

(d) Financial Indebtedness incurred under the Loan Notes;

(e) Financial Indebtedness incurred under a Treasury Transaction, provided that (i) it is in compliance with the Hedging Policy; or (ii) it is a Treasury Transaction entered into by YWS in the ordinary course of its business to manage risk inherent in its business for non-speculative purposes only and not in respect of any Financial Indebtedness;

(f) Financial Indebtedness incurred under the Non-Participating YWSF Bonds;

(g) any unsecured Financial Indebtedness **provided that**:

(i) the aggregate amount of such Financial Indebtedness does not exceed 0.80 per cent. of RCV at any time; and

(ii) if such unsecured Financial Indebtedness is incurred following the occurrence of the Permitted Non-Participating Financial Indebtedness Trigger whilst any Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds) remain outstanding, the Obligors may not incur any additional Permitted Financial Indebtedness under this paragraph (g) for so long as any Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds) remain outstanding if, as a result of such incurrence, the aggregate Permitted Financial Indebtedness outstanding under paragraphs (f) and (g)(i) above would exceed 0.8 per cent. of RCV at any time;

(h) any Subordinated Debt entered into on or after the Closing Date;

(i) Financial Indebtedness incurred under any Intra-Group Loans;

(j) Financial Indebtedness where only BACS or similar daylight-banking accommodation is provided;

(k) Financial Indebtedness incurred under any Liquidity Facility provided that the provider of such facility is a party to, or has acceded to, the CTA and the STID;

(l) such further Financial Indebtedness incurred by the Issuer, YWSF or YWS that complies with the following conditions:

(i) at the time of incurrence of that Financial Indebtedness, no Default is continuing or will arise as a result of the incurrence of such Financial Indebtedness;

(ii) the Financial Indebtedness is made available pursuant to an Authorised Credit Facility the provider of which is a party to, or has acceded to, the CTA and STID;

(iii) as a result of the incurrence of the Financial Indebtedness:

(A) neither YWS, YWSF, nor the Issuer will be in breach of the liquidity facility or financial covenants contained in the CTA;

(B) no Authorised Credit Provider will have substantially better or additional entrenched rights under the STID than those Authorised Credit Providers providing similar Financial Indebtedness of the same class; and

(C) the Hedging Policy shall continue to be complied with in all respects;

(iv) the Financial Indebtedness which is Class A Debt ranks *pari passu* in all respects (but subject to the priorities set out in Paragraph 9 of Schedule 11 (*Cash Management*) of the CTA) with all other Class A Debt in its category of Class A Debt and the Financial Indebtedness that is Class B Debt ranks *pari passu* in all respects (but subject to the priorities set out in Paragraph 9 of Schedule 11 (*Cash Management*) of the CTA) with all other Class B Debt in its category of Class B Debt;

(v) if such further Financial Indebtedness is Class A Debt or Class B Debt, then the Senior RAR for each Test Period calculated by reference to the then most recently occurring Calculation Date (taking into account the proposed incurrence of such debt) must be less than or equal to:

(A) subject to sub-paragraph (B) below, whilst any Treasury Transaction entered into pursuant to a Type 2 Hedging Agreement remains outstanding, 0.80:1;

(B) whilst any Treasury Transaction entered into pursuant to a Type 2 Hedging Agreement remains outstanding and the incurrence of such further Financial Indebtedness is Required Financial Indebtedness, 0.90:1; and

(C) at all other times, 0.90:1;

(vi) if such further Financial Indebtedness is Class A Debt then the Class A RAR for each Test Period calculated by reference to the then most recently occurring Calculation Date (taking into account the proposed incurrence of such debt) must be less than or equal to:

(A) subject to sub-paragraph (B) below, whilst any Treasury Transaction entered into pursuant to a Type 2 Hedging Agreement remains outstanding, 0.70:1;

(B) whilst any Treasury Transaction entered into pursuant to a Type 2 Hedging Agreement remains outstanding and the incurrence of such further Financial Indebtedness is Required Financial Indebtedness, 0.75:1; and

(C) at all other times, 0.75:1,

and the Class A Adjusted ICR and Conformed Class A Adjusted ICR for each Test Period calculated by reference to the then most recently occurring Calculation Date (taking into account the proposed incurrence of such debt) must each be equal to or greater than 1.30:1;

(vii) if the incurrence of such Financial Indebtedness would cause the Senior RAR for each Test Period calculated by reference to the then most recently occurring Calculation Date (taking into account the proposed incurrence of such debt and the incurrence of any other Financial Indebtedness pursuant to this paragraph (l) following such Calculation Date) to exceed 67.5 per cent.:

(A) the Issuer and YWSF shall (and YWS will procure that each of the Issuer and YWSF shall) ensure that the aggregate of (A) DSR Liquidity Facilities available for drawing in respect of Class A Debt; and (B) amounts standing to the credit of the Class A Debt Service Reserve Accounts of the Issuer and YWS (including the value of any Authorised Investments funded from such amounts) is at least equal to the Class A Required Balance at the time of incurrence of such Financial Indebtedness; and

(B) YWS shall ensure that the aggregate of (A) O&M Reserve Facilities available for drawing; and (B) amounts standing to the credit of the O&M Reserve Accounts (including the value of any Authorised Investments funded from such amounts) is at least equal to the O&M Reserve Required Amount;

(viii) if such further Financial Indebtedness is incurred under a Finance Lease, the amount of that Financial Indebtedness, when aggregated with all other Financial Indebtedness under Finance Leases, shall not exceed an amount of 15 per cent. of RCV or its equivalent; and

(ix) to the extent that such Financial Indebtedness is to amortise, each Financial Guarantor and the Security Trustee has granted its written consent to such Financial Indebtedness prior to its incurrence; or

(m) such further Financial Indebtedness incurred by any member of the YW Financing Group with the consent of the Security Trustee.

For the purposes of this definition only, the termination sums payable under a Treasury Transaction that has been terminated shall not be treated as Financial Indebtedness and the occurrence of such event shall not be construed as the incurrence of Financial Indebtedness.

"**Permitted Hedge Termination**" means the termination of a Hedging Agreement in accordance with the Hedging Agreement and the provisions of Schedule 7 (*Hedging Policy and Overriding Provisions Relating to Hedging Agreements*) of the CTA.

"**Permitted Joint Venture**" means, after the Closing Date, the financing, development, design, carrying out and management by or on behalf of YWS of:

(a) any new Joint Venture in relation to which the aggregate liabilities of YWS (when taken together with the liabilities of YWS under any other Permitted Joint Ventures) are less than or equal to 0.05 per cent. of RCV; or

(b) any new Joint Venture to which the Security Trustee has consented (such consent not to be unreasonably withheld),

in each case, the operation by or on behalf of YWS of that Joint Venture being in accordance with the CTA.

"**Permitted Lease Termination**" means any termination of the leasing of all or any part of the Equipment (or the prepayment of the Rentals arising by reason of such termination) in the following circumstances:

(a) *Total Loss*: Pursuant to any provision of a Finance Lease whereby the leasing of all or any part of the Equipment thereunder will terminate following a total loss of such Equipment save that YWS will not make payment to the relevant Finance Lessor of any sums due and payable under the relevant Finance Lease in respect of such total loss if (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment;

(b) *Illegality*: Pursuant to any provision of a Finance Lease which permits the relevant Finance Lessor, or which entitles a Finance Lessor to require YWS, to terminate the leasing of the Equipment thereunder and to require payment of a termination sum or sums where it is unlawful for such Finance Lessor to continue to lease the relevant Equipment save that YWS will not make payment to the relevant Finance Lessor of any sums due and payable under the Finance Lease in respect of such circumstances if either (i) an Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) a Default Situation is subsisting or would occur as a result of such payment; and

(c) *Voluntary Prepayment/Termination*: Pursuant to any provision of a Finance Lease whereby YWS is or will be entitled or whereby the relevant Finance Lessor upon a YWS credit review is entitled, to voluntarily terminate (and require payment of a termination sum), or prepay all or any part of the Rentals relating to the leasing of all or the relevant Equipment under such Finance Lease, **provided that** (i) no Acceleration of Liabilities (other than Permitted Hedge Terminations, Permitted Lease Terminations in respect of other Finance Leases and Permitted EIB Compulsory Prepayment Events) has occurred or (ii) no Default Situation is subsisting or would occur as a result of such prepayment or termination.

"**Permitted Leasing Subsidiary**" means a Subsidiary established by YWS for the purposes of entering into sale and/or leasing arrangements with YWS in respect of water assets of YWS recorded on the balance sheet of YWS as fixed assets **provided that** on or prior to the date of establishment, the requirements set out in the definition of Permitted Subsidiary have been complied with.

"**Permitted New Non-Appointed Business**" means any business other than the Appointed Business and Permitted Existing Non-Appointed Business, **provided that** (a) such business: (i) is prudent in the context of the overall business of YWS and continues to be prudent for the duration of that Permitted New Non-Appointed Business; (ii) is not reasonably likely to be objected to by Ofwat; and (iii) falls within the Permitted Non-Appointed Business Limits applicable to Permitted Non-Appointed Business; (b) all material risks related thereto are insured in accordance with Good Industry Practice; and (c) such business does not give rise to any material actual or contingent liabilities for YWS that are not or would not be properly provided for in its financial statements.

"**Permitted Non-Appointed Business**" means Permitted Existing Non-Appointed Business and Permitted New Non-Appointed Business.

"**Permitted Non-Appointed Business Limits**" means, in respect of Permitted Non-Appointed Business, (i) the average of Non-Appointed Expenses during the current Test Period and, if applicable, the immediately two preceding Test Periods does not exceed 5 per cent. of Cash Expenses of YWS during such Test Periods; and (ii) the aggregate liabilities of the YW Financing Group in respect of Permitted Non-Appointed Business do not exceed 0.75 per cent. of RCV at any time.

"**Permitted Non-Participating Financial Indebtedness Trigger**" means the date upon which the aggregate Permitted Financial Indebtedness of the YW Financing Group under paragraphs (f) and (g)(i) of the definition of Permitted Financial Indebtedness is equal to or less than 0.8 per cent. of RCV at any time.

"**Permitted Payments**" means the application of monies credited to the Debt Service Payment Account in accordance with the Payment Priorities.

"**Permitted Post Closing Events**" means:

(a) payment of transaction fees and expenses, to the extent not paid on the Closing Date; or

(b) payments and other actions by any or all Obligors or other entities to enable YWS to pay certain amounts outstanding under the Acquisition Term Facility and related documentation and the discharge of the security created under such documents; or

(c) any other payments listed in writing by YWS as at the Closing Date and signed by way of approval by the Security Trustee.

"**Permitted Security Interest**" means any security interest falling under paragraphs (a) to (f) (inclusive) below which is created by any Obligor, any security interest falling under paragraphs (g) to (k) (inclusive) below which is created by YWS, the Issuer or YWSF and any security interest falling under paragraphs (l) to (s) (inclusive) below which is created by YWS:

(a) a Security Interest created under the Security Documents or contemplated by the Finance Documents;

(b) any Security Interest specified in the cash management provisions of the CTA, if the principal amount thereby secured is not increased;

(c) a Security Interest comprising a netting or set-off arrangement entered into by a member of the YW Financing Group in the ordinary course of its banking arrangements;

(d) a right of set-off, banker's liens or the like arising by operation of law or by contract by virtue of the provision of any overdraft facility and like arrangements arising as a consequence of entering into arrangements on the standard terms of any bank providing an overdraft;

(e) any Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or Government charges which are being contested by the relevant member of the YW Financing Group in good faith and with a reasonable prospect of success;

(f) any Security Interest created in respect of any pre-judgment legal process or any judgment or judicial award relating to security for costs, where the relevant proceedings are being contested in good faith by the relevant member of the YW Financing Group by appropriate procedures and with a reasonable prospect of success;

(g) a Security Interest comprising a netting or set-off arrangement entered into under any Hedging Agreement entered into in accordance with the Hedging Policy where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such Hedging Agreement in respect of cash collateral or any other Security Interest except as otherwise permitted hereunder);

(h) a lien arising under statute or by operation of law (or by agreement having substantially the same effect) and in the ordinary course of business, **provided that** such lien is discharged within 30 days of any member of the YW Financing Group becoming aware that the amount owing in respect of such lien has become due;

(i) a lien in favour of any bank over goods and documents of title to goods arising in the ordinary course of documentary credit transactions entered into in the ordinary course of trade;

(j) a Security Interest created over shares and/or other securities acquired in accordance with the CTA held in any clearing system or listed on any exchange which arise as a result of such shares and/or securities being so held in such clearing system or listed on such exchange as a result of the rules and regulations of such clearing system or exchange;

(k) a Security Interest approved by the Security Trustee, the holder of which has become a party to the STID;

(l) a Security Interest over or affecting any asset acquired on arm's length terms after the Closing Date and subject to which such asset is acquired, if:

    (i) such Security Interest was not created in contemplation of the acquisition of such asset;

    (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the YW Financing Group; and

    (iii) unless such Security Interest falls within any of paragraphs (o) to (r) below, (A) such Security Interest is removed or discharged within six months of the date of acquisition of such asset; or (B) the holder thereof becomes a party to the STID;

(m) a Security Interest arising in the ordinary course of business and securing amounts not more than 90 days overdue or, if more than 90 days overdue, the original deferral was not intended to exceed 90 days and such amounts are being contested in good faith;

(n) a Security Interest arising under or contemplated by any Finance Leases, hire purchase agreements, conditional sale agreements or other agreements for the acquisition of assets on deferred purchase terms where the counterparty becomes party to the STID;

(o) a right of set-off existing in the ordinary course of trading activities between YWS and its suppliers or customers (including, but not limited to, any Existing Bulk Water Supply Contracts, any future bulk water supply contracts, or any existing or future gas or electricity supply contracts);

(p) a Security Interest arising on rental deposits in connection with the occupation of leasehold premises in the ordinary course of business;

(q) any retention of title arrangements entered into by YWS in the ordinary course of business;

(r) a Security Interest pursuant to any purchase or leasing of vehicles by YWS; or

(s) in addition to any Security Interests subsisting pursuant to the above any other Security Interests, **provided that** the aggregate principal amount secured by such Security Interests does not at any time exceed 0.2 per cent. of RCV,

to the extent and for so long as, in each case, the creation or existence of such Security Interest would not contravene the terms of the Instrument of Appointment, the WIA or any requirement under the Instrument of Appointment or the WIA.

"**Permitted Share Pledge Acceleration**" means the acceleration by the Secured Creditors (subject to the availability of funds) of their respective claims to the extent necessary to apply proceeds of enforcement of the Share Pledges provided by YWH pursuant to the Security Agreement.

"**Permitted Subsidiary**" means the Issuer, YWSF and any other Subsidiary of YWS from time to time which is established or acquired by YWS pursuant to a Permitted Acquisition and is notified in writing to the Security Trustee prior to the date of such Permitted Acquisition, **provided that**, in each case on or prior to such establishment or acquisition such Permitted Subsidiary has acceded to the CTA, the STID, the MDA, the Security Agreement, the Bond Trust Deed, the Dealership Agreement, the Agency Agreement, the Account Bank Agreement and the Tax Deed of Covenant as an Obligor in accordance with the provisions of the STID and has satisfied the conditions to such accession as set out in the STID.

"**Permitted Tax Loss Transaction**" means any surrender of tax losses or agreement relating to a Tax benefit or relief (including, for the avoidance of doubt, an election under section 171A or 179A of the Taxation of Chargeable Gains Act 1992 and an exemption of financing income pursuant to Schedule 15 to the Finance Bill 2009 (as brought from the House of Commons on 8 July 2009) (the "Finance Bill 2009")) or any other agreement relating to Tax (including, for the avoidance of doubt, the payment of any balancing payment pursuant to and in accordance with the provisions of paragraphs 7A or 7C of Schedule 28AA of the Income and Corporation Taxes Act 1988 or Schedule 15 to the Finance Bill 2009) between:

(a) an Obligor (other than the Issuer) and another Obligor (other than the Issuer); or

(b) an Obligor (other than the Issuer) and any other member of the Kelda Group (not being an Obligor),

in either case in accordance with various provisions to be set out in the Tax Deed of Covenant.

"**Permitted Volume Trading Arrangements**" means contracts entered into by any member of the Kelda Group or any Associate thereof (which, in each case, is not a member of the YW Financing Group) with suppliers for the supply of goods and services to the YW Financing Group on terms that discounts are available as a result of such arrangements, **provided that** any Obligor making use of such arrangements will reimburse the relevant member of the Kelda Group or Associate for any Financial Indebtedness by way of amounts payable by such member of the Kelda Group or Associate to such supplier as a result of such Obligor making use of such arrangements.

"**Potential Event of Default**" means (other than in any Hedging Agreement, where "Potential Event of Default" has the meaning given to it in that Hedging Agreement) an event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"**Potential Trigger Event**" means any event which would (with the expiry of any relevant grace period or the giving of notice or any combination thereof) if not remedied or waived become a Trigger Event.

"**Pre-Test Period**" means the period from the Closing Date up to 31 March 2010.

"**Principal Amount Outstanding**" means, in relation to a Participating YWSF Bond, a Non-Participating YWSF Bond, a Bond, Sub-Class or Class, the original face value thereof (in relation to any Indexed Bonds or any Participating YWSF Bonds or Non-Participating YWSF Bonds which are index-linked bonds, under the applicable terms and conditions, as adjusted in accordance with the Conditions or, as the case may be, the applicable terms and conditions of the Participating YWSF Bonds or, as the case may be, the Non-Participating YWSF Bonds (including in respect of any disenfranchisement provisions contained therein) less any repayment of principal made to the holder(s) thereof in respect of such Participating YWSF Bond, Non-Participating YWSF Bond, Bond, Sub-Class or Class.

"**Principal Paying Agent**" means Deutsche Bank AG, London Branch under the Agency Agreement, or its Successors thereto.

"**Procurement Plan**" means the procurement plan (if any) prepared and amended from time to time by YWS in accordance with its obligations under the Instrument of Appointment after notifying the Security Trustee and consulting with the Security Trustee.

"**Programme**" means the £8,000,000,000 guaranteed bond programme established by the Issuer admitted to the Official List and to the London Stock Exchange.

"**Projected Operating Expenditure**" means at any time, the operating expenditure projected in the operating budget for the Test Period in which such date falls.

"**Prospectus**" means any prospectus prepared by or on behalf of, and approved by, the Issuer in connection with the establishment of the Programme and/or the issue of the Bonds, or any Drawdown Prospectus, information memorandum or Prospectus prepared by or on behalf of and approved by the Issuer in connection with the general syndication in the interbank market of any Authorised Credit Facility.

"**Prospectus Directive**" means Directive 2003/71/EC as amended by the 2010 PD Amending Directive.

"**Protected Land**" means (as the term is defined in the WIA), in relation to a Regulated Company, any land which, or any interest or right in or over land which:

(a) was transferred to that company in accordance with a scheme under Schedule 2 to the Water Act 1989 or, where that company is a statutory water company (as defined in Section 219 of the WIA), was held by that company at any time during the financial year ended 31 March 1990;

(b) is or has at any time on or after 1 September 1989 been held by that company for purposes connected with the carrying out of its functions as a water undertaker or sewerage undertaker; or

(c) has been transferred to that company in accordance with a scheme under Schedule 2 to the WIA from another company in relation to which that land was protected when the other company held an Instrument of Appointment,

as such definition may be amended by statute or law.

"**PTP Amount**" means an amount equal to $^1/_8$th of YWS's Annual Finance Charge for the Pre-Test Period.

"**Public Procurement Rules**" means public procurement rules of the United Kingdom (including the Utilities Contracts Regulations 1996 (SI 1996/2911) as amended by the Utilities Contracts

(Amendment) Regulations 2001 (SI 2001/2418)) and of the European Communities (including Directive 93/98 as amended by Directive 98/4) affecting the water and sewerage sector and including any jurisprudence of the courts of the United Kingdom and of the European Communities and decisions of the European Commission in respect of such rules.

"**Qualifying Class A Debt**" means the aggregate Outstanding Principal Amount of (i) Class A Debt; and (ii) Non-Participating YWSF Bonds, in each case, entitled to be voted by the relevant Class A DIG Representative in the Class A DIG (subject at all times to the qualifications and provisos set out in the definition of Class A DIG) (other than the Outstanding Principal Amount of any Class A Debt or Non-Participating YWSF Bonds of any Subordinated Secured Creditors, provided that the Bondholders, the Participating YWSF Bondholders and the Non-Participating YWSF Bondholders shall not be Subordinated Secured Creditors except in respect of any Subordinated Classes).

"**Qualifying Class A Debt Provider**" means a provider of Qualifying Class A Debt.

"**Qualifying Class B Debt**" means the aggregate Outstanding Principal Amount of Class B Debt entitled to be voted by the Class B DIG Representatives (subject at all times to the qualifications and provisos set out in the definition of Class B DIG) (other than the Outstanding Principal Amount of any Class B Debt of any Subordinated Secured Creditors, provided that the Bondholders shall not be Subordinated Secured Creditors except in respect of any Subordinated Classes).

"**Qualifying Class B Debt Provider**" means a provider of Qualifying Class B Debt.

"**Qualifying Debt**" means the Qualifying Class A Debt and the Qualifying Class B Debt.

"**Qualifying Debt Provider**" means a Qualifying Class A Debt Provider or, as the case may be, a Qualifying Class B Debt Provider.

"**RAG 5**" means the Regulatory Accounting Guideline 5 first issued by Ofwat in April 1997 then revised in March 2000 and March 2005.

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

"**Rating Requirement**" means confirmation from any two Rating Agencies or, where expressly stated, all Rating Agencies then rating the Bonds that, in respect of any matter where such confirmation is required, the shadow rating is, in the case of the Class A Wrapped Bonds, BBB by S&P, Baa2 by Moody's and BBB by Fitch or above and the credit rating is, in the case of the Class A Unwrapped Bonds, BBB by S&P, Baa2 by Moody's and BBB by Fitch or above.

"**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 established or acquired pursuant to paragraph (g) of the definition of Permitted Acquisition, by Ofwat at the most recent Periodic Review or interim determination 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, interim determination or Annual RCV Update (interpolated as necessary and adjusted as appropriate for Out-turn Inflation) **provided that** "RCV" for the purposes of calculating the Senior RAR or Class A RAR for any Test 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 Test Period.

"**Receipt**" means a receipt attached on issue to a Definitive Bearer Bond redeemable in instalments for the payment of an instalment of principal and includes any replacements for Receipts or Talons issued pursuant to Condition 14 (*Replacement of Bonds, Coupons, Receipts and Talons*).

"**Receiptholders**" means the persons who are for the time being holders of the Receipts.

"**Recognised Ofwat Mechanism"** means any of (i) logging up of RCV, where Ofwat has approved the relevant Capital Expenditure and the Reporter has reviewed and validated the cost of such Capital Expenditure (including on an intra-AMP Period basis); or (ii) an interim determination, where a Relevant Change of Circumstance (as defined in Part IV of Instrument of Appointment Condition B) of the Instrument of Appointment has, in the reasonable opinion of YWS, arisen; or (iii) any other similar mechanism as agreed from time to time between Ofwat and YWS.

"**Reference Bank**" has the meaning given to that term in the relevant Finance Document, **provided that** if no Reference Bank is specified in the relevant Finance Document, the Reference Bank shall be The Royal Bank of Scotland plc or any other two reference banks.

"**Register**" means a register of the Bondholders of a Sub-Class of Registered Bonds.

"**Registered Bonds**" means those of the Bonds which are for the time being in registered form.

"**Registered Global Bond**" means a Registered Bond in global form in the form or substantially in the form set out in Part A (Form of Registered Global Bond) of Schedule 3 to the Bond Trust Deed, together with such modifications (if any) as may be agreed between the Issuer (as the case may be), the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), together with the copy of each applicable Final Terms or Drawdown Prospectus (as applicable) annexed thereto, comprising some or all of the Registered Bonds of the same Sub-Class sold outside the United States in reliance on Regulation S under the Securities Act, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer (as the case may be) and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed and refers to a Regulation S Registered Global Bond and/or a Rule 144A Registered Global Bond, as the context may require.

"**Registrar**" means Deutsche Bank Luxembourg S.A. as a registrar under the Agency Agreement and any other entity appointed as a registrar under the Agency Agreement.

"**Regulated Company**" means a company appointed as a water undertaker or a water and sewerage undertaker under section 6 of the WIA.

"**Regulation S**" has the meaning given to such term under the Securities Act.

"**Relevant Change of Circumstance**" means a "**Relevant Change of Circumstance**" as defined in Part IV of Instrument of Appointment Condition B.

"**Relevant Date**" has the meaning set out in Condition 6(l) (*Definitions*).

"**Remedial Plan**" means any remedial plan agreed by YWS and the Security Trustee under Part 2 (*Trigger Event Consequences*) of Schedule 5 (*Trigger Events*) of the CTA.

"**Rental**" means any scheduled payment of rental, periodic charge or equivalent sum under a Finance Lease.

"**Rental Payment Date**" means any date on which Rental is scheduled to be paid under any Finance Lease.

“**Rental Period**” means, in respect of a Finance Lease, each period falling between two consecutive Rental Payment Dates under such Finance Lease.

“**Reporter**” means the reporter appointed by YWS in accordance with Instrument of Appointment Conditions B and C.

“**Required Balance**” means, on any Payment Date, the aggregate of the Class A Required Balance and the Class B Required Balance.

“**Required Financial Indebtedness**” means Financial Indebtedness which is required to be incurred by the Issuer, YWSF or YWS pursuant to paragraphs (l)(v)(B) and (l)(vi)(B) of the definition of Permitted Financial Indebtedness in order to enable YWS to make payment of any amount due pursuant to paragraphs (ii) to (xxi) of the Payment Priorities in circumstances where YWS has insufficient funds available to make such payment (after utilising amounts standing to the credit of the Compensation Account, the Debt Service Payment Account, the Operating Accounts, the Debt Service Reserve Accounts, the Non-Participating YWSF Bond Reserve Account and amounts available under any DSR Liquidity Facility in accordance with the provisions of Schedule 11 (*Cash Management*) of the CTA) provided that the incurrence of such Financial Indebtedness is otherwise in compliance with paragraph (l) of the definition of Permitted Financial Indebtedness **and provided** that the terms of any such Required Financial Indebtedness contain provisions requiring such Financial Indebtedness to amortise until such time as it has been repaid in full no less frequently than annually to the extent of any excess cash flow of the YW Financing Group in respect of the period from one Calculation Date to the next Calculation Date (such excess cash flow to be determined on the basis of the operating profit of the YW Financing Group adjusted in accordance with usual principles after making usual deductions including, without limitation, in respect of debt service obligations as they fall due, tax liabilities and capital expenditure in respect of such period).

“**Reserved Matters**” means matters which, subject to the Intercreditor Arrangements, a Secured Creditor is free to exercise in accordance with its own facility arrangements and not by the direction of the Majority Creditors as more particularly described in the STID and set out in Chapter 7 (*Overview of the Financing Agreements*).

“**Restricted Payment**” means any Distribution, Deferral of K or any payment under the Subordinated Debt other than:

(a) any payment under any Authorised Credit Facility in accordance with the provisions of the CTA and the STID;

(b) a payment made under a Permitted Tax Loss Transaction;

(c) any Permitted Post Closing Event; or

(d) an Intra-Group Debt Service Distribution.

“**Restricted Payment Condition**” means each of the conditions which must be satisfied or waived by the Security Trustee before a Restricted Payment may be made by the Issuer, YWSF or YWS.

“**Retail Price Index**” or “**RPI**” 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 (except in the case of an RPI Linked Hedging Agreement), such other index of retail prices as may have then replaced it for the purposes of Ofwat’s determination of price limits for water and sewerage services or (in the case of an RPI Linked Hedging Agreement) such other index of retail prices as specified in such RPI Linked Hedging Agreement.

“**Revolving Credit Facility**” means any revolving credit facility entered into from time to time by YWS to fund YWS’s working capital requirements.

"**Rights**" means all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents or under the Ancillary Documents and all rights to make demands, bring proceedings or take any other action in respect of such rights.

"**Ring-fenced Proceeds**" means the aggregate of all receipts or recoveries by the Security Trustee pursuant to, or upon enforcement of, any of the Rights relating to the Ring-fenced Security after deducting (to the extent not already deducted or retained prior to such receipt or recovery by the Security Trustee) all sums which the Security Trustee is required under the Finance Documents or by applicable law to pay to any other person before distributing any such receipts or recoveries to any of the Secured Creditors.

"**Ring-fenced Secured Creditor**" means the Security Trustee (in its own capacity and on behalf of the other Ring-fenced Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Bondholders), the Participating YWSF Bond Trustee (in its own capacity and on behalf of the relevant Participating YWSF Bondholders), the Bondholders, the Participating YWSF Bondholders, each Financial Guarantor, each Finance Lessor, the Hedge Counterparties, the Issuer, YWSF, the Account Bank, the Liquidity Facility Agents, the Senior Facilities Agent, the Senior Facilities Arrangers, the Initial Issuing Bank, any Liquidity Facility Arrangers, each Liquidity Facility Provider, the Existing Authorised Credit Providers and each other Authorised Credit Provider, the Cash Manager (other than when the Cash Manager is YWS), the Standstill Cash Manager, each Agent, and any Additional Secured Creditors (other than any Non-Participating YWSF Bond Trustee and any Non-Participating YWSF Bondholders).

"**Ring-fenced Security**" means the security constituted by the Security Documents including any Guarantee or obligation to provide cash collateral or further assurance thereunder, in each case created or provided by a Ring-fenced Chargor.

"**Rolling Average Period**" means, on each Calculation Date, the Test Period ending on 31 March that falls in the same calendar year as that Calculation Date and the next subsequent two consecutive Test Periods, save that, where the test comes to be calculated at a time when information is not available in respect of any forward-looking Test Period (as a result of Ofwat's determination of price limits for a Periodic Review not having been published in draft or final form), then such Rolling Average Period will be the three 12 month periods which run consecutively backwards and/or forwards from such Calculation Date for which such information is available for the last Test Period in such calculation.

"**RPI Linked Hedging Agreements**" means a Hedging Agreement with a Hedge Counterparty in respect of one or more Treasury Transactions to hedge payments to be made by the Issuer, YWSF or, as the case may be, YWS by reference to RPI.

"**RPI Linked Hedging Transaction**" means a Hedging Transaction with a Hedge Counterparty to hedge payments to be made by the Issuer, YWSF or, as the case may be, YWS by reference to RPI.

"**S&P**" means Standard & Poor's Ratings Services or any successor to the rating agency business of S&P.

"**Saltaire Consortium**" means the consortium led by Citi Infrastructure Investors, the Government of Singapore Investment Corporation and the Infracapital Partners LP, and acting through its acquisition vehicle, Saltaire Water Limited.

"**Second Kelda Holdco Loan**" means the £1,047,000,000 intercompany loan agreement between YWS (as lender) and Kelda Holdco Limited dated on the Closing Date, and subsequently novated by Kelda Holdco Limited to Kelda Junior Holdco Limited (as borrower) on 22 December 2014; novated by Kelda Junior Holdco Limited to Kelda Buffer Limited (as borrower) on 22 December 2014; novated by Kelda Buffer Limited to Kelda Non-Reg Holdco Limited (as borrower) on 22 December

2014; novated by Kelda Non-Reg Holdco Limited to Kelda Eurobond Co Limited (as borrower) on 26 March 2015.

"**Secretary of State**" means one of Her Majesty's principal secretaries of state.

"**Section 19 Undertaking**" means an undertaking given by a Regulated Company to secure or facilitate compliance with a licence condition or a relevant statutory or other requirement and which is capable of direct enforcement under the WIA.

"**Secured Creditor**" means each Ring-fenced Secured Creditor and each Shared Secured Creditor.

"**Secured Creditor Representative**" means:

(a) in respect of the Bondholders, the Bond Trustee;

(b) in respect of the Participating YWSF Bondholders, the Participating YWSF Bond Trustee;

(c) in respect of the EIB Authorised Credit Facilities, the EIB;

(d) in respect of the Senior Facilities Arrangers, the Senior Facilities Agent;

(e) in respect of the Issuer/YWS Loan Agreements, the Issuer/YWS Bond Loan Agreements and the YWSF/YWS Loan Agreements, the Security Trustee (on behalf of the Issuer or, as the case may be, YWSF);

(f) in respect of any Liquidity Facility Provider, the Facility Agent under the relevant Liquidity Facility Agreement;

(g) in respect of each of the Hedge Counterparties, the relevant Hedge Counterparty;

(h) in respect of each Class of Non-Participating YWSF Bonds, the Non-Participating YWSF Bond Trustee from and including the relevant Non-Participating YWSF Bond Accession Date (if any);

(i) in respect of each Finance Lessor, the relevant Finance Lessor; and

(j) in respect of any Additional Secured Creditor, the representative of such Additional Secured Creditor (if any) appointed as its Secured Creditor Representative under the terms of the relevant Finance Document and named as such in the relevant Accession Memorandum.

"**Secured Liabilities**" means all liabilities incurred by any Obligor to a Secured Creditor pursuant to the Finance Documents as more particularly described in the Master Definitions Agreement.

"**Securities Act**" means the United States Securities Act of 1933, as amended.

"**Security**" means the Ring-fenced Security and the Shared Security.

"**Security Agreement**" means the deed of charge and guarantee executed in favour of the Security Trustee by each of the Obligors on the Closing Date.

"**Security Assets**" means all property, assets, rights and undertakings the subject of the Security created by the Obligors (in their capacity as chargors) pursuant to any Security Document, together with the Rights relating thereto.

"**Security Documents**" means:

(a) the Security Agreement;

(b) the STID, any deed of accession thereto and any deed supplemental thereto; and

(c) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of any Obligor to a Secured Creditor under the Finance Documents.

(d) "Security Interest" means:

(e) any mortgage, pledge, lien, charge, assignment or hypothecation, or other encumbrance securing any obligation of any person;

(f) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or

(g) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**Security of Supply Index**" means the measure used by Ofwat to assess each Regulated Company's ability to supply customers in dry years without imposing demand restrictions, such as hosepipe bans, and which is subject to a maximum of 100.

"**Security Trustee**" means Deutsche Trustee Company Limited or any successor appointed pursuant to the STID.

"**Senior Adjusted ICR**" means, in respect of a Test Period, the ratio of Net Cash Flow less the aggregate of CCD and IRC during such Test Period to Senior Debt Interest during such Test Period.

"**Senior Average Adjusted ICR**" means the sum of the ratios of Net Cash Flow less the aggregate of CCD and IRC to Senior Debt Interest for each of the Test Periods comprised in a Rolling Average Period divided by three.

"**Senior Debt**" means all Class A Debt and Class B Debt and any other Financial Indebtedness ranking in priority to Subordinated Debt of any member of the YW Financing Group.

"**Senior Debt Interest**" means, in relation to any Test Period, and without double counting, an amount equal to the aggregate of:

(a) all interest, fees or commissions paid, due but unpaid or, in respect of forward-looking ratios, payable, on the YW Financing Group's obligations under or in connection with all Senior Debt, any Permitted Financial Indebtedness which is unsecured and all Non-Participating YWSF Bonds (other than the Exchanged YWSF Bonds and other than any Intra-Group Loans);

(b) all fees paid, due but unpaid or, in respect of forward-looking ratios, payable, to any Financial Guarantor of Wrapped Bonds or, as the case may be, YWSF Wrapped Bonds; and

(c) Adjusted Lease Reserve Amounts or Lease Reserve Amounts paid, due but unpaid or, in respect of forward-looking ratios, payable, on the YW Financing Group's obligations under and in connection with all Senior Debt,

in each case during such Test Period (after taking account of the impact on interest rates of all related Hedging Agreements then in force (excluding, for the purposes of calculating the Senior Adjusted ICR and the Senior Average Adjusted ICR only in respect of any forward looking element of a Test Period, in respect of any Type 2 Hedging Agreement, the impact on interest rates of such Type 2 Hedging Agreement)) (excluding all indexation of principal, amortisation of the costs of issue of any Senior Debt or Non-Participating YWSF Bonds within such Test Period and all other costs incurred in connection with the raising of such Senior Debt or issue of Non-Participating YWSF Bonds) less all interest received or in respect of forward-looking ratios, receivable by any member of the YW Financing Group from a third party during such period (excluding any interest received or receivable by YWS under any Intra-Group Loan or any loan or other forms of Financial Indebtedness to Affiliates).

"**Senior Debt Provider**" means a provider of, or Financial Guarantor of, Senior Debt.

"**Senior Facilities Agent**" means The Royal Bank of Scotland plc or any other entity appointed as Facility Agent under the Senior Facilities Agreement.

"**Senior Facilities Agreement**" means the senior facilities agreement dated 11 October 2011 between, among others, YWS and the Senior Facilities Agreement Providers as arrangers pursuant to which the Senior Facilities Agreement Providers have agreed to make available certain facilities for YWS.

"**Senior Facilities Agreement Providers**" means Abbey National Treasury Services plc (trading as Santander Global Corporate Banking), Barclays Bank PLC, BNP Paribas, London Branch, Commonwealth Bank of Australia, HSBC Bank plc, Lloyds Bank plc and The Royal Bank of Scotland plc.

"**Senior Facilities Arrangers**" means The Royal Bank of Scotland plc, HSBC Bank plc, Santander, S.A., London Branch, or any other entity appointed as facility arranger under the Senior Facilities Agreement.

"**Senior Net Indebtedness**" means, as at any date, the aggregate of the YW Financing Group's nominal debt outstanding (or, in respect of a future date, forecast to be outstanding) on such date under and in connection with any Senior Debt together with all indexation accrued on such liabilities which are indexed;

(a) including:

 (i) accretions by indexation to the notional amount under any RPI Linked Hedging Agreement; and

 (ii) the nominal amount of any Financial Indebtedness pursuant to paragraphs (f) and (g) of the definition of Permitted Financial Indebtedness (excluding the Exchanged YWSF Bonds); and

(b) excluding:

 (i) any un-crystallised mark to market amount relating to any Hedging Agreement; and

 (ii) the Exchanged YWSF Bonds and Financial Indebtedness outstanding under any Intra-Group Loans,

less:

the value of all Authorised Investments and other amounts standing to the credit of any Account (other than any Excluded Accounts and other than an amount equal to the aggregate of any amounts which represent Deferrals of K or Distributions which have been declared but not paid on such date), **provided that**, in each case above, where such debt is denominated other than in pounds sterling, the nominal amount outstanding will be calculated (i) in respect of debt with an associated Currency Hedging Agreement, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreement; and (ii) in respect of debt with no associated Currency Hedging Agreement, by reference to the Exchange Rate on such date.

"**Senior RAR**" means, on any Calculation Date the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period.

"**Series**" means a series of Bonds issued under the Programme on a particular Issue Date, together with any Tranche or Tranches of Bonds which are expressed to be consolidated and form a single Sub-Class with any previously issued Sub-Class.

"**Settlement and Acknowledgement Deed**" means the settlement and acknowledgement deed dated on the Closing Date between, among others, the Security Trustee, the Issuer, YWS, YWSF, and YWH.

"**Sewerage Region**" means the geographical area for which a Regulated Company has been appointed as the sewerage undertaker under Section 6 of the WIA.

"**Share Pledges**" means the pledges dated on the Closing Date or the date of accession of the Issuer (as applicable), in favour of the Security Trustee, over the shares in YWS and the Issuer. "Share Pledge" means any one of them.

"**Shared Proceeds**" means the aggregate of all receipts or recoveries by the Security Trustee pursuant to, or upon enforcement of, any of the Rights relating to the Shared Security after deducting (to the extent not already deducted or retained prior to such receipt or recovery by the Security Trustee) all sums which the Security Trustee is required under the Finance Documents or by applicable law to pay to any other person before distributing any such receipts or recoveries to any of the Secured Creditors.

"**Shared Secured Creditor**" means the Security Trustee (in its own capacity and on behalf of the other Shared Secured Creditors), the Bond Trustee (in its own capacity and on behalf of the Bondholders), the Participating YWSF Bond Trustee (in its own capacity and on behalf of the relevant Participating YWSF Bondholders), the Bondholders, the Participating YWSF Bondholders, the Non-Participating YWSF Bond Trustee (in its own capacity and on behalf of the relevant Non-Participating YWSF Bondholders), the Non-Participating YWSF Bondholders, each Financial Guarantor, each Finance Lessor, the Hedge Counterparties, the Issuer, YWSF, the Account Bank, the Liquidity Facility Agents, the Senior Facilities Agent, the Senior Facilities Arrangers, the Initial Issuing Bank, any Liquidity Facility Arrangers, each Liquidity Facility Provider, the Existing Authorised Credit Providers and each other Authorised Credit Provider, the Cash Manager (other than when the Cash Manager is YWS), the Standstill Cash Manager, each Agent, and any Additional Secured Creditors.

"**Shared Security**" means the security constituted by the Security Documents including any Guarantee or obligation to provide cash collateral or further assurance thereunder, in each case created or provided by a Shared Chargor.

"**Substantial Effects Clause**" means a clause which may be contained in the Instrument of Appointment of a Regulated Company and which in the case of YWS is contained in Part IV of Instrument of Appointment Condition B, pursuant to which the Regulated Company may, if so permitted by the conditions of its Instrument of Appointment, request price limits to be reset if the Appointed Business either (i) suffers a substantial adverse effect which could not have been avoided by prudent management action or (ii) enjoys a substantial favourable effect which is fortuitous and not attributable to prudent management action.

"**Shortfall Paragraph**" means, to the extent that (after payment of all relevant operating expenditure) there is a shortfall of forecast revenues, the relevant sub-paragraph of the Payment Priorities in relation to which the revenue that is forecast to be available is insufficient to meet all of the payments in such sub-paragraph.

"**Special Administration**" means the insolvency process specific to Regulated Companies under Sections 23 to 26 of the WIA.

"**Special Administration Order**" means an order of the High Court under Sections 23 to 25 of the WIA under the insolvency process specific to Regulated Companies.

"**Special Administration Petition Period**" means the period beginning with the presentation of the petition for Special Administration under Section 24 of the WIA and ending with the making of a Special Administration Order or the dismissal of the petition.

"**Special Administrator**" means the person appointed by the High Court under Sections 23 to 25 of the WIA to manage the affairs, business and property of the Regulated Company during the period in which the Special Administration Order is in force.

"**Standard & Poor's**" or "**S&P**" means S&P Global Ratings Europe Limited or any successor to the rating business of S&P Global Ratings Europe Limited.

"**Standby Drawing**" means a drawing made under a Liquidity Facility Agreement as a result of a downgrade of a Liquidity Facility Provider below the Minimum Short-Term Rating or in the event that the Liquidity Facility Provider fails to renew its commitment on the expiry of the term of such Liquidity Facility Agreement.

"**Standstill**" means, as provided for in Clause 13.1 (*Commencement of Standstill*) of the STID, a standstill of claims of the Secured Creditors against YWS and the Issuer immediately upon notification to the Security Trustee of the occurrence of an Event of Default.

"**Standstill Cash Manager**" means The Royal Bank of Scotland plc in its capacity as Standstill Cash Manager under the CTA, or any successor Standstill Cash Manager appointed in accordance with the terms of the CTA.

"**Standstill Event**" means an event giving rise to a Standstill in accordance with the STID.

"**Standstill Extension**" means any of the periods for which a Standstill Period is extended under Clause 13.5 (*Extension of Standstill*) of the STID.

"**Standstill Period**" means a period during which a standstill arrangement is subsisting, commencing on the date as determined by Clause 13.1 (*Commencement of Standstill*) of the STID and ending on the date as determined by Clause 13.4 (*Termination of Standstill*) of the STID.

"**Statutory Accounts**" means the statutory accounts which YWS is required to prepare in compliance with the Companies Act.

"**STID**" means the security trust and intercreditor deed entered into on the Closing Date (as amended, supplemented or restated from time to time) between, among others, the Security Trustee, the Obligors, the Bond Trustee and the Participating YWSF Bond Trustee.

"**STID Directions Request**" means a written notice of each STID Proposal sent by the Security Trustee to the Secured Creditors or their DIG Representatives and requesting directions from the relevant Secured Creditors in accordance with the STID.

"**STID Direct Voting Matter**" means, other than in respect of Entrenched Rights and Reserved Matters of the Bondholders, the Participating YWSF Bondholders or, as the case may be, the Non-Participating YWSF Bondholders and provided that (other than in respect of paragraphs (c) and (d) below) a Default Situation is not subsisting and subject to the terms of the STID, each of the following:

(a) a STID Proposal and its accompanying STID Directions Request;

(b) a DIG Proposal and its accompanying DIG Directions Request (other than in respect of Clause 9.6.1(ii) of the STID);

(c) a STID Proposal and its accompanying STID Directions Request in respect of which the relevant Proposer has made a statement pursuant to Clause 9.2.5 (*Minimum Content of STID*

Proposal) of the STID in respect of its intention to utilise the Emergency Instruction Procedure in relation thereto; and

(d) a DIG Proposal and its accompanying DIG Directions Request in respect of which the relevant Proposer has made a statement pursuant to Clause 9.6.1 (*DIG Directions Request*) of the STID in respect of its intention to utilise the Emergency Instruction Procedure in relation thereto.

"**STID Matter**" means a STID Proposal, a STID Directions Request, a DIG Proposal, a DIG Directions Request and an Emergency Instruction Notice.

"**STID Proposal**" means a proposal or request made by any Secured Creditor or its Secured Creditor Representative or any Obligor in accordance with the STID proposing or requesting the Security Trustee: to change, modify or waive any term or condition of any Finance Document; to substitute the Issuer; or to take any Enforcement Action or any other action in respect of the transactions contemplated by the Finance Documents; or to make any determination or exercise any right or discretion (or the manner of such making or exercise) which the Security Trustee is entitled to make or exercise and which the Security Trustee is not willing to make or exercise without the prior approval of the Majority Creditors, as defined more particularly in the STID.

"**Stock Exchange**" means the London Stock Exchange on which any Bonds may from time to time be listed, and references in this Prospectus to the "relevant Stock Exchange" shall, in relation to any Bonds, be references to the Stock Exchange on which such Bonds are, from time to time, or are intended to be, listed.

"**Sub-Class**" means a division of a Class.

"**Subordinated Authorised Loan Amounts**" means, in relation to any Authorised Credit Facility, the aggregate of any amounts payable by the Issuer, YWSF or YWS to the relevant Authorised Credit Provider on an accelerated basis as a result of illegality (excluding accrued interest, principal and recurring fees and commissions) on the part of the Authorised Credit Provider or any other amounts not referred to in any other paragraph of the Payment Priorities.

"**Subordinated Class**" means:

(a) in the case of the Bondholders, any Class of Bonds in respect of which Independent Enforcement Action has been taken;

(b) in the case of the Participating YWSF Bondholders, any Class of Participating YWSF Bonds in respect of which Independent Enforcement Action has been taken; and

(c) in the case of the Non-Participating YWSF Bondholders, any Class of Non-Participating YWSF Bonds in respect of which Independent Enforcement Action has been taken.

"**Subordinated Creditor**" means any credit provider in respect of Subordinated Debt where such credit provider has acceded to the CTA and the STID in such capacity.

"**Subordinated Debt**" means any Financial Indebtedness (other than Financial Indebtedness falling within paragraphs (f) or (g) of the definition of Permitted Financial Indebtedness) that is fully subordinated, in a manner satisfactory to the Security Trustee, to the Senior Debt and where the relevant Subordinated Creditor has acceded to the CTA and the STID.

"**Subordinated Liquidity Facility Amounts**" means, in relation to any Liquidity Facility:

(a) the amount by which the amount of interest accruing at the Mandatory Cost Rate at any time exceeds the Mandatory Cost Rate on the date of the relevant Liquidity Facility Agreement; and

(b) the aggregate of any amounts payable by the Issuer or YWSF to the relevant Liquidity Facility Provider in respect of its obligation to gross up any payments made by it in respect of such Liquidity Facility or to make any payment of increased costs to such Liquidity Facility Provider (other than any such increased costs in respect of regulatory changes relating to capital adequacy requirements applicable to such Liquidity Facility Provider) or to amounts payable on an accelerated basis as a result of illegality (excluding accrued interest, principal and recurring fees and commissions) on the part of such Liquidity Facility Provider, or any other amounts not referred to in any other paragraph of the Payment Priorities.

"**Subordinated Secured Creditor**" means any Secured Creditor (other than the Security Trustee, the Bond Trustee, the Participating YWSF Bond Trustee and the Non-Participating YWSF Bond Trustee) which takes Independent Enforcement Action provided that:

(a) the Bondholders shall only be Subordinated Secured Creditors in respect of any Class of Bonds in respect of which Independent Enforcement Action has been taken;

(b) the Participating YWSF Bondholders shall only be Subordinated Secured Creditors in respect of any Class of Participating YWSF Bonds in respect of which Independent Enforcement Action has been taken; and

(c) the Non-Participating YWSF Bondholders shall only be Subordinated Secured Creditors in respect of any Class of Non-Participating YWSF Bonds in respect of which Independent Enforcement Action has been taken.

"**Subordinated Step-up Fee Amounts**" means, in the case of Fixed Rate Bonds or Indexed Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms or Drawdown Prospectus to be payable on such Bonds in excess of the initial margin as at the date on which such Bonds were issued and, in the case of Floating Rate Bonds, any amounts (other than deferred interest) of step-up fee at the rate specified in the relevant Final Terms or Drawdown Prospectus to be payable on such Bonds in excess of the initial margin on the Coupon on such Bonds as at the date on which such Bonds were issued.

"**Subscription Agreement**" means an agreement supplemental to the Dealership Agreement (by whatever name called) substantially in the form set out in Schedule 6 (*Pro Forma Subscription Agreement*) to the Dealership Agreement or in such other form as may be agreed between, among others, the Issuer and the Lead Manager or one or more Dealers (as the case may be).

"**Subsidiary**" means:

(a) a subsidiary within the meaning of section 736 of the Companies Act 1985; and

(b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 258 of the Companies Act.

"**Successor**" means, in relation to the Principal Paying Agent, the other Paying Agents, the Registrar, the Transfer Agent, the Agent Bank and the Calculation Agent, any successor to any one or more of them in relation to the Bonds which shall become such pursuant to the provisions of the Bond Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agents, agent bank and calculation agent (as the case may be) in relation to the Bonds as may (with the prior approval of, and on terms previously approved by, the Bond Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as the office(s) for which it is substituted) as may from time to time be nominated, in each case by the Issuer and the Obligors, and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Bondholders.

"**Super-Senior Interest Rate Hedging Agreement**" means certain Hedging Agreements and each other Hedging Agreement designated as such in the relevant Accession Memorandum to the STID.

"**Super-Senior RPI Linked Hedging Agreement**" means each RPI Linked Hedging Agreement which is a Super Senior Interest Rate Hedging Agreement.

"**Swap Collateral Account**" means an account of YWS, YWSF, the Issuer, as the case may be, into which any collateral provided by a Hedge Counterparty shall be deposited upon the relevant trigger occurring for the provision of such collateral under the terms of the applicable Hedging Agreement.

"**Talonholders**" means the several persons who are for the time being holders of the Talons.

"**Talons**" means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons or Receipts, as the case may be, appertaining to, the Definitive Bearer Bonds and includes any replacements for Talons issued pursuant to Condition 14 (*Replacement of Bonds, Receipts, Coupons and Talons*).

"**TARGET Settlement Day**" has the meaning given to such term in Condition 6(l) (*Definitions*).

"**TARGET 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.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest) and "Taxes", "taxation", "taxable" and comparable expressions will be construed accordingly.

"**Tax Deed of Covenant**" means the deed of covenant to be entered into on the Closing Date by, among others, the Security Trustee, KGL and the Obligors.

"**Temporary Global Bond**" means, in relation to any Sub-Class of Bearer Bonds, a temporary global bond in the form or substantially in the form set out in Schedule 2 *(Forms of Global and Definitive Bearer Bonds, Receipts, Coupons and Tables)*, Part A *(Form of Temporary Global Bond)* to the Bond Trust Deed together with the copy of the applicable Final Terms or Drawdown Prospectus (as applicable) annexed thereto, with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Bond Trustee and the relevant Dealer(s), comprising some or all of the Bearer Bonds of the same Tranche, issued by the Issuer pursuant to the Dealership Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Agency Agreement and the Bond Trust Deed.

"**Test Period**" means:

(a) the period of 12 months ending on 31 March in the then current year;

(b) the period of 12 months starting on 1 April in the same year;

(c) each subsequent 12 month period up to the Date Prior; or

(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 from 1 April 2010, and interest shall be annualised on the basis of the interest charge from the Closing Date to 31 March 2010.

"**Tranche**" means all Bonds which are identical in all respects save for the Issue Date, Interest Commencement Date and Issue Price.

"**Transaction Account**" means the accounts of each of the Issuer and YWSF entitled the "Transaction Account" held at the Account Bank and includes any sub-account relating to that account and any replacement from time to time.

"**Transaction Documents**" means:

(a) a Finance Document;

(b) a Material Capex Contract or a Material Outsourcing Agreement; and

(c) any other document designated as such by the Security Trustee and the Issuer.

"**Transfer Agent**" means Deutsche Bank Luxembourg S.A. under the Agency Agreement, including any Successor thereto.

"**Transfer Scheme**" means a transfer scheme under Schedule 2 of the WIA.

"**Treasury Transaction**" means any currency or interest rate purchase, cap or collar agreement, forward rate agreement, interest rate agreement, interest rate or currency or future or option contract, foreign exchange or currency purchase or sale agreement, interest rate swap, index-linked swap, currency swap or combined similar agreement or any derivative transaction protecting against or benefiting from fluctuations in any rate, index or price.

"**Trigger Event**" means any of the events or circumstances identified as such in Chapter 7 "*Overview of the Financing Agreements*" under "*Trigger Events*".

"**Trigger Event Ratio Levels**" means the financial ratio levels set out in paragraph (i) (*Financial Ratios*) under "*Trigger Events*" in Chapter 7 "*Overview of the Financing Agreements*".

"**Type 2 Hedging Agreement**" means certain Hedging Agreement in respect of which the relevant Treasury Transaction or Treasury Transactions will terminate prior to the tenth anniversary of the original effective date of such Treasury Transaction pursuant to the mandatory termination provisions contained therein (as may be amended from time to time) pursuant to the STID **provided that**, such Hedging Agreement will cease to be a Type 2 Hedging Agreement if the mandatory termination provisions are amended pursuant to Paragraph 9(c) of the Hedging Policy such that the relevant Treasury Transaction or Treasury Transactions will terminate pursuant to such provisions on or after the tenth anniversary of the original effective date of such Treasury Transaction.

"**UK**" means the United Kingdom.

"**UK Listing Authority**" or "UKLA" means the Financial Conduct Authority under Part VI of the FSMA.

"**Unwrapped Bondholders**" means the holders for the time being of the Unwrapped Bonds and "**Unwrapped Bondholder**" shall be construed accordingly.

"**Unwrapped Bonds**" means Bonds that do not have the benefit of a Financial Guarantee.

"**Unwrapped Debt**" means Senior Debt that does not have the benefit of a Financial Guarantee.

"**U.S.**" means the United States of America.

"**UWWTD**" means the Urban Waste Water Treatment Directive (91/271/EEC).

"**Variances**" means a numerical addition to the amount of Capital Expenditure assumed by Ofwat in the last Periodic Review in respect of which YWS provides to the Security Trustee (but not, necessarily, addressed to the Security Trustee) a written confirmation from Ofwat (including as described in the definition of Recognised Ofwat Mechanism) that such variance will (subject to any terms or conditions contained in such confirmation) be added to RCV by no later than the Periodic Review Effective Date (including by way of a Recognised Ofwat Mechanism), and **provided that**, if such variance is not added to the RCV in full by such Periodic Review Effective Date (including by way of a Recognised Ofwat Mechanism), or if prior to such date YWS is notified in writing by Ofwat that such variance will not be added to the RCV in full as part of the Final Determination on such Periodic Review Effective Date, the variance shall be reversed to the extent of such non-allowance and shall not be an allowable adjustment for the purposes of paragraph 3 (*Material Deviation in Projections*) of Part 1 (*Trigger Events*) of Schedule 5 (*Trigger Events*) to the CTA.

"**VAT**" (a) in respect of any Finance Lease Document, has the meaning given thereto in such Finance Lease Document; and (b) otherwise, means value added tax as imposed by the Value Added Tax Act 1994 and legislation supplemental thereof and other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of, or in addition to, VAT) or elsewhere.

"**Voted Qualifying Class A Debt**" means the aggregate Outstanding Principal Amount of Qualifying Class A Debt voted by the Class A DIG Representatives in accordance with the applicable provisions of the STID as part of the Class A DIG.

"**Voted Qualifying Class B Debt**" means the aggregate Outstanding Principal Amount of Qualifying Class B Debt voted by the Class B DIG Representatives in accordance with the applicable provisions of the STID as part of the Class B DIG.

"**Water Framework Directive**" means European Council Directive 2000/60/EC.

"**Water Region**" means the geographical area for which a Regulated Company has been appointed as water undertaker under Section 6 of the WIA.

"**Water White Paper**" means the white paper "Water for Life", published by the Government on 8 December 2011.

"**WIA**" means the United Kingdom Water Industry Act 1991, as amended by subsequent legislation, including the Competition and Service (Utilities) Act 1992, the Water Industry Act 1999, the Water Act 2003 and the Water Act 2014.

"**WRA**" means the United Kingdom Water Resources Act 1991, as amended by subsequent legislation including the United Kingdom Environment Act 1995.

"**Wrapped Bondholders**" means the holders for the time being of the Wrapped Bonds, and "Wrapped Bondholder" shall be construed accordingly.

"**Wrapped Bonds**" means the Bonds that have the benefit of a Financial Guarantee.

"**WSRA**" means the Water Services Regulation Authority (WSRA, and otherwise known as Ofwat), the economic regulator of the water and sewerage industry in England and Wales and any relevant successor bodies to the Water Services Regulation Authority.

"**YW Financing Group**" means YWH, YWSF, YWS, the Issuer and any other Permitted Subsidiaries.

"**YWH**" means Yorkshire Water Services Holdings Limited a company incorporated in England and Wales (registered number 6815156).

"**YWH Change of Control**" means: (a) any person which previously had Control of YWH ceases to have Control of YWH or (b) any person which did not previously have Control of YWH acquiring Control of YWH, in each case of which the Obligor has actual knowledge **provided that** any change of Control of any person controlling KGL shall not constitute a YWH Change of Control.

"**YWS**" means Yorkshire Water Services Limited, a company incorporated in England and Wales (registered number 2366682).

"**YWS Business Financial Model**" means the latest business financial model prepared by YWS and delivered to the Security Trustee from time to time.

"**YWS Change of Control**" means the occurrence of any of the following events or circumstances:

(a) YWH ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, YWS, in each case directly or indirectly; or

(b) YWS ceasing to hold legally and beneficially all rights in 100 per cent. of the issued share capital of, or otherwise ceasing to Control, the Issuer or YWSF.

"**YWS VAT Group**" means the VAT group registration with registration number GB 500555780 comprising with effect from 1 November 2009, YWS and YWSF and which may be extended to include the Issuer, YWH and any additional Permitted Subsidiary, of which YWS is the representative member.

"**YWSF Bond Trust Deeds**" means the bond trust deeds in relation to the YWSF Bonds, namely:

(a) the trust deed in respect of the 2037 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 29 May 2007 as amended and supplemented from time to time;

(b) the trust deed in respect of the 2051 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 16 November 2006 as amended and supplemented from time to time;

(c) the trust deed in respect of the 2056 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 15 November 2006 as amended and supplemented from time to time;

(d) the trust deed in respect of the 2033 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 21 February 2003 as amended and supplemented from time to time;

(e) the trust deed in respect of the 2023 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 21 February 2003 as amended and supplemented from time to time;

(f) the trust deed in respect of the 2027 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 29 May 2007 as amended and supplemented from time to time;

(g) the trust deed in respect of the 2058 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 11 June 2007 as amended and supplemented from time to time;

(h) the trust deed in respect of the 2050 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 11 June 2007 as amended and supplemented from time to time;

(i) the trust deed in respect of the 2054 Bonds between YWSF, YWS and the Law Debenture Trust Corporation plc dated 1 June 2007 as amended and supplemented from time to time;

(j) the trust deed in respect of the 2010 Bonds between YWSF, Kelda Group Limited (formerly Kelda Group plc, as original issuer), YWS and the Law Debenture Trust Corporation plc dated 3 July 2008 as amended and supplemented from time to time; and

(k) the trust deed in respect of 2031 Bonds between YWSF, Kelda Group Limited (formerly Kelda Group plc, as original issuer), YWS and the Law Debenture Trust Corporation plc dated 3 July 2008 as amended and supplemented from time to time.

"**YWSF Bonds**" means the following bonds issued by YWSF pursuant to the YWSF Bond Trust Deeds:

(a) £200,000,000 5.125 per cent. guaranteed bonds due 2037 (wrapped by Financial Security Assurance (UK) Limited) issued by YWSF and guaranteed by YWS (the "2037 Bonds");

(b) £125,000,000 1.462 per cent. guaranteed retail price index-linked bonds due 2051 issued by YWSF and guaranteed by YWS (the "2051 Bonds");

(c) £125,000,000 1.460 per cent. guaranteed retail price index-linked bonds due 2056 issued by YWSF and guaranteed by YWS (the "2056 Bonds");

(d) £100,000,000 3.048 per cent. guaranteed retail price index-linked bonds due 2033 issued by YWSF and guaranteed by YWS (the "2033 Bonds");

(e) £200,000,000 5.375 per cent. guaranteed bonds due 2023 issued by YWSF and guaranteed by YWS (the "2023 Bonds");

(f) £150,000,000 5.5 per cent. guaranteed bonds due 2027 issued by YWSF and guaranteed by YWS (the "2027 Bonds");

(g) £100,000,000 1.7085 per cent. guaranteed retail price index-linked bonds due 2058 issued by YWSF and guaranteed by YWS (the "2058 Bonds");

(h) £65,000,000 1.8225 per cent. guaranteed retail price index-linked bonds due 2050 issued by YWSF and guaranteed by YWS (the "2050 Bonds");

(i) £85,000,000 1.75756 per cent. guaranteed retail price index-linked bonds due 2054 issued by YWSF and guaranteed by YWS (the "2054 Bonds");

(j) £200,000,000 6.875 per cent. guaranteed bonds due 2010 originally issued by Kelda Group Limited (formerly Kelda Group plc) and, in respect of which, YWSF was substituted as issuer on 3 July 2008 and guaranteed by YWS (the "2010 Bonds"); and

(k) £240,000,000 6.625 per cent. guaranteed bonds due 2031 originally issued by Kelda Group Limited (formerly Kelda Group plc) and, in respect of which, YWSF was substituted as issuer on 3 July 2008 and guaranteed by YWS (the "2031 Bonds"),

and in each case includes, where the context permits, the coupons in respect of those bonds.

"**YWSF DSR Proportion**" means a proportion of the Class A Required Balance attributable to YWSF calculated on a *pro rata* basis according to the Outstanding Principal Amount of (i) the Issuer's Class A Debt; and (ii) YWSF's Class A Debt.

"**YWSF Financial Guarantee**" means the Financial Guarantee granted by the YWSF Financial Guarantor in respect of the YWSF Wrapped Bonds.

"**YWSF Financial Guarantor**" means, from and including the date upon which the 2037 Bonds become Participating YWSF Bonds and **provided that** the YWSF Financial Guarantor is party to or accedes to the STID and the CTA, Financial Security Assurance (UK) Limited.

"**YWSF Paying Agent**" means the paying agent appointed by YWSF from time to time in respect of the Participating YWSF Bonds.

"**YWSF Unwrapped Bonds**" means the Participating YWSF Bonds other than the YWSF Wrapped Bonds.

"**YWSF Wrapped Bonds**" means the 2037 Bonds from and including the date upon which the 2037 Bonds become Participating YWSF Bonds and for so long as the YWSF Financial Guarantee subsists in relation thereto.

"**YWSF/YWS Loan Agreement**" means any loan agreement entered into between YWSF as lender and YWS as borrower, including the Initial YWSF/YWS Loan Agreement.

INDEX OF DEFINED TERMS

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Halifax Road
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London EC2N 2DB

PRINCIPAL PAYING AGENT AND AGENT BANK

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London EC2N 2DB

REGISTRAR AND TRANSFER AGENT

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