

Investors Report

For the period ended 31 March 2010



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1. GENERAL OVERVIEW

The information provided in this report is sourced primarily from the annual report and financial statements of Thames Water Utilities Limited (the 'Company' or 'TWUL') for the year ended 31 March 2010.

Financial highlights

- Capital investment of nearly £800m – the largest investment programme in the industry
- Turnover up by £65.6m (4.2%) on the previous regulatory year to £1,623.8m, within price limits set by regulator, Ofwat
- Operating expenditure £609.2m (2008/09: £614.5m) – reflecting continued focus on strong financial management and maximising efficiency
- Pre-tax profit increased by £18.5m (4.2%) to £453.6m

The Company reported its best ever performance across many areas of the business in 2008/09. This year (2009/10) the Company is pleased to report that it has exceeded last year's performance whilst delivering the largest investment programme in the industry and improving EBITDA by 10.6%.

Operational highlights

- All regulatory targets met for the third consecutive year under new management
 - Hit annual leakage target for the fourth consecutive year, despite the coldest winter in 25 years (a 27% reduction in the level of leakage from five years ago)
 - Water quality remains amongst the best in the country at 99.98% compliant
- The opening of the Operations Management Centre. For the first time, the Company's water and sewerage operational control teams will be under one roof. This will deliver improved service to customers through increased operational synergies
- Completion of the UK's first desalination plant (and other supply based initiatives), which has enabled the Company to exceed its security of supply target and achieve the maximum score for the year
- Risk of sewer flooding reduced at a further 1,334 properties
- The Company has continued to deliver a reduction in the occurrence of sewer collapses. This year the Company inspected some 930km of sewers as part of its proactive inspection programme and as a result renewed or refurbished a total of 11km of sewers
- Customer service improvements have resulted in a 14% reduction in written complaints
- Continued strong performance in responding promptly to customer queries with 99.9% resolved within five working days

- The Company achieved its best ever overall performance assessment ('OPA') score of 416.8¹ out of a maximum of 437.5, compared to the 2008/09 score of 405.6.

2. FINANCIAL PERFORMANCE

Financial Key Performance Indicators ('KPIs')

Methodology and calculation of financial KPIs

1. EBITDA: Profit before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge ('IRC').
2. Total Capex Spend: Total expenditure on tangible fixed assets excluding contributions received.
3. Net cash inflow/(outflow) from operating activities: Total cash inflow from all operating activities.
4. Operating expenditure: Operating costs excluding amortisation, depreciation and IRC.

Performance Measure	Year to 31 March 2010	Year to 31 March 2009	% Movement
	£m	£m	
Turnover	1,623.8	1,558.2	4.2%
Operating expenditure	609.2	614.5	(0.9%)
EBITDA	1,052.5	951.9	10.6%
Total Capex Spend	782.5	982.4	(20.3%)

Turnover

Turnover increased by £65.6m, up 4.2%, to £1,623.8m reflecting real increases in price ('K') as agreed with Ofwat, together with increases linked to the Retail Price Index ('RPI'). Turnover was £86.5m lower than assumed by Ofwat in the AMP 4 Final Determination ('FD'), reflecting lower volumes due to weather conditions and changes in customer behaviour following the economic downturn.

Operating expenditure

Operating expenditure for the year ended 31 March 2010 has remained broadly in line with the prior year. This is mainly a result of continued emphasis on driving operating efficiencies, whilst ensuring the delivery of the Company's regulatory outputs. The Company suffered in the prior year as it increased the level of bad debt provisioning resulting from the impact of the economic downturn. No additional provisioning in respect of the economic downturn has been deemed necessary in the current year.

EBITDA

The increase in turnover and the small decrease in operating costs have contributed to the 10.6% improvement in EBITDA compared to the prior year. The increase in turnover is detailed above. A further significant contributor to the increase in EBITDA has been the increase in the activity in the property market leading to an increase in profit on disposal of fixed assets of £29.7m against the prior year.

¹ The OPA score is subject to ratification by Ofwat.

Capital Expenditure

2010 has been a successful year for capital delivery with nearly £800.0m spent on capital expenditure. This follows two years of annual expenditure of nearly £1bn and shows the significant level of investment in the Company's infrastructure. Despite this large programme, the Company delivered outputs efficiently with spending £7.0m below the regulatory allowance over the course of AMP 4. Looking forward, the Company is already well advanced in the planning of the Asset Management Period 5 ('AMP 5') programme with a cutting edge capital delivery strategy firmly in place to ensure that the Company delivers all regulatory outputs at minimum cost. With a clear focus, tight contracts and streamlined delivery process Thames Water enters AMP 5 with the capability to become the benchmark capital delivery company.

3. REGULATORY and BUSINESS UPDATE

Regulatory KPI highlights

Performance Measure	Components	Maximum OPA Score (as defined by Ofwat)	Year to 31 March 2010	Year to 31 March 2009	Year to 31 March 2008
Water service	DG2 & Water quality	125.0	122.2	120.9	122.1
Sewerage service	DG5, Flooding incident	75.0	57.8	54.0	44.7
Security of supply	DG4, Leakage and security of supply	50.0	50.0	45.1	45.0
Customer services	DG6,7,8,9	75.0	74.3	74.6	72.7
Environmental performance-Water	Pollution incidents	12.5	12.5	11.7	12.5
Environmental performance-Waste	Pollution incidents & sludge disposal	100.0	100.0	99.3	100.0
OPA		437.5	416.8	405.6	397.0
Incidence Rate – accidents per 1,000 employees	N/a	N/a	5.9	6.7	8.3

The above performance measures are an internal split to enable management of the various components of regulatory performance.

OPA

The OPA score is an important measure used by Ofwat to assess the performance of the water and sewerage undertakers. It incorporates all of the performance criteria that the Company needs to measure to ensure that it will meet the needs and priorities of its customers in line with the Company's vision, "If customers had a choice, they would choose Thames Water". The Company has seen continuous improvement in the past three years and this year, achieved its best ever OPA score.

Below is a summary of some of the key changes in the business that the Company has used to drive its OPA improvement.

Water Service

- The Company has achieved its regulatory leakage target for a fourth successive year with annual average leakage for 2010 of 670 MI/d, against the target of 685 MI/d. This is 29 MI/d below the level reported for 2009 despite another challenging winter with temperatures well below those for last year.
- A 27% reduction in the level of leakage from five years ago
- The Company's drinking water quality performance remains high at 99.98%. Whilst the Company aims to achieve 100% compliance, many of the failures recorded at customers' taps are caused by the condition or maintenance of customers' pipe work and fittings. To that extent, 100% compliance is not within the control of the Company. However, management continues to strive to achieve this target and TWUL is one of the best performing companies in the industry.

Sewerage Service

- Sewerage treatment works continue to perform well and have achieved 100% compliance with the Urban Waste Water Treatment Directive ('UWWTD') standards and are 99.4% compliant with their Water Resource Act ('WRA') consents. This achievement should be seen in the context of the Thames region having some of the most stringent effluent quality standards in the UK.
- The Company had only two significant incidents arising from our sewerage assets.
- The Company has continued to deliver a reduction in the occurrence of sewer collapses. Collapses can cause flooding and pollution incidents. The Company has carried out a programme of sewer rehabilitation in Asset Management Period 4 ('AMP 4') to deal with sewers in poor condition before the collapses occur. This year the Company inspected some 930km of sewers as part of its proactive inspection programme and as a result renewed or refurbished a total of 11km of sewers.
- With regard to sewer flooding, 1,334 properties had risks reduced or mitigated by our actions during 2009/10. This comprised of 867 internal properties alleviated (with 57 mitigated) and 345 external properties alleviated (with 65 mitigated).

Security of Supply

- The Company has again achieved its Security of Supply Index ('SoSI') target of 50 for 2010.
- Of the four elements that make up the SoSI target (Hosepipe bans, Leakage SoSI, SoSI – Absolute and SoSI – Performance against target), the Company has scored 100 in the SoSI – Performance against target compared with a target of 85. This means that the Company can now deliver to its customers the target levels of service for security of supply.

Customer Service

- The Company has delivered another year of high performance against the customer services measures which is reflective of the hard work that the Company has put in to improve its customers' overall experience of the Company.
- Our performance in responding promptly to customer queries remained at a high level, with 99.9% resolved within five working days. This is well above Ofwat's 'Good' performance assessment of 95% and this maintains our performance ahead of our regulatory target. Further, this is despite the fact the Company received 15% more billing enquiries than in the previous year. This was mainly due to an increased number of enquiries regarding ways of paying water services charges which may be indicative of the effect of the economic downturn.
- Despite an increase in the overall metered customer base of c70,000 accounts, the Company has produced its best ever performance, with 99.87% of metered bills issued during the year based on an actual reading.

Incidence Rate – accidents per 1,000 employees

Management continue to focus on health and safety. The headlines for 2010 show a significant improvement in the Company's processes and compliance capability:

- The Company has achieved a 12% reduction in reportable accidents across the business.
- Safeguard (the Company's online Health, Safety and Environment Management System) was rolled - out to all operating contractors. This allows better reporting and recording of health and safety performance data.
- During October 2009, Thames Water again ran a successful European Health & Safety Week campaign, including a series of road-shows on over 20 sites, focused on risk assessment and hazard identification.
- In May 2009, Thames Water was awarded the Royal Society for the Prevention of Accidents ('RoSPA') Industry Sector Award for Occupational Safety & Health.

Business Update

FD and AMP 5

The key features

In November 2009 Ofwat published the Company's Final Determination ('FD') for the 5 year period from 1 April 2010 to 31 March 2015. The FD was accepted by the Company in January 2010. Its key features are as follows (all amounts in 2007/08 prices):

- A 3.1% above inflation average increase in customer bills over the 5 year period (compared to an average 1% reduction across the industry).
- An allowed Weighted Average Cost of Capital of 4.5% real post-tax.
- Operating expenditure funding of £3,136m.
- £4,912m of funded capital expenditure.
- A Capital Incentive Scheme baseline ratio of 125 for water and 108 for waste.
- £631m of funding for the Lee Tunnel.
- Thames Tideway Tunnel funding of £256m.

The Company will invest over £4.9bn on essential work to improve assets over the next five years. Despite this significant investment, customers' bills will rise by a total of only 3.1% above inflation by 2015, with the average bill still under £1 a day.

The plan to deliver

As an infrastructure business with a requirement for investment estimated at £4.9bn during AMP 5, the Company recognised that, to deliver the outputs efficiently and to meet the demands of the various stakeholders of the business as well as the challenges presented in Ofwat's FD, it would need to implement a new business model focused on Asset Management. This Asset Management model was implemented at the start of the 2009/10 year and management believe that the Company is now set up as it enters AMP 5 to deliver the significant capital programme that was agreed by Ofwat in the FD.

Alongside the development of this business model, the implementation of SAP will enable the Company to deploy best practice, end-to-end business processes across its operations and provide further operating efficiencies. On 28 September 2009, the finance and supply chain work package of SAP went live and it has been a very successful implementation. The Human Resources work package went live on 12 April 2010 and the early signs are very promising.

Over the next five years the Company must develop increasingly sophisticated approaches to running the business as the scope for efficiency improvement becomes more challenging. Information Services is a core support function within the Company and underpins all of the business.

Throughout AMP 5 the Company will embed SAP software into all parts of the business. SAP will continue to introduce new processes that will improve the way the Company works, and will replace a range of different systems with just one, making data more reliable and easily accessible across the Company.

The Company currently uses Supervisory Control and Data Acquisition ('SCADA') in a number of ways to monitor and control remotely asset performance on networks and process plants for water networks and treatment works. SCADA is an enabler of our current operational efficiency and is part of our wider plans for managing health and safety and operational risks. The Company is currently in the process of replacing and enhancing legacy systems, which will enable it to become even more efficient going forward.

In addition, the Company is starting work on a project called Work Asset Management and Information ('WAMI') This is a far-reaching two year project that will transform the asset management and operational planning process of the Company.

One of the most important components of WAMI is a business-wide asset register which will be integrated with a geographic interface. This means that for the first time the Company will be able to view its assets under a sign system - enabling it to record cost, risk and performance data against its assets. For Operations, it will provide the Company with an end-to-end work management process, facilitating joined-up planning, greater visibility of other teams' planned work and better assessments of how proposed changes might affect other parts of the business.

WAMI will be looking at the capture of data from the field to enable making robust risk-based investment decisions, improving the way we schedule work for the Company's customers and communicating progress while keeping the Company's customers informed, every step of the way.

Ofwat has set the Company a particularly tough challenge but there were some welcome changes from the draft determination and the Company will now focus on the delivery of the agreed plan. Operational performance is currently at its best ever levels and the Company's priority is to maintain these levels of performance over the next five years and beyond.

Thames Gateway Water Treatment Plant ('TGWTP')

The Duke of Edinburgh opened the country's first desalination plant on 2 June 2010. The TGWTP in Beckton, east London, is able to convert a mixture of seawater and river water from the River Thames into high-quality drinking water for up to one million Londoners. The plant uses reverse osmosis technology to convert brackish water from the Thames estuary into drinking water. The plant can treat 150 million litres of water a day and will be used only in times of drought. The plant was a key driver in achieving a maximum SOSI score of 100.

Thames Tideway Tunnel

In March 2007, the Government instructed TWUL to develop the Lee Tunnel and the Thames Tunnel (together, the 'Tideway Project') to substantially reduce the volume of untreated sewage discharged from London's Victorian sewers into the River Thames and its tributary the River Lee. TWUL secured planning permission for the Lee Tunnel, subject to certain conditions in 2009 with construction of the seven-kilometre Lee Tunnel due to begin this year and scheduled for completion in December 2014. The joint planning application also addressed extensions required at Beckton Sewage Treatment Works to cope with flows from the Tideway Tunnel Project. The cost of the Lee Tunnel project (c.£590m) is factored into the AMP 5 Period.

Starting and ending on land already owned by TWUL, the Lee Tunnel requires no intermediate construction sites. In relation to the Thames Tunnel TWUL is undertaking the design and build phase but a funding mechanism has not been agreed with Ofwat in respect of delivering the main tunnel. Due to legislative changes introduced by the Flood and Water Management Act 2010, a third party infrastructure service provider may assume responsibility for delivering the main tunnel. The Tideway Project is expected to have a risk profile which may differ significantly from the typical capital projects routinely carried out by Regulated Companies, in terms of both the scale and nature of the project risk. If TWUL decided to enter into the Thames Tunnel Project, some of these financial risks may be passed on to construction partners (through contractual mechanisms) and customers (through regulatory pricing mechanisms).

Victorian Mains Replacement ('VMR') Programme

During the AMP 4 Period, TWUL invested c. £1.15 billion to reduce leakage, employing more than 2,000 contractors. The most significant part of this activity has been the instigation of the VMR Programme focusing on replacing the pipe network in those areas of London where mains are oldest and leakage and bursts are highest

Inset Appointments

An inset appointment can be granted to a company seeking to provide water and/or sewerage services on an unserved site, or to a large user of water and/or sewerage services within an existing Regulated Company's area, or where the incumbent Regulated Company consents to the variation. The threshold for large user insets is 50 Ml of water supplied or likely to be supplied to particular premises in any 12-month period. The inset mechanism continues alongside the regime for licensing new entrants under the Water Act. New entrants have been able to apply for a water supply licence since 1 August 2005. To date, eight new entrants (including Aquavitae) have sought and been granted water supply licences. On 20 June 2008, however, Ofwat issued a notice revoking the water licence of Aquavitae, following Aquavitae going into administration. Ofwat revoked Aquavitae's licence because the company was or was likely to be unable to pay its debts. Aquavitae did not have any water supply licence customers. The new water supply licensing regime is described in more detail in the section "The Water Act" below. This threshold is under review and likely to reduce to 5 Ml or possibly be abolished altogether in AMP 5.

Managing increased competition in the water industry

As a result of the reduction in the barriers to entry to the water industry, the Company will have to meet the challenges posed by aspiring new entrants and the resultant effect of competition on its pricing schemes and modes of operation which could result in increased costs to customers. Consequently, the Company has engaged with Ofwat in the consultation process and the discussion of potential competition models.

4. OUTSOURCING

During 2010 to support the business strategy, the Company undertook TUPE arrangements for the outsourcing of Legal and for the transfer of Capital Delivery design to contractors.

Following a fundamental review of the Company's strategy, in AMP 5 the majority of capital schemes will be procured and delivered as programmes of projects, rather than by letting an individual contract for each project. This enables greater efficiency to be realised through the optimisation of the programme, as well as increasing the accountability of the contractors for delivery of the required outputs. Contracts have been awarded following rigorous market competition.

For network repair and maintenance services the Company has challenged the market to determine the optimum delivery model, and has awarded contracts for the whole five year period which will enable the Company to reduce costs and improve operational flexibility and performance.

5. FINANCING

On 19 April 2010 Standard and Poor's Rating Services upgraded Class A debt issuance to 'A-' with a stable outlook from 'BBB+'. The upgrade reflects an improvement in the operating performance of the Company over AMP 4. Moody's Investor Services rates Class A debt issuance 'A3' with a stable outlook.

During the year to 31 March 2010 the following debt was raised:

- In October 2009, Thames Water Utilities Cayman Finance issued a £55m 2.091% RPI linked bond due 2042.
- In November 2009, TWUL signed and drew down a £300m RPI linked loan with the European Investment Bank.
- In February 2010, Thames Water Utilities Cayman Finance Limited privately issued a USD156,000,000 Class A Floating Rate Unwrapped Bonds due 2015.
- During the year ending March 2010 Thames Water Utilities Finance repaid 2 JPY5bn bonds

Class A bonds outstanding as at 31 March 2010 are as follows:

Issuer	Curr	Amt	Coupon %	Maturity Date	Description	Value in £m at 31 March 2010
TWUF	GBP	250m	4.750	30/06/2010	Fixed Rate Bond	250.0
TWUF	JPY	2bn	3.00	06/05/2011	Reverse dual currency Bond	10.3
TWUCF	EUR	500m	6.125	04/02/2013	Fixed Rate Bond	449.6
TWUCF	USD	156m	1.386	17/02/2015	Floating Rate Note	103.9
TWUF	GBP	200m	4.90	30/06/2015	Fixed Rate Bond	200.0
TWUF	GBP	200m	5.05	30/06/2020	Fixed Rate Bond	200.0
TWUF	GBP	225m	6.59	20/04/2021	Fixed Rate Bond	225.0
TWUF	GBP	175m	3.375	21/07/2021	RPI Linked Bond	214.8
TWUF	GBP	330m	6.75	16/11/2028	Fixed Rate Bond	330.0
TWUF	GBP	200m	6.50	09/02/2032	Fixed Rate Bond	200.0
TWUF	GBP	600m	5.125	28/09/2037	Fixed Rate Bond	600.0
TWUCF	JPY	20bn	3.280	20/08/2038	Fixed Rate Bond	143.8
TWUCF	GBP	50m	3.853	15/12/2040	LPI Linked Bond	50.1
TWUCF	GBP	50m	1.98	28/08/2042	RPI Linked Bond	52.5
TWUCF	GBP	55m	2.091	06/10/2042	RPI Linked Bond	56.2
TWUCF	GBP	100m	1.846	28/08/2047	RPI Linked Bond	105.0
TWUCF	GBP	200m	1.819	28/08/2049	RPI Linked Bond	210.0

TWUF	GBP	300m	1.68	11/07/2053	RPI Linked Bond	331.7
TWUF	GBP	300m	1.681	11/07/2055	RPI Linked Bond	331.7
TWUCF	GBP	200m	1.771	28/08/2057	RPI Linked Bond	210.0
TWUCF	GBP	400m	7.241	09/04/2058	Put Call Fixed Rate Bond	400.0
TWUCF	GBP	350m	1.76	28/08/2062	RPI Linked Bond	367.3
						5041.8

Accretion to date on RPI Linked Bonds amounts to £149.1m.

Class A debt also includes £400m of RPI Linked loans including the £300m from EIB referred to above. As at 31 March 2010 accretion on these loans amounted to £3.1m.

Treasury Transactions

All Treasury Transactions including hedging agreements are entered into under the terms of the Hedging Policy and the CTA.

Foreign currency debt instruments are converted to GBP liabilities with cross currency swaps as follows:

JPY	2bn	GBP	9.2m	6 May 2011	
EUR	500m	GBP	470m	4 Feb 2013	
USD	156m	GBP	100m	17 Feb 2015	
JPY	20bn	GBP	153.6m	20 Aug 2038	with early termination rights

Swaps with breaks amount to less than 2% of RCV at 31 March 2010 (limit 5% of RCV).

The following index-linked derivatives have been entered into since Aug 2007 to convert the coupon on various fixed rate bonds.

Payment of accretion

At approx five year intervals	GBP	100.0m	31 Dec 2029
At maturity	GBP	200.0m	9 Feb 2032
At maturity	GBP	400.0m	28 Sep 2037
At approx five year intervals	GBP	200.0m	29 Sep 2037
At maturity	GBP	94.1m	20 Aug 2038
At approx five year intervals	GBP	200.0m	31 Dec 2039
At approx five year intervals	GBP	100.0m	17 Feb 2060
		1,294.1m	

There are no breaks on the index-linked swaps. Accretion to 31 March 2010 on RPI Linked swaps: £46.9m. Percentage of accretion versus Class A net indebtedness: 0.86% (limit 8% of Class A net indebtedness).

As at 31 March 2010 the Company had committed facilities in place (via Thames Water Utilities Cayman Finance Ltd) with a syndicate of ten relationship banks to the value of £1,105.0m all of which were un-drawn. These facilities will provide us with the necessary liquidity to fund the operation of the business for at least the next twelve months. The annual renewal process for £355m of liquidity facilities is due in August 2010. The £750m revolving credit facility matures September 2012.

From 1 April 2010, the Company and the Securitisation Group has the option to issue Subordinated Debt ('Class B'). At the same time, there is an increase in the combined Class A and Class B (together 'Senior') net Debt/RCV ratio, to a limit of 85 per cent.

6. DIVIDEND POLICY

The Company's dividend policy is:

- To pay a progressive dividend commensurate with the long-term returns and business performance, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

In the year ending 31 March 2010 the company paid the following dividends:

- In April 2009 an interim dividend £116.9m was paid to Thames Water Utilities Holdings Limited ('TWUHL') and was used by TWUHL to settle inter-company interest owing to TWUL; and
- Interim dividends of £60m in May 2009 and £131m in October 2009.

As a post balance sheet event, on 10 June 2010 the directors approved a second interim dividend of £28.2m (2.7p per ordinary share) in respect of the year ended 31 March 2010. This interim dividend was paid to TWUHL on 24 June 2010, and will be used by TWUHL to settle inter-company interest owing to TWUL. On the same day, the directors also approved a further interim dividend of £132.3m (12.8p per ordinary share) in respect of the year ended 31 March 2010. This interim dividend paid in two tranches of £75.0m to TWUHL in June 2010 and £57.3m for intercompany interest in September 2010.

7. FINANCIAL RATIOS

Note that the forecasts provided below maintain the existing capital structure for Financial Ratio calculation purposes. They do not include the possible upcoming Class B debt issuance.

We have made three adjustments to amounts referred in the 31 March 2010 TWUL financial statements in order to arrive at the 2010 covenants below in accordance with the terms of the Common Terms Agreement:

1. Senior/Class A Net Indebtedness:

	31 March 2010 Actual	31 March 2011 Forecast
Net Debt per accounts:	£5,549.4m	£6,048.6
Less subordinated intercompany debt ^{a)}	(£150.0m)	(£150.0m)
Add back amortised debt fees	37.1m	37.1m
Senior/Class A Net Indebtedness per compliance statement:	£5,436.5m	£5,935.7

a) TWUL has a £200m subordinated intercompany loan facility from Thames Water Limited of which £150m was drawn at 31 March 2010. Subordinated debt is not included in Net Indebtedness and this adjustment to published Net Debt is made in all future years.

2. Regulatory Capital Value:

	31 March 2010 Actual	31 March 2011 Forecast
RCV per accounts:	£7,721.3m	£8,703.5m
Variances attributable to investment in Major Capex Projects ^{b)}	£241.0m	£0m
RCV per compliance statement:	£7,962.3m	£8,703.5m

b) TWUL has agreed with Ofwat and the Security Trustee specific variances attributable to investment in Major Capex Projects where such projects are not reflected in the current (2004) Periodic Review. The variances may be included in the calculation of RCV. The adjustment at 31 March 2010 relates to expenditure on the Tideway Project and similar adjustments relating to this and other Major Capex Projects are forecast to be made in future years.

3. Corporation Tax Paid (as deducted from Net Cash Flow):

	31 March 2010 Actual	31 March 2011 Forecast
Corporation tax paid per accounts:	£76.0m	£55.1m
Less Tax in respect of interest received on the Intra-Group Loan between TWUL and TWUH ^{c)}	(£7.9m)	(£4.1m)
Corporation Tax Paid	£68.1m	£51.0m

c) TWUL receives interest on its £1,180.0m intra-group loan to TWUH. Tax paid on this interest may be deducted from corporation tax paid in the calculation of Net Cash. Interest receivable for the 2009/10 year was £28.3m and the tax paid was £7.9m.

We confirm that in respect of the Calculation Date on 31 March 2010, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (*Financial Statements*) of Part 1 (*Information Covenants*) of Schedule 4 (*Covenants*) to the Common Terms Agreement that the ratios are as detailed in the table below:

Date	Year Ending 31 March 2010	Year Ending 31 March 2011
	Actual	Forecast
Class A RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	68.3%	68.2%
Senior RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	68.3%	68.2%

Test Period	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011
	Actual	Forecast
Class A ICR	4.2	3.6
Class A Adjusted ICR	2.1	1.6
Senior Adjusted ICR	2.1	1.6
Class A Average Adjusted ICR	1.8	1.7
Senior Average Adjusted ICR	1.8	1.7

(together the '**Ratios**').

We confirm that each of the above Ratios has been calculated in respect of the relevant period(s) for which it is required to be calculated under the Common Terms Agreement and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (*Ratios*) of Part 2 (*Events of Default (TWUL and the Issuer)*) of Schedule 6 to be breached.

We set out below the computation of the ratios above for your information:

Test Period	Year Ending 31 March 2010 Actual	Year Ending 31 March 2011 Forecast
Net Cash Flow divided by Class A Debt Interest	£943.7m (£224.1m)	£877.5m (£241.4m)
CLASS A ICR	4.2	3.6
Net Cash Flow less CCD & IRC	£943.7 <u>(£482.0m)</u>	£877.5m <u>(£494.5m)</u>
Adjusted Cash Flow divided by Senior Debt Interest	£461.7m (£224.1m)	£383.0m (£241.4m)
SENIOR ADJUSTED ICR	2.1	1.6
Net Cash Flow less CCD & IRC	£943.7m <u>(£482.0m)</u>	£877.5m <u>(£494.5m)</u>
Adjusted Cash Flow divided by Class A Debt Interest	£461.7m (£224.1m)	£383.0m (£241.4m)
CLASS A ADJUSTED ICR	2.1	1.6
Year 1 Senior Adjusted ICR	2.1	1.6
Year 2 Senior Adjusted ICR	1.6	1.7
Year 3 Senior Adjusted ICR	1.7	1.7
SENIOR AVERAGE ADJUSTED ICR	1.8	1.7
Year 1 Class A Average Adjusted ICR	2.1	1.6
Year 2 Class A Average Adjusted ICR	1.6	1.7
Year 3 Class A Average Adjusted ICR	1.7	1.7
CLASS A AVERAGE ADJUSTED ICR	1.8	1.7

Test Period	31 March 2010 Actual	31 March 2011 Forecast
Senior Net Indebtedness divided by RCV	£5,436.5m £7,962.3	£5,935.7m £8,703.5m
SENIOR RAR	68.3%	68.2%
Class A Net Indebtedness divided by RCV	£5,436.5m £7,962.3m	£5,935.7m £8,703.5m
CLASS A RAR	68.3%	68.2%

Payment of the Annual Finance Charge

We certify that on 1 April 2009 the Annual Finance Charge Amount was £240.4m and the Monthly Payment Amount equated to £20.0m. Periodically the Annual Finance Charge Amount is reforecast and the reforecast Annual Finance Charge at the end of the current period was £216.7m. At the start of the next financial year, being 1 April 2010, the annual finance charge is £236.9m. The Monthly Payment Amount is £19.7m adjusted to cover the large interest payment due in April 2010 of £48.1m.

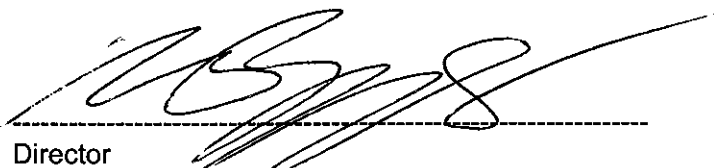
We also confirm that:

- (a) no Default or Potential Trigger Event is outstanding; and
- (b) that TWUL's insurances are being maintained in accordance with:
 - the Common Terms Agreement; and
 - the provisions of the Finance Leases.

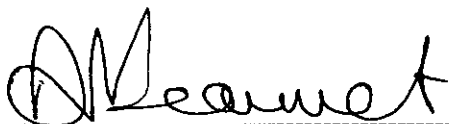
Yours faithfully,



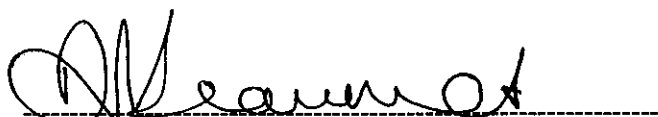
Chief Financial Officer



Director
For and on behalf of
THAMES WATER UTILITIES LIMITED



Director
For and on behalf of
THAMES WATER UTILITIES CAYMAN FINANCE LIMITED



Director
For and on behalf of
THAMES WATER UTILITIES FINANCE LIMITED

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