



Thames Water Utilities Limited

Investor Update

21 April 2010





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Management Team



<p>Chairman Sir Peter Mason</p>		<p>Sir Peter became Chairman in December 2006, bringing extensive experience in construction and complex capital investment businesses. He retired as CEO of AMEC plc in September 2006 and previously was Chairman and CEO of Balfour Beatty Limited. Sir Peter is currently a non-executive director of BAE Systems.</p>
<p>CEO Martin Baggs</p>		<p>Martin became Chief Executive Officer at Thames Water on 30 November 2009, having served as a non-executive director of Thames Water Utilities since December 2006. Before this he was Managing Director at South East Water Limited, managing the divestiture of the company from the Macquarie Capital Funds (Europe) Limited. Prior to that Martin served as Operations and Assets Director at Southern Water.</p>
<p>CFO Mark Braithwaite</p>		<p>Mark joined Thames in August 2007 as CFO. He was previously Finance Director - Customer and Energy Divisions at EDF Energy, and previously held the position of Group Financial Controller at EDF Energy after its integration of Seeboard, London Electric and SWEB and Group Financial Controller & Treasurer at Seeboard plc. Mark has considerable experience in utilities and capital markets.</p>
<p>COO Steve Shine</p>		<p>Steve joined Thames in January 2007 as COO, having previously held the position of CEO at SGB UK, a position occupied since 2003. Prior to this, Steve was Managing Director of 24Seven Utility Services, leading business transformation, operational excellence, regulatory targets and financial results for the Electricity distribution business.</p>

Extensive capital investment and regulated utility experience

Credit Rating Update

S&P upgrade to A-



- Following the strong and consistent performance of the business the following rating actions were very recently taken by Standard & Poor's and Moody's Investor Services

Standard & Poor's

- **Upgrade from 'BBB+' to 'A-'** long-term rating on the Class A bonds issued by Thames Water Utilities Cayman Finance Ltd (TWUCF) and Thames Water Utilities Finance Ltd (TWUF) reflecting the underlying credit quality of Thames Water Utilities Ltd (TWUL)

Moody's Investor Services

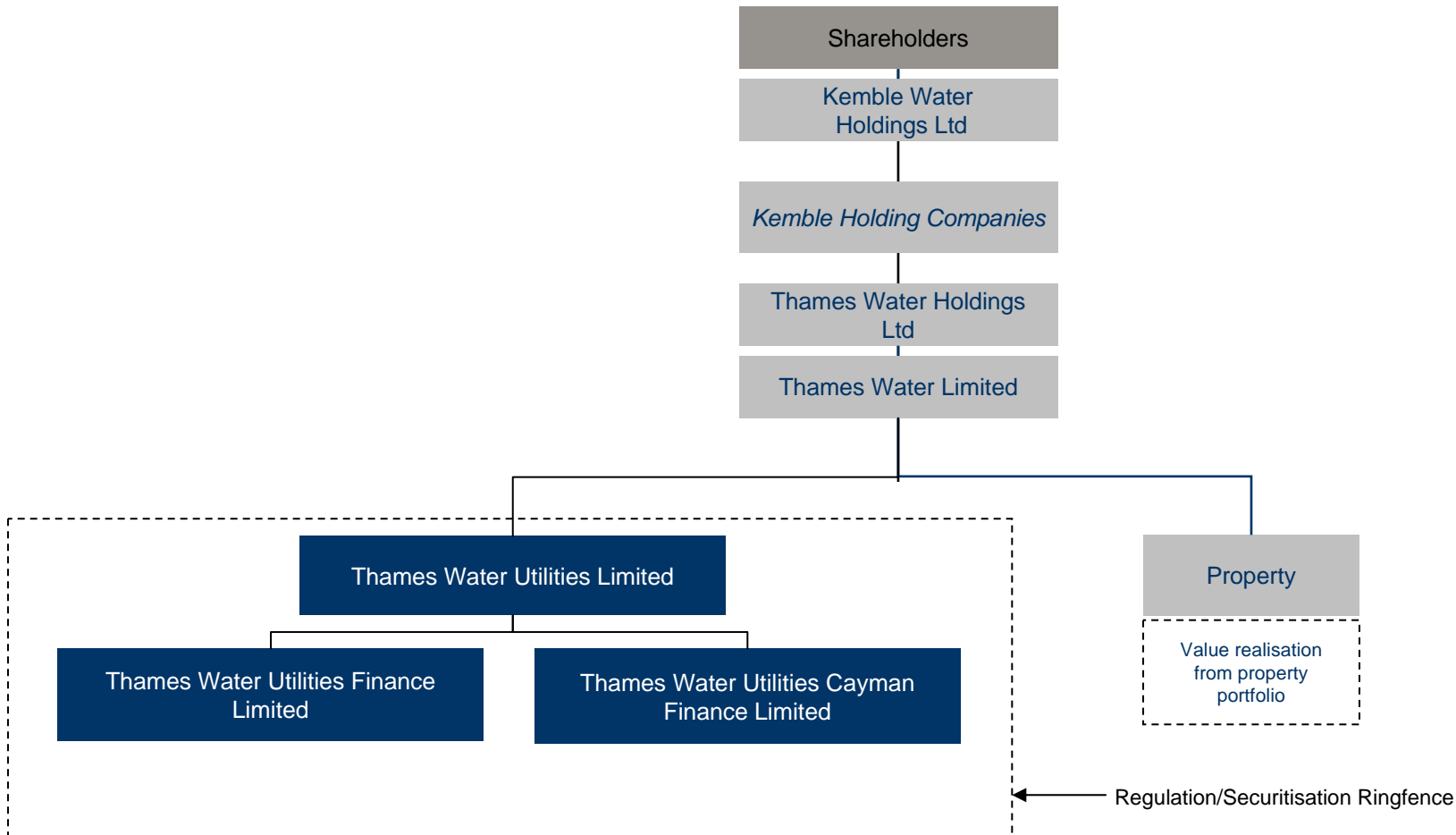
- Ratings held firm and confirmed
 - “Corporate family” rating of Baa1 with a stable outlook
 - Issued bond rating of A3 with a stable outlook

“Upgrade reflects robust improvement in regulatory and operational performance”

Business Structure



The Thames Water group of companies was acquired by the Kemble Water consortium in December 2006, the Kemble consortium comprises long-term infrastructure investors, led by the Macquarie Group.



Agenda



1. Introduction and Business Strategy
2. Delivery of Regulatory Contract
3. Final Determination Outcome
4. Delivery of Internal Business Plan
5. Financing the Business

Introduction



- The final year of AMP 4 was another highly successful year delivering best-ever operational performance and solid financial performance
- Company delivered on its commitment to meet AMP 4 targets
- AMP 5 Final Determination accepted after considerable analysis, review and development of our Internal Business Plan
- Our clear, robust and credible Internal Business Plan is fully supported by our shareholders
- Partnership approach with Ofwat to ensure efficient financing and delivery of Thames Tideway
- Working with Government and regulators to address future shape of the industry

Building on outstanding AMP 4 performance, continued focus on efficient delivery of the regulatory outputs

A Delivered Business Strategy



- Strong, clear focus on efficient delivery of the AMP4 regulatory contract
 - There was an overriding focus on delivery of regulatory outputs and building the Ofwat relationship ***All targets achieved with Thames significantly improving its ranking in the performance league tables***
 - Particular focus on SoSI, leakage, wastewater quality and customer service ***Best ever standards consistently achieved for leakage, sewage treatment works compliance, properties at risk of low pressure and industry leading water quality***
 - Build public confidence and trust in the Company ***Neutral / positive headlines replacing the headlines of yesteryear come rain, shine or heavy snow***
- Management discipline in delivery of operating and capital cost efficiencies ***Business structure supported by new initiatives delivered the promised efficiencies and financial results***
- Focus on regulated business following exit from Commercial and International businesses ***Non core businesses divested***
- Completion of Whole Business Securitisation ***Completed in October 2007 with business operating successfully ever since***

2006-2010 the management team has delivered the business strategy 8

2010-2015 Business Strategy



- Delivery of AMP5 – development of Internal Business Plan and business strategy review
- Business Strategy review
 - **Operational excellence** – doing what we do now better
 - **Sustainability** – sustaining financial performance supporting future investment and keeping and attracting talented staff
 - **Stakeholder engagement** – working effectively with all stakeholders
 - **Customer experience** – better delivery of our service
 - **Growth** – leverage off our assets and core capabilities

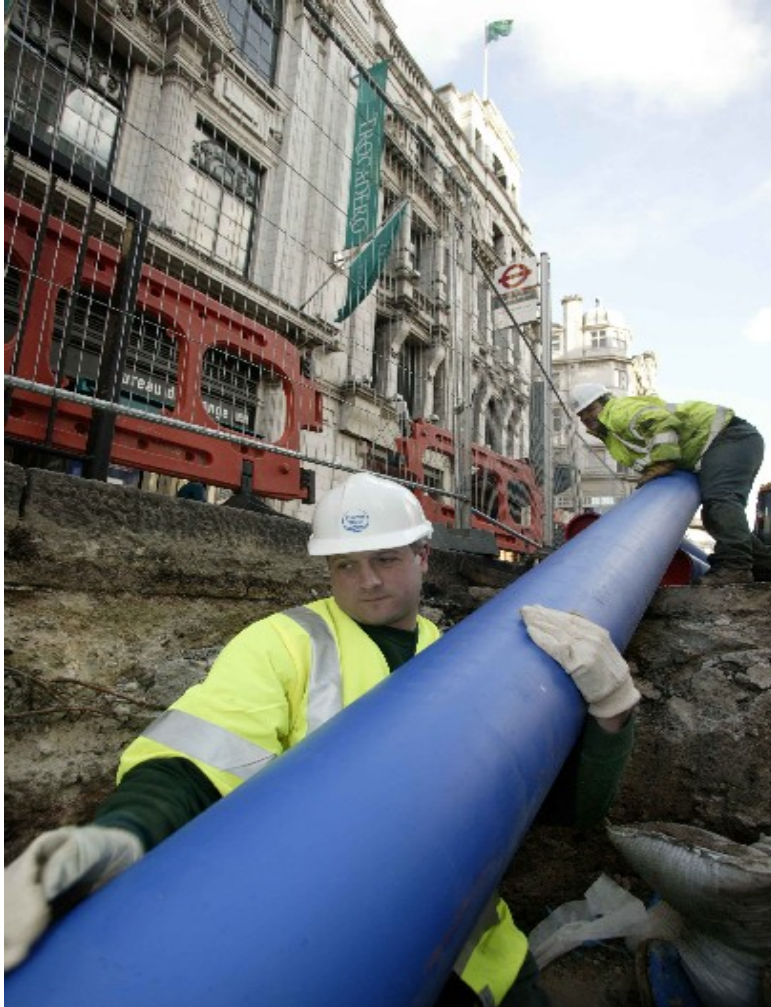
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Delivery of Regulatory Contract – AMP4

Operational Highlights



- All material operational and regulatory targets successfully delivered for second successive year and on track for a third year
- Leakage target achieved for third year running despite coldest winter in 30-years and again on target for a fourth year
- Stable or improving serviceability in all four areas
- Continue to be best WaSC in industry in terms of water quality and compliance

Delivery of Regulatory Contract – AMP4

Operational Highlights



- Overall Performance Assessment (OPA): 406 points achieved last year, an improvement of 9 points from previous year and best ever score
- Forecasts for 2009/10 OPA show even further improvement
- Continuing compliance at all 349 of our sewage treatment works
- Health & Safety accident and injury rate continues to be one of the best in the industry

Delivery of Regulatory Contract

Current Performance



Issue	2006 / 07	2007 / 08	2008/09	2009 / 10		
				Target	Forecast	Assessment
General						
■ Leakage	✓	✓	✓	685 MI / d	666 MI / d	✓
■ Security of Supply Index	✓	✓	✓	85	100	✓
■ OPA	✗	✓	✓	387.7	415	✓
■ Length of Mains Renewed (VMR)	✓	✓	✓	367 Km	376 Km	✓
■ Drinking Water Quality	✓	✓	✓	99.93%	99.95%	✓
Asset Serviceability						
■ Water Infra Serviceability	✓	✓	✓	S	S	✓
■ Wastewater Infra Serviceability	✓	✓	✓	S	S	✓
■ Water Non-infra Serviceability	✓	✓	✓	S	S	✓
■ Wastewater Non-infra Serviceability	✗	✗	✓	S	S	✓

Good results

- Leakage targets met
- Security of supply index target on track
- VMR on track (mains renewed)
- All asset categories stable
- Drinking water quality ahead of target
- Best ever OPA score for the company

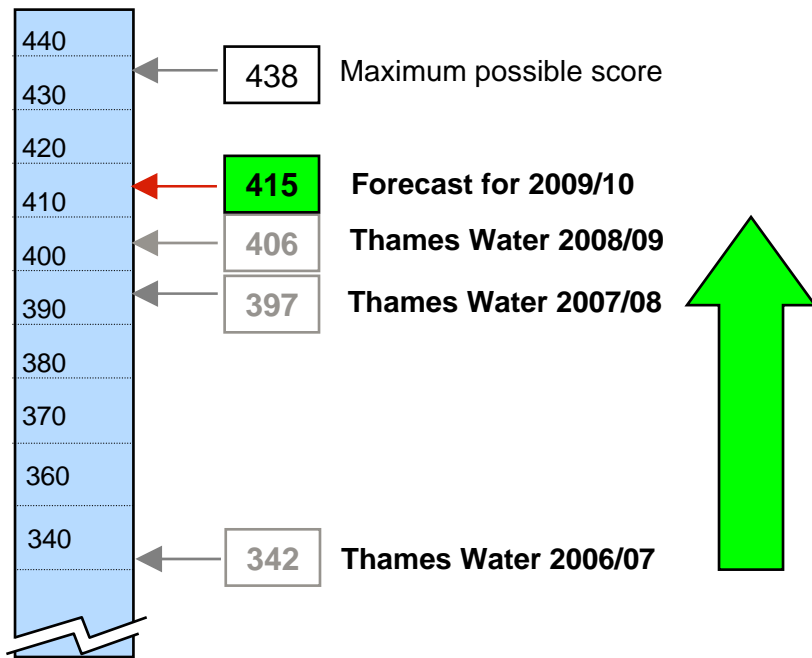
Continued improvement in all key area

Delivery of Regulatory Contract – AMP4

OPA



Overall Performance Assessment (OPA)



- OPA rankings provide incentives to water companies to improve services by linking performance to prices
- Thames has achieved a best ever performance in a number of key areas contributing to this impressive improvement:
 - Leakage
 - Drinking Water Quality
 - Sewage works compliance
 - Properties at risk of low pressure
 - Interruptions to supply
 - Customer contact performance

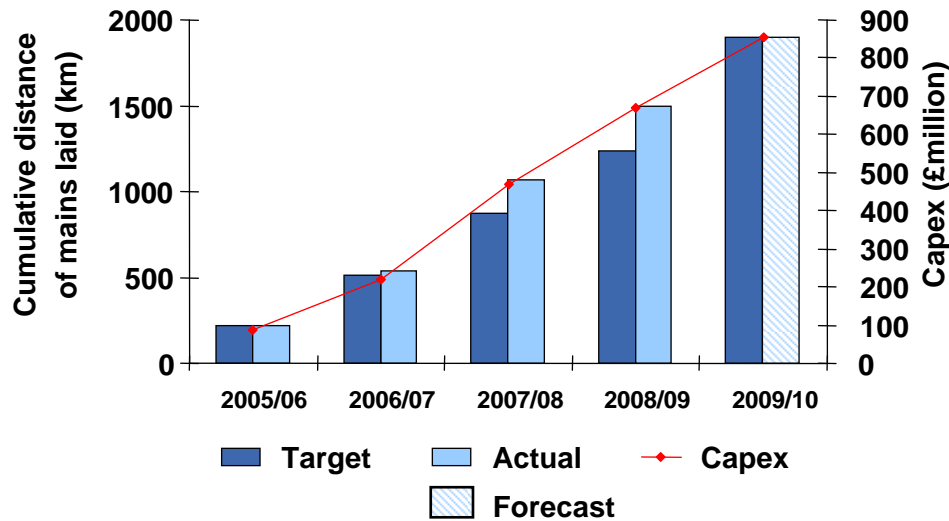
OPA for 2008/09 sets a best ever for the company and further improvement is forecast for 2009/10

Delivery of Regulatory Contract – AMP4

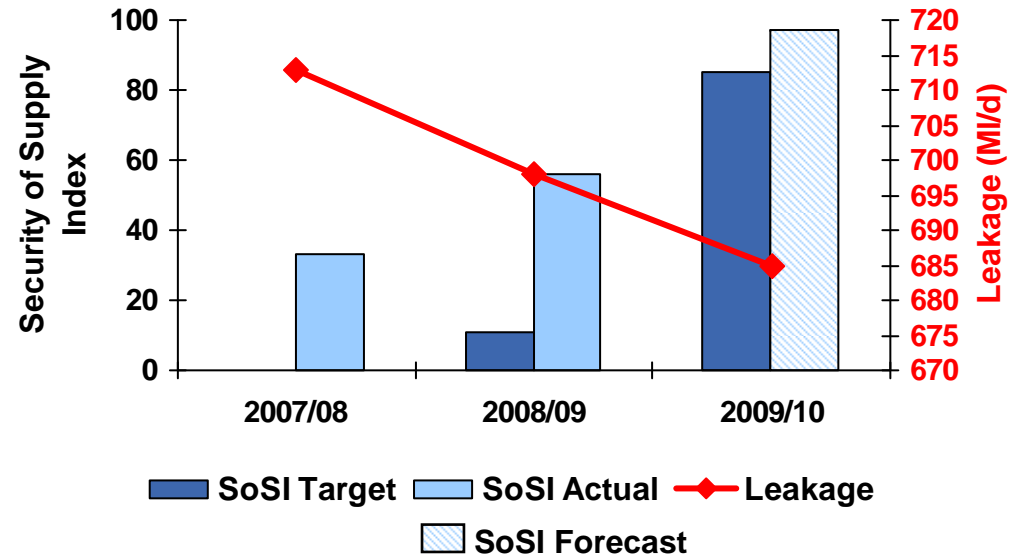
Security of Supply and Leakage



Delivery of Victorian Mains Replacement Programme



Thames Water Security of Supply Index and Leakage Performance



- Revised targets agreed with Ofwat following:
 - Changed assumptions on drought planning
 - Extension of VMR programme in AMP 4

Leakage and SOSI targets delivered in AMP4

Delivery of Regulatory Contract – AMP5

Maintaining the delivery of outputs



We are committed to maintaining the improvements we have achieved in services to customers. Our priorities for the coming year are:

- Delivering the first year of the AMP5 investment programme and securing outputs
- Delivering the opex targets for the first year of AMP5 and minimising risk for future years by, for example, hedging energy costs and tackling the pensions deficit
- Outperforming the financing assumptions in the WACC and securing early liquidity
- Continuing to deliver our best ever levels of service to our customers, and the statutory outcomes required by the Environment Agency, Drinking Water Inspectorate and Natural England
- Continuing our drive to improve efficiency through the improvement of our asset management capability through restructuring, the replacement of key systems and our extensive employee engagement programme
- Supporting the development of competition where it demonstrably benefits customers

We intend to sustain and improve operational and financial performance

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Final Determination Outcome



- The Final Determination was accepted by Thames on the basis that
 - A number of welcome changes were made by Ofwat between DD and FD
 - We had a well developed plan that demonstrated that outputs could be delivered
 - Whilst a tough determination there is room to outperform opex, capex and Ofwat's financing assumptions

- Our outlook since April 2009 has developed as external and internal factors have improved
 - There has been a step improvement in the external risk environment since DD and FD
 - Certain risk factors have firmly come within our control (e.g. awarded capital delivery contracts)
 - Certain Ofwat assumptions look very much in our favour in the present environment (e.g. inflation outlook)

The Final Determination is challenging but there is room for out performance



Final Determination Outcome

Key headlines

- **3.1%** increase in average customer bills, **7% K** (0% average bill increase at DD)
- Opex – **£3,135m** of which pensions is **£116m** (£3,020m at DD of which pensions was £85m)
- Opex efficiency – **water banding Upper B, sewerage banding upper A** (07/08: water C, sewerage A)
- Capex – **£4,912** funded position (At DD £4,774 funded position)
- CIS baseline ratio is **125 water, 108 waste**, AMP 5 **penalty of £59m**, (131 water, 113 waste, AMP 5 revenue penalty £73m at DD)
- Lee Tunnel **£631m** in total (£41m AMP 4, £590m AMP 5) and **funded under CIS**
- Thames Tideway Tunnel **£256m** included (vs FBP submission of £263m)
- Dividends of **£1,014m** assumed governed tightly by CTA look forward covenants
- No equity injection (neither post DD or post FD) with notional balance sheet equity injection a theoretical measure only
- Allowed WACC **4.5% post-tax** (4.5% at DD)

Significant improvements were made from DD to FD

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Delivery of Internal Business Plan

Objectives & Measurable Outcomes



Overall Objectives

- Continued focus on the regulated water company
- Retaining ownership and improving control of the asset base
- Maintaining responsibility and management of all “mission critical” functions
- Continuing to drive performance through internal management and strategic sourcing arrangements

Measurable Outcomes

- Consolidate and maintain current best-ever customer service levels and OPA scores
- Deliver all statutory requirements and regulatory outputs
- Achieve industry-leading efficiency by 2014/15
- Continue to deliver people strategy to promote staff engagement and development
- Maximise remaining non-regulated income (property, property insight)
- Outperform financing assumptions in the FD

The objectives of the Internal Business Plan build on the overall strategic direction of the business

Delivery of Internal Business Plan

Development of Internal Business Plan



- We have considered in detail the steps necessary to deliver the plan
 - Review of opportunities to optimise the scope of work to deliver required outputs
 - Advanced stage in procuring contractor arrangements which corroborate efficiency plans
 - Detailed implementation plans for operating efficiency initiatives
 - Early procurement of IT systems to enable delivery of efficiency plans
 - Already raised £455m new debt in index linked form and swapped a further £200m of existing debt

- We have risk assessed the plan
 - Operating risk is at a manageable level
 - Balance of risks and opportunities confirms robustness of the plan
 - Future changes to the operating landscape provide further challenges but also opportunities to deliver out performance

The Internal Business Plan was developed through a detailed bottom up review of the requirements to deliver the outputs of the Final Determination

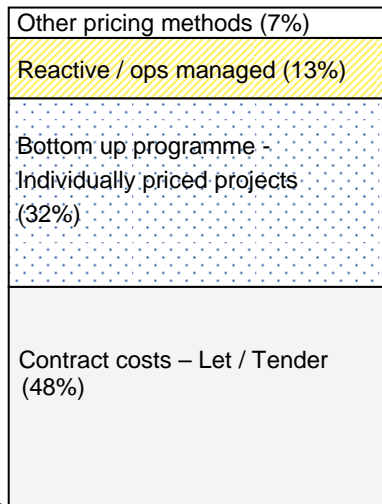
Delivery of Internal Business Plan

AMP5 capital delivery programme

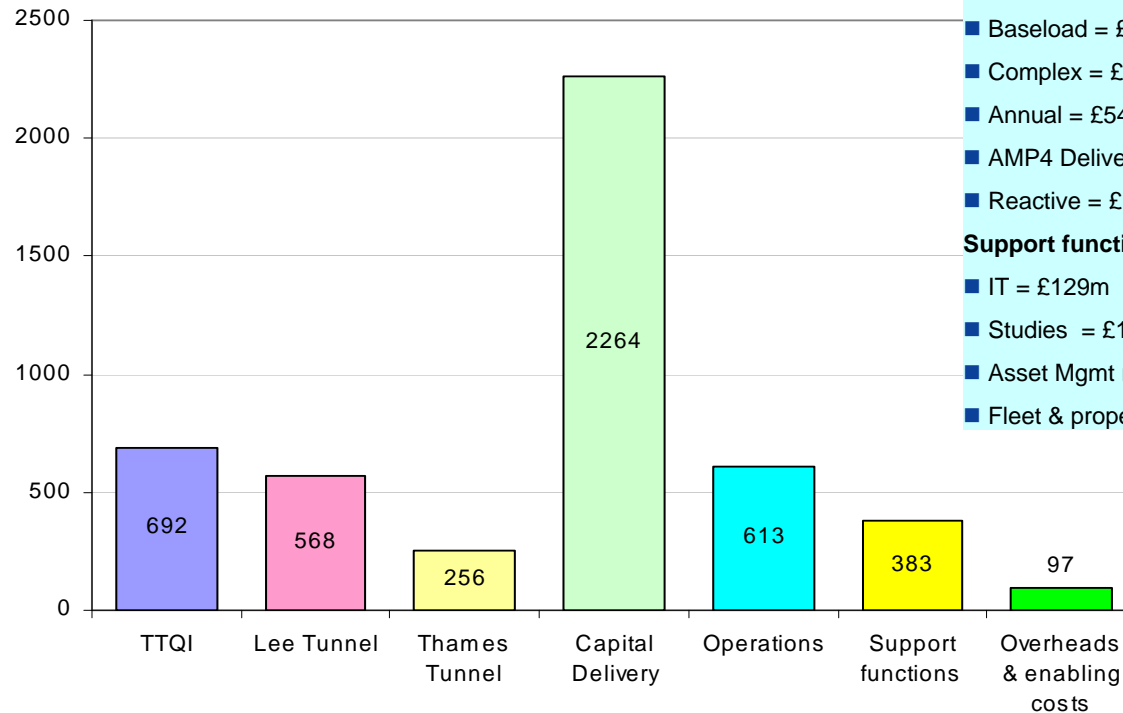
Programme built bottom up with circa 80% of solutions individually scoped and costed



Projects individually scoped and costed



£m outturn



Capital Delivery sub-totals:

- Baseload = £741m
- Complex = £894m
- Annual = £545m
- AMP4 Delivery = £69m
- Reactive = £15m

Support functions sub-totals:

- IT = £129m
- Studies = £112m
- Asset Mgmt reactive = £67m
- Fleet & property = £75m

A high proportion of costs already tendered with contract costs linked to COPI

Delivery of Internal Business Plan

CIS Mechanism



- CIS represents a step decrease in Thames' risk profile with all AMP 5 capex reflected in RCV and therefore funded
- CIS penalties or rewards are earned or paid through a revenue adjustment during the AMP with a RCV true-up at the end
- If there is overspend in one area of the programme it can be recovered in another area (subject to water / waste split). A large capex programme therefore reduces risk due to portfolio effect
- The CIS approach is welcome and **improves financial stability** with any overspend recovered through an increase in RCV. The WBS allows all expenditure to be added to RCV under Major Capex Projects definition - **ratios protected**
- Following an intense period of negotiation between the bidding tunnel contractors and Thames Water the Lee Tunnel project was submitted at Ofwat's baseline forecast and benefits from the protection offered by CIS

CIS provides greater protection for overspend

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Financing the Business

TWUL Financing Strategy



TWUL – Deliver £3.1bn financing requirement at cost in line with or below plan

- Outperform cost of debt (3.6% assumed in Final Determination)
- Protect and maintain A3 / A- credit ratings
- With a strong cash position (£573m at 31 March) TWUL can choose when to tap new finance and on best terms
- Continue to maintain a strong liquidity position – including £1.1bn of committed facilities
- Continue diversifying sources of funding and manage maturity profile
- Maximise access to RPI-linked funding

Deliver financing costs in the plan within a sustainable structure

Financing the Business

TWUL Financing activity



- Since implementation of the whole business securitisation in August 2007 Thames has raised more than £2.5bn across various maturities, currencies and instruments

AUG 2007	£900m RPI linked bonds (35 – 55 years)
APR 2008	£400m fixed rate bond (10/50 years) Gilts+260bp
AUG 2008	JPY 20bn (£153m) private placement (30 years) Gilts+200bp
NOV 2008	£100m RPI-linked Bank loan (30 years)
DEC 2008	£50m RPI-linked Bond (32 years) Gilts+280bp (3.583%)
FEB 2009	€500m fixed rate bond (4 years) Gilts+380bp
OCT 2009	£55m RPI-linked Private Placement (33 years) Gilts+155bps (2.091%)
DEC 2009	£300m RPI-linked EIB loan (multiple drawdowns)
FEB 2010	USD 156m (£100m) Private Placement (5 years) US\$ Libor + 95bps

- Over 50% raised through RPI linked debt before considering inflation linked swap activity
- Cash of £573m at year end which underpins a very strong liquidity position as we enter AMP 5

Raised significant volumes of debt even in very difficult financial markets

Financing the Business

TWUL Liquidity Facilities



- In September 2009 the Company successfully renewed its £750m revolving credit facility with its core lending group with facilities maturing 2012
- The annual renewal process of the £355m of liquidity facilities was successful
- The Company is required to maintain the following liquidity facilities on a rolling basis:
 - 364 day Operations and Maintenance facility: covering 10% of next 12 months forecast spending
 - 364 day Debt Service Reserve facility: covering next 12 months forecast interest cost
 - 3 year Capex facility: covering next 12 months forecast capex requirement
 - 3 year Working Capital facility: covering next 12 months forecast working capital
- Breaching required liquidity levels is an event of default
- Facilities currently undrawn and plan to remain undrawn

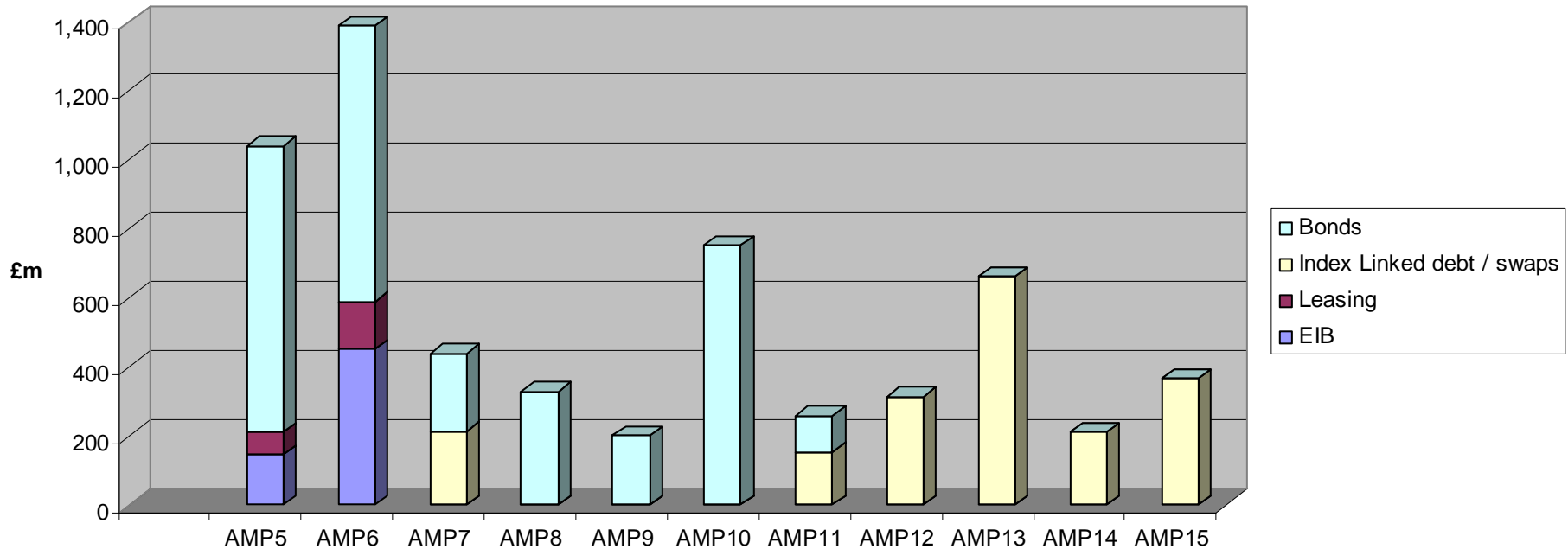
Liquidity facilities ensure adequate funding for key short term obligations

Financing the Business

Current TWUL Debt Maturity Profile



Maturities selected to ensure balanced maturity profile



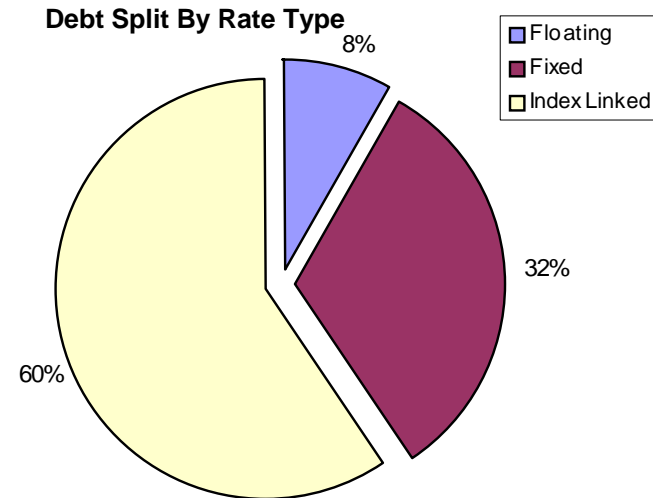
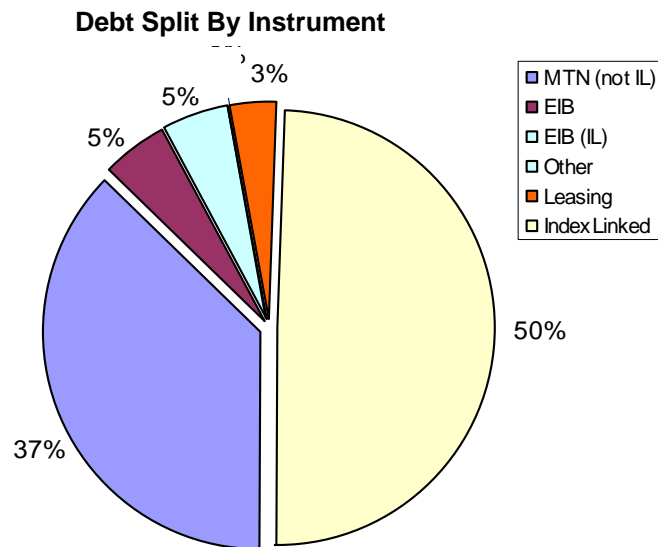
	AMP5	AMP6	AMP7	AMP8	AMP9	AMP10	AMP11	AMP12	AMP13	AMP14	AMP15
£m debt maturing	1055	1390	440	330	200	754	259	315	663	210	367
Max Debt as % of RCV maturing in a 2 yr period (20% of RCV)	9%	8%	8%	4%	3%	10%	2%	5%	8%	8%	9%
Max Debt as % of RCV maturing in AMP (40% of RCV)	6%	18%	8%	4%	3%	10%	1%	4%	4%	6%	4%

Balanced maturity profile

Financing the Business

TWUL Debt Portfolio and forecast TWUL debt issuance

- Well diversified debt portfolio across instrument, rate type and maturity
- Average maturity of 21.6 years with only 17.5% maturing during AMP5
- Total debt £5.9bn at 31 March 2010 with £3.1bn debt raised during AMP5



As per hedging policy >85% debt to be IL or fixed rate

	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	Total
Debt refinanced (£m)	400	20	570	10	55	1,055
Incremental debt (£m)	200	745	400	440	250	2,035
Total (£m)	600	765	970	450	305	3,090

Well diversified debt portfolio

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