



Thames Water Utilities Limited

Investor Update

October 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. Steve was awarded the Order of the British Empire for services to the water industry in 2010.</p>

Extensive capital investment and regulated utility experience

Agenda



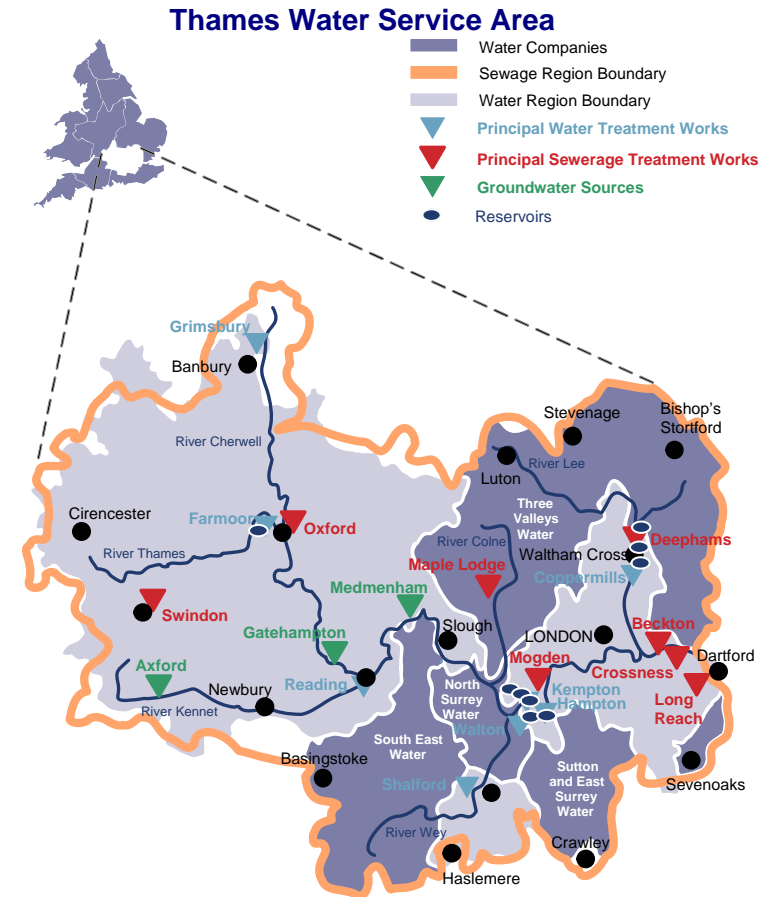
1. **Introduction and Business Strategy**
2. **Delivery of Regulatory Contract**
3. **Final Determination Outcome**
4. **Delivery of Internal Business Plan**
5. **Financial Performance**
6. **Financing the Business**
7. **Thames Tunnel**

Introduction and Business Strategy

Business Overview



	Water	Waste Water
Area of supply	8,000 km ²	13,300 km ²
Population Served	8.7 million	13.8 million
Length of mains	31,000 km	68,000 km
Key volumes	2,080 mega litres per day of water delivered	3,000 mega litres per day of waste water collected Produces 187 gigawatt hours of 'green' electricity
Other assets	98 drinking water plants 214 service reservoirs 27 raw water reservoirs 31 water towers 347 pumping stations	349 sewage treatment works 34 sludge treatment facilities 2,590 pumping stations



Thames Water has the largest customer base of any UK water company providing services to over 20% of the UK population including the London area

Introduction and Business Strategy

Credit Rating



- The recent rating actions taken by Standard & Poor's and Moody's Investor Services reflect strong consistent performance by the business

Standard & Poor's (April 2010)

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

Moody's Investor Services (April 2010)

- Ratings affirmed
 - “Corporate Family” Rating” Baa1 (stable outlook)
 - Class A bond rating A3 (stable outlook)

New Issuance

- **Prospective Class A issuance will be rated A3 / A-**

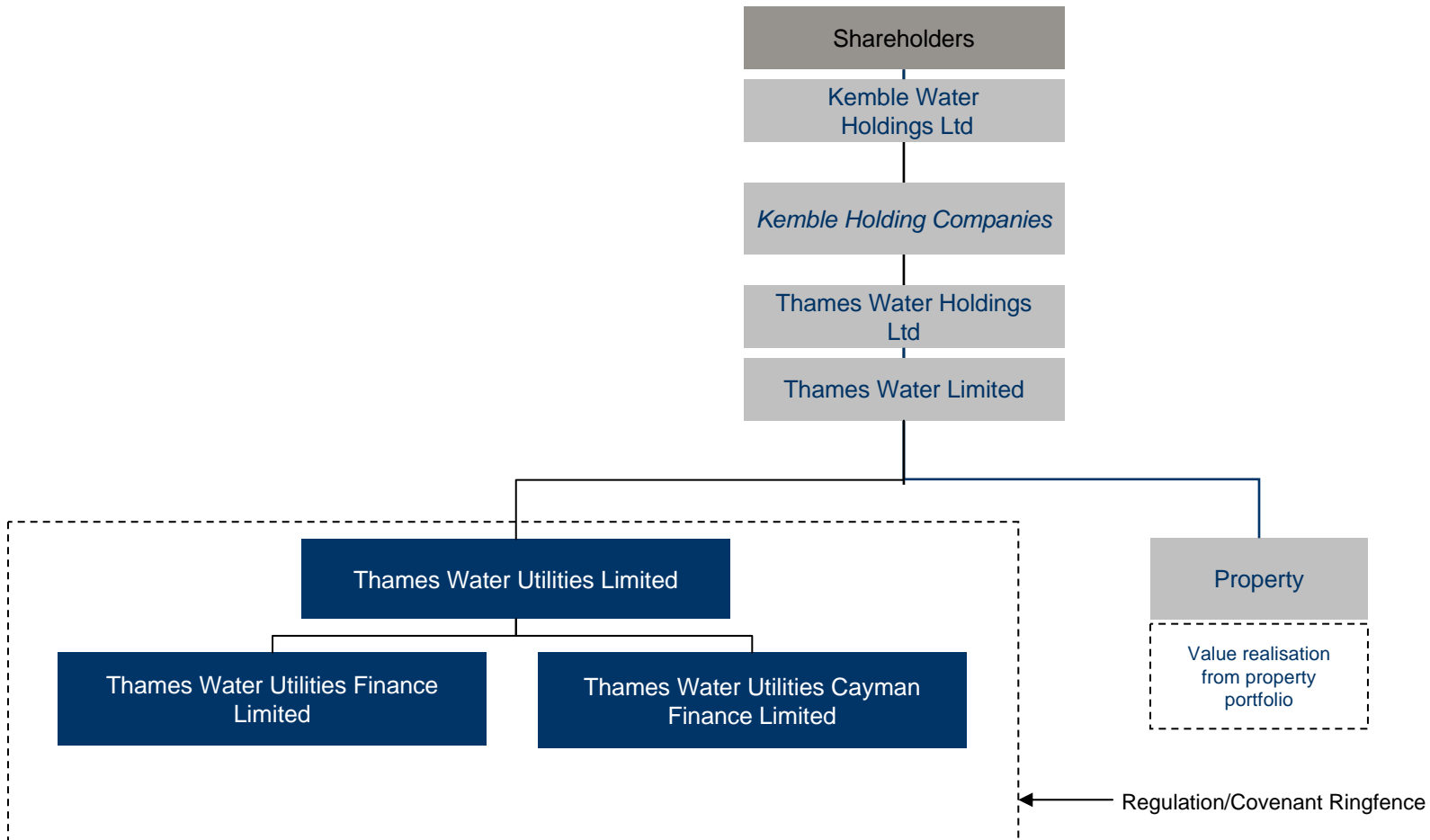
S&P stated that the ratings upgrade was driven by robust improvement in recent years of TWUL's regulatory and operating performance

Introduction and Business Strategy

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.



Introduction and Business Strategy

Overview



- The prior five year regulatory period ended 31 March 2010 (Asset Management Period 4 or AMP4). The final year was another highly successful period delivering best-ever operational performance and solid financial performance
- Company delivered on its commitment to meet all regulatory targets
- The regulatory settlement for the period 1 April 2010 to 31 March 2015 (Asset Management Period 5 or AMP5) was accepted after considerable analysis, review and development of our detailed 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 Tunnel Project
- 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

Introduction and Business Strategy

AMP4: We delivered our 5 year Business Plan



- Strong, clear focus on efficient delivery of the AMP4 regulatory contract ending 31 March 2010
 - 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 Security of Supply Index (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 ***Increased credibility with customers to deliver service they require***
- 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***

2006-2010 the management team has delivered the business plan

Introduction and Business Strategy

AMP5: 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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7. Thames Tunnel

Delivery of Regulatory Contract – AMP4

Operational Highlights



- All material operational and regulatory targets successfully delivered at the end of the period
- Leakage target achieved for fourth year running despite coldest winter since our records began – total leakage reduction of 27% in last five years
- Stable serviceability in all four areas
- Continued excellent performance on water quality and environmental compliance
- Alleviated 867 properties from internal flooding from sewers last year and a total of 3603 properties in the last five years

Delivery of Regulatory Contract – AMP4

Operational Highlights



- Overall Performance Assessment (OPA): 416 points achieved last year, an improvement of 10 points from previous year and best ever score
- Thames Water saw the biggest improvement in OPA over AMP5 overtaking Anglian Water and Yorkshire Water to be ranked second in 2009/10
- 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
- We have continued to focus on delivering the best service possible to customers, which has helped lead to a 14% reduction in written complaints last year.

Delivery of Regulatory Contract

Current Performance



Issue	2006 / 07	2007 / 08	2008/09	2009 / 10		
				Target	Actual	Assessment
General						
■ Leakage	✓	✓	✓	685 MI / d	670 MI / d	✓
■ Security of Supply Index	✓	✓	✓	85	100	✓
■ OPA #	✗	✓	✓	-	416	✓
■ Length of Mains Renewed (S19)	✓	✓	✓	368 Km	368 Km	✓
■ Drinking Water Quality	✓	✓	✓	99.95%	99.98%	✓
Asset Serviceability						
■ Water Infra Serviceability	✓	✓	✓	S	S	✓
■ Wastewater Infra Serviceability	✓	✓	✓	S	S	✓
■ Water Non-infra Serviceability	✓	✓	✓	S	S	✓
■ Wastewater Non-infra Serviceability	✗	✗	✓	S	S	✓

Strong results

- Leakage target met
- Security of supply index target met
- All asset categories stable (confirmed by Ofwat Sept 2010)
- Drinking water quality ahead of target
- Best ever OPA score for the company – 2nd highest performer for major water companies

OPA, Overall Performance Assessment

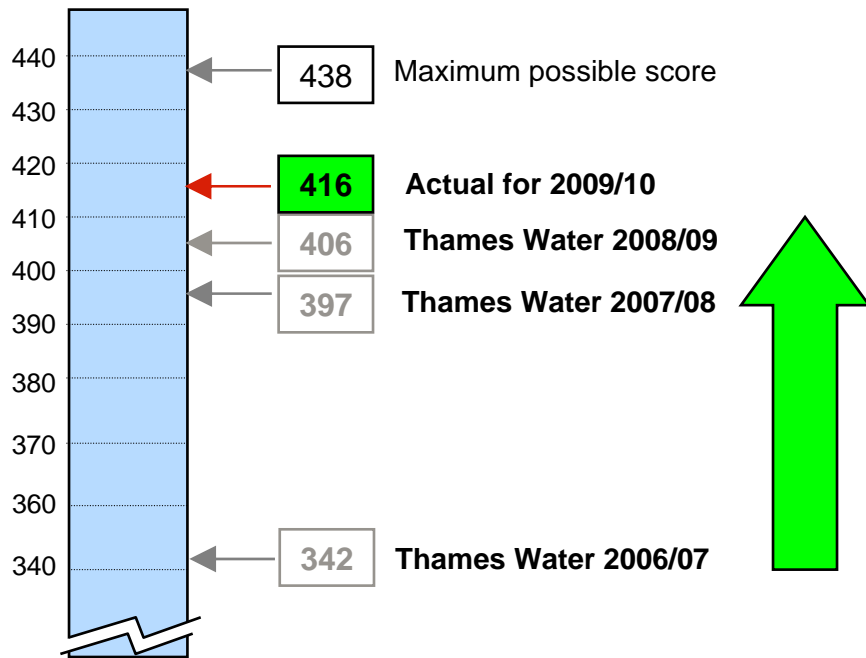
Sustained improvement in all key areas

Delivery of Regulatory Contract – AMP4

Overall Performance Assessment (OPA)



Overall Performance Assessment (OPA)



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

OPA for 2009/10 sets a best ever performance for the company. Provisional results position Thames as 2nd out of all the major water companies

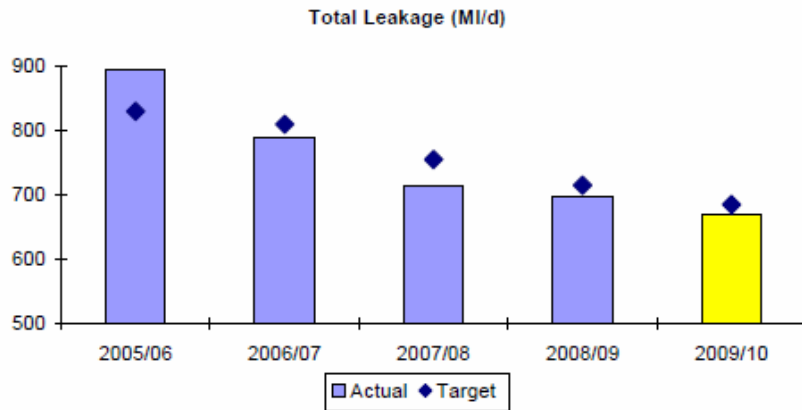
Delivery of Regulatory Contract – AMP4

Security of Supply and Leakage

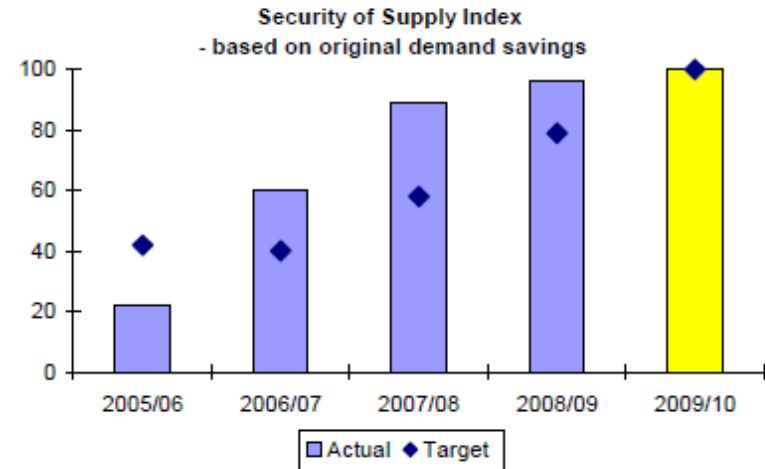


Delivery of Leakage Reduction Programme

- Targets hit for four years in a row
- 27% reduction in leakage over five years
- A total of 1,867 km of Victorian Mains Replacement delivered over five years



Security of Supply Performance



- Security of supply score of 100 achieved
- Desalination plant delivered – providing 150 MI/d of additional deployable output to London

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 financing assumptions 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



- Price limits are set to enable water companies to deliver the services required by customers over a five year period within a transparent framework. Each water company submits a business plan for the period which is assessed by the regulator, Ofwat. Price limits for the period 1 April 2010 to 31 March 2015 were set in December 2009, referred to as the Final Determination. Water companies may either accept the Final Determination by January 2010 or reject through a referral to the Competition Commission.
- The Final Determination was accepted by Thames on the basis that:
 - During review period Ofwat recognised our concerns in some key areas
 - 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
- Outlook has improved as external and internal factors have developed:
 - Greater liquidity in debt capital markets
 - Certain risk factors firmly came within our control (e.g. awarded capital delivery contracts)
 - Certain Ofwat assumptions looked very much in our favour (e.g. inflation outlook)

The Final Determination is challenging but deliverable



Final Determination Outcome

Key headlines – AMP5: 1 April 2010 to 31 March 2015

- **3.1%** increase in average customer bills (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)
- Capital expenditure Incentive Scheme (“CIS”) baseline ratio is **125 water, 108 waste**, AMP 5 **penalty of £59m**, (131 water, 113 waste, AMP 5 revenue penalty £73m at DD) – further detail provided later as to how this new mechanism improves financial stability
- Lee Tunnel **£631m** in total (£41m AMP 4, £590m AMP 5) and **funded under CIS**
- Thames Tunnel Project **£256m** included (vs submission of £263m)
- Dividends of **£1,014m** assumed governed tightly by strong financial covenants
- No equity injection required to ensure maintenance of strong credit rating position position
- Allowed WACC **4.5% post-tax** (4.5% at DD)

KEY

DD – Draft Determination, draft regulator set price limits set before company representations

FD – Final Determination, final regulator set price limits which can be accepted by company or referred to the Competition Commission

Significant improvements were achieved over the price review process

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Delivery of Internal Business Plan

Objectives & Measurable Outcomes



Overall Objectives

- Continued focus on the regulated water business
- Putting the customer at the heart of our business, such that if customers had a choice they would choose Thames Water
- 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

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

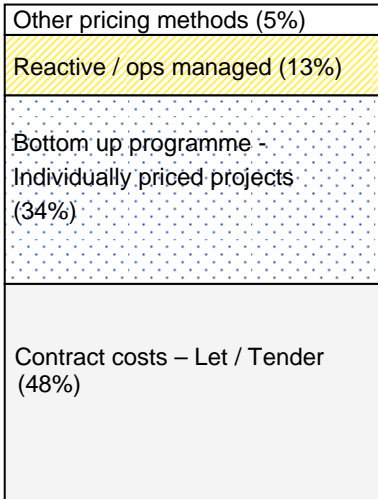
Delivery of Internal Business Plan

AMP5 capital delivery programme

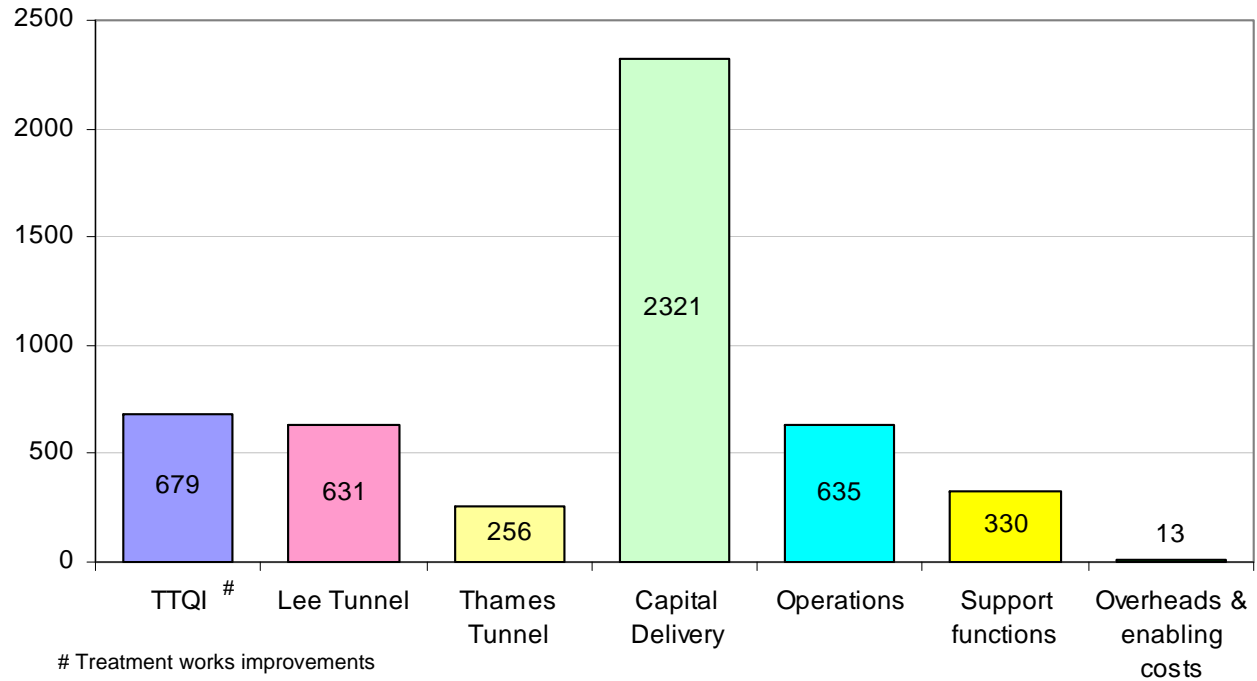
Programme built bottom up with circa 82% of solutions individually scoped and costed



Projects individually scoped and costed



£m outturn



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

Delivery of Internal Business Plan

Capex Incentive Scheme & Revenue Correction Mechanism



- The Capital expenditure Incentive Scheme (“CIS”) represents a step decrease in Thames’ risk profile with all AMP 5 capex reflected in Regulatory Capital Value (“RCV”) and therefore capital expenditure is funded through the regulatory process
- 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 capex overspend recovered through an increase in RCV. All expenditure relevant to defined outputs is added to RCV – thus **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
- A new revenue correction mechanism has been introduced so that any under or over-recovery of revenue during AMP5 is corrected in revenues in AMP6

CIS provides greater protection for overspend and protection from under-recovery of revenue

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Financial Performance

Profit & Loss



Profit and Loss Account (TWUL) Year ending 31 March (£m)	2009 / 10	2008 / 09
Turnover	1,624	1,558
Profit on sale of fixed assets	38	8
Operating Costs	-609	-615
EBITDA	1,053	952
<i>EBITDA %</i>	65%	61%
Depreciation	-344	-338
EBIT	709	614
Net interest receivable less payable	-255	-178
PBT	454	435
Tax	-123	-120
Profit after tax	331	315

Continued emphasis on driving operating efficiencies whilst ensuring delivery of regulatory outputs

Improved EBITDA by 10.6% whilst exceeding last year's operating performance

Financial results emphasise scale and stability of cash flows

Financial Performance

Balance Sheet



Balance Sheet (TWUL) Year ending 31 March (£m)	2009 / 10	2008 / 09
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Total Fixed Assets	7,533	7,124
Financial Assets - Inter Group	1,180	1,180
Stocks, debtors and prepayments	611	612
Cash	579	526
Total Current Assets	2,370	2,318
Total Current Liabilities	1,351	1,111
Long-term borrowings	5,576	5,483
Accruals and deferred income	214	180
Provisions	1,098	1,012
Pension liability / (asset)	107	47
Total non-current liabilities	6,996	6,722
Total net assets	1,556	1,609
Called-up share capital	1,029	1,029
Share Premium	100	100
P&L Account	427	480
Equity Shareholder' Funds	1,556	1,609

Delivered the largest investment programme in the UK water industry

Strong well maintained asset base provides predictable cash flow returns

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Financing the Business

Financing Strategy



Deliver £2.9bn Class A financing over 5 years at cost in line with or below plan

- Outperform cost of debt (3.6% real assumed in Final Determination)
- Protect and maintain Class A debt A3 / A- credit ratings
- Maintain a strong cash position so we 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 UK RPI-linked funding when available at competitive pricing

Deliver financing costs in the plan within a sustainable structure

Financing the Business

TWUL Financing activity



- Since August 2007 Thames Water has raised more than £3.3bn across various maturities, currencies and instruments

AUG 2007	£900m RPI-linked bonds (35 – 55 years)
APR 2008	£400m fixed rate bond (10/50 years)
AUG 2008	JPY 20bn (£153m) fixed rate bond (30 years)
NOV 2008	£100m RPI-linked bank loan (30 years)
DEC 2008	£50m RPI-linked bond (32 years)
FEB 2009	€500m fixed rate bond (4 years)
OCT 2009	£55m RPI-linked bond (33 years)
DEC 2009	£300m RPI-linked bank loan (multiple drawdowns)
FEB 2010	USD 156m (£100m) floating rate note (5 years)
JULY 2010	£550m Class B fixed rate bond (7 years)
SEPT 2010	£300m Class B fixed rate bond (12 years)
OCT 2010	£40m RPI-linked bond (35 years)

- Over 40% of debt raised through RPI linked debt before considering inflation linked swap activity

Financing the Business

Committed Facilities



- The Company is required to maintain the following committed facilities:
 - 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
- The 2010 annual renewal process of the £355m of liquidity facilities was successful
- New £70m liquidity facility agreed in July 2010 to underpin increased debt service levels
- In September 2009 the Company successfully renewed its £750m revolving credit facility with its core lending group with facilities maturing 2012
- Breaching required liquidity levels is an event of default
- Facilities currently undrawn and plan to remain undrawn

Committed facilities ensure adequate funding for key short term obligations

Financing the Business

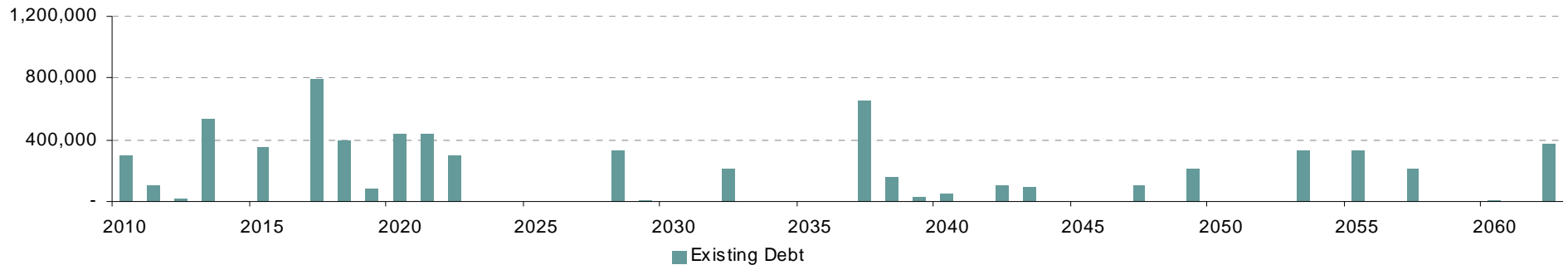
Current Debt Maturity Profile



- Covenants dictate that the amount of debt to be refinanced shall not exceed 20% of RCV in any 24 month period or 40% of RCV within any AMP (a 5 year period)
- Headroom available across the maturity spectrum

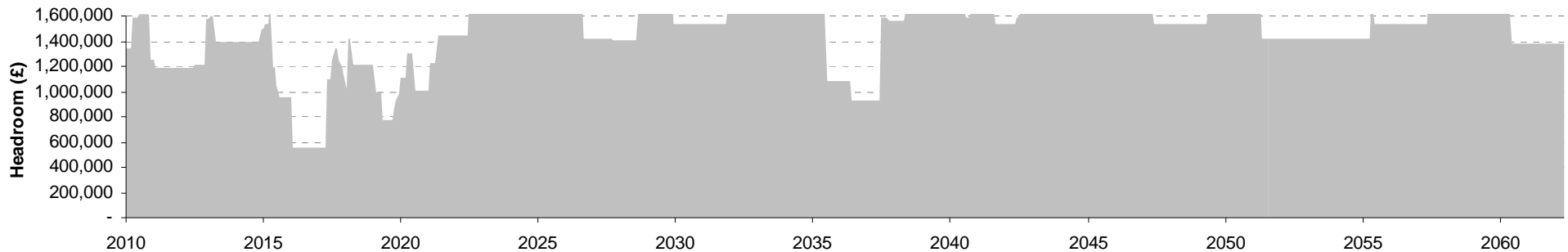
Figures all in Sterling

Current Maturity Profile



Figures all in Sterling

Debt Issuance Headroom



Balanced maturity profile with headroom

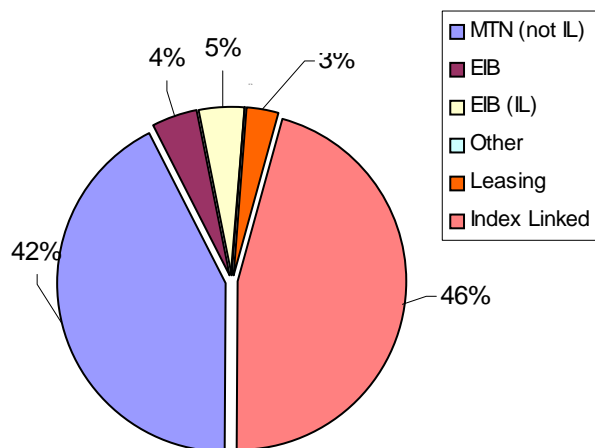
Financing the Business



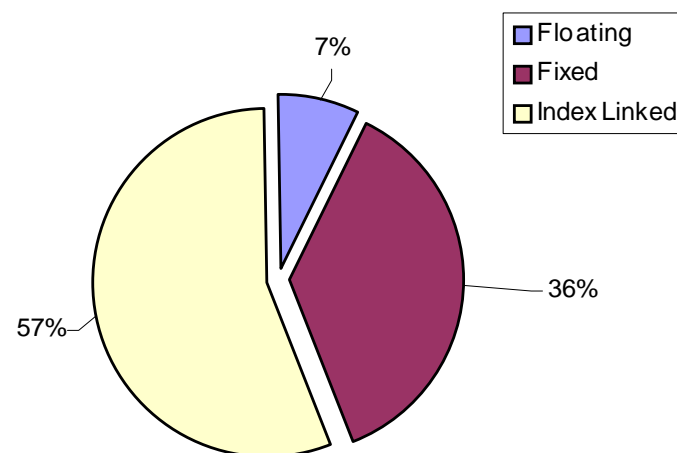
Debt Portfolio and forecast Class A debt issuance

- Well diversified debt portfolio across instrument, rate type and maturity
- Average maturity of 20 years with only 13% of debt maturing during AMP5 (i.e. to 31 Mar 2015)
- Total debt £5.9bn at 31 March 2010 with £2.9bn of Class A debt to be raised during AMP5

Debt Split By Instrument



Debt Split By Rate Type (after derivatives)



	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	Total
Class A Debt refinanced (£m)	400	20	570	10	55	1,055
Class A Incremental debt (£m)	350	530	410	280	255	1,825
Total (£m)	750	550	980	290	310	2,880

Well diversified debt portfolio

Financing the Business

Financing Strategy



Completed highly successful refinancing of subordinated debt

- Class B is a subordinated debt class that under the terms of our financing documentation could be issued from 1 April 2010
- Proceeds utilised as cost effective means to refinance subordinated debt held at Kemble Water Finance
- Our Class B debt is rated **Baa3** by Moody's and **BBB** by S&P
- £850m Class B debt raised in Sterling based markets over summer 2010
 - £550m was issued in July 2010 (7 year call, 5.375% fixed, 2 times oversubscribed, **largest Class B debt of any UK utility, lowest Class B debt coupon of any UK utility**)
 - £300m issued in September 2010 (12 year call, 5.75% fixed, 6 times oversubscribed, **longest maturity of a Class B debt issue**)
- No plans to issue any further Class B debt for foreseeable future

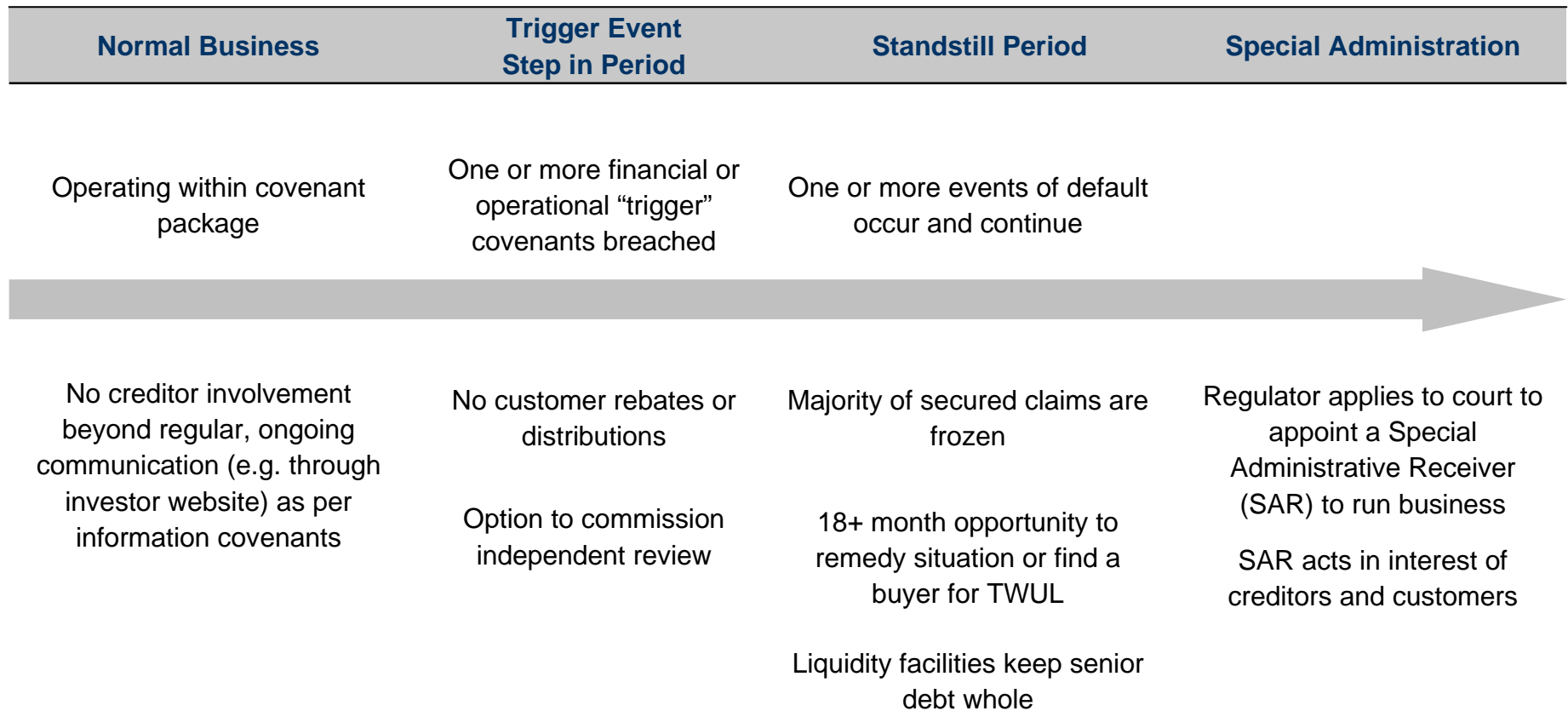
Deliver financing costs in the plan within a sustainable structure

Financing the Business

Creditor Protection



Structure designed to prevent Special Administration and increase creditor protections through a staged process



Financing the Business

Key Covenants



Provisions	Summary example of key terms under the Thames Water £10bn Debt Issuance Programme
Information Covenants	Details of material changes to Instrument of Appointment; Any notice from government authority or industry regulator; Provide a semi-annual investors report
General Covenant	Restrictions on Financial Indebtedness, disposals, mergers and acquisitions; To maintain Investment Grade credit ratings with two of the Rating Agencies
Financial Covenants	<p>Semi annual calculation (actual and forward-looking) of ratios as set out below:</p> <ul style="list-style-type: none"> ■ Class A and Senior Interest Cover Ratios, (>1.6:1) (Senior calc will include Class B as applicable post 31 March 2010) ■ Class A and Senior Adjusted ICR Ratios, (>1.3:1) and (>1.1:1) respectively (adjusted for current cost depreciation and infrastructure renewable charge) ■ Class A and Senior Average Adjusted ICR Ratios, (>1.4:1) and (>1.2:1) respectively ■ Class A and Senior Regulatory Asset Ratios, both (<0.75:1) (Debt to RCV) <p>To maintain Debt Service Reserve (DSR) Liquidity Facilities sufficient, when aggregated with cash balances, to cover all Senior and Unsecured debt interest payments for the next succeeding 12 month period; To maintain an Operations & Maintenance (O&M) Reserve and/or an O&M Reserve Facility of no less than 10 per cent of Projected Operating Expenditure and Capital Maintenance Expenditure required for the current or forthcoming 12 month Test Period</p>
Negative Pledge	Prohibition on the Obligors creating or allowing to exist any Security Interest other than Permitted Security Interest
Trigger Events	Breach of Financial Ratios; Debt Service Payment Account Shortfalls; Material Deviation in Capital Projects; insufficient Liquidity for Capital Expenditure and Working Capital; Drawdown on DSR/O&M Facilities; Enforcement Orders; Special Administration Order
Events of Default	Breach of Financial Ratios; Non-payment and non-compliance with certain obligations under Finance Documents; Cross-default (0.1per cent of RCV); Insolvency; Illegality; Effectiveness of security; Material Proceedings; Amendment of memorandum& articles of association without Trustee approval; Change of Control
Standstill	Following an Event of Default the STID will provide for an automatic 18 month standstill of the claims of the Secured Creditors
Security	Each Obligor (the Thames Water Utilities Financing Group) has entered into the Security Agreement with the Security Trustee pursuant to which TWH will guarantee the obligations of each other Obligor under the Finance Documents and TWUL, TWUF and TWUCF will guarantee the obligations of each other under the Finance Documents, in each case to the Security Trustee

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Thames Tunnel



- More than once a week on average, sewage overflows into the tidal River Thames from London's Victorian sewers. In a typical year 39 million tonnes is discharged via 57 'combined sewer overflows' (CSOs).
- The Urban Waste Water Treatment Directive aims to protect the environment from the adverse effects of insufficiently treated wastewater discharges. Similar schemes are required across Europe to comply with the Directive.
- The UK Government has requested that Thames Water progresses the Thames Tunnel project to tackle the 34 most polluting CSOs discharging directly to the River Thames. The UK Government's target completion date is 2020.
- We will be working with Government to ensure that there is an appropriate delivery mechanism which provides adequate funding and an appropriate allocation of risk so that the Thames Tunnel can be built.
- The proposed 7m diameter tunnel will run up to 20 mile (32km), broadly following the route of the River Thames through central London, transferring the discharges to Beckton Sewage Treatment Works in east London
- The recent Flood and Water Management Act creates a new route to procure the Thames Tunnel via an Infrastructure Service Provider (ISP), in addition to the existing route through Thames Water.
- We are conscious of the potential impact on customer bills and will be doing what we can to ensure that the project is undertaken efficiently. Ultimately, how the project impact on bills will be determined by Ofwat.

Working with Government to develop appropriate delivery mechanism

Conclusion



- Thames Water is the largest water company in the highly regulated UK water sector providing services to over 20% of the UK population including the London area
- Management team have delivered significant improvement and are focussed on delivery of regulatory contract and operational efficiency
- Benefits of significant covenant structure and limited event risk
- The credit profile is underpinned by a supportive regulatory regime
- Thames Water's owners have a long-term investment strategy
- Committed to on-going presence in Sterling and Euro bond markets

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Link to our website

<http://www.thameswater.co.uk>

Link to the Credit Investor section of our website

<http://www.thameswater.co.uk/creditinvestors>

Link to the Financial Results section of our website

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