

Investors Report

For the period ended 31 March 2011



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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 2011.

Highlights

This was the first year of the new Asset Management Period, which has been financially challenging for the Company. However the Company has achieved its key regulatory outputs, and outperformed the Final Determination ("FD") by almost £13m.

Other achievements include:

- Delivering over £1bn of investment in the year.
- Customer complaints fell by 6.7% (2010: 14.0%).
- Staging the water industry's first Health and Safety Excellence Awards for the main contractors carrying out the work on the Company's 2010-15 investment programme.
- Meeting the Company's water-efficiency target; Ofwat set a goal of saving 4Mld by encouraging water-wise behaviour by customers. The Company saved 5Mld.
- Opening mainland UK's first desalination plant at Beckton in East London so that 1m people when needed can be supplied with high-quality tap water taken from brackish water in the tidal River Thames.
- Meeting the Company's annual leakage target despite the coldest start to a winter in 100 years, and delivering 100% security of water supply to all its customers.
- Maintaining the Company's drinking water quality performance at the high level of 99.97% compliance.
- Agreeing terms to build Europe's first reactor to make premium-grade phosphate fertiliser, derived from struvite deposits on pipes at Slough sewage works.
- Reducing emissions by 11% on 1990 levels, despite serving 3m more customers today than 20 years ago, and becoming the first UK utility to be re-accredited with the Carbon Trust Standard.
- Continuing focus on meeting customers needs including further reduction of 182 properties at risk of sewer flooding.
- Continued investment in the London Tideway Improvements programme to clean up the River Thames: £675m of upgrades to London's five main sewage works and the £635m Lee Tunnel, to stop sewage overflows to the River Lee, a tributary of the Thames.
- Running a six-week unbilled customer amnesty to encourage people who use water but do not receive a bill to come forward. This amnesty resulted in more than 1,300 new accounts being set up, making it fairer on paying customers.

2. FINANCIAL PERFORMANCE

Performance Measure	The Company			The regulated business		
	Year to 31 March 2011 £m	Year to 31 March 2010 £m	% Change	Year to 31 March 2011 £m	Year to 31 March 2010 £m	% Change
Turnover	1,623.1	1,623.8	0.0%	1,600.0	1,593.1	0.4%
Operating expenditure ¹	629.6	609.2	3.4%	627.1	604.8	3.7%
Operating profit ²	600.2	671.1	10.6%	598.1	689.5	13.3%
Total capital expenditure ³	1,006.6	754.1	33.5%	1,003.0	763.0	31.5%

The following commentary is in respect of the Company.

Turnover

Turnover remained broadly in line with prior year at £1,623.1m (2010: £1,623.8m). Whilst reflecting real increases in price ('K'), as agreed with Ofwat, together with increases linked to the Retail Price Index ("RPI"), turnover remained in line with last year largely as a result of lower metered consumption reflecting the Company's customers' wise use of water.

Operating expenditure

Whilst the Company has continued its emphasis on driving operating efficiencies and ensuring the delivery of its regulatory outputs, operating costs have increased by 3.4% to £629.6m (2010: £609.2m). This year on year increase is largely due to inflation (RPI has averaged nearly 5%) together with increased bad debt provisioning resulting from the impact of the economic downturn, higher business rates and additional costs associated with the coldest start to winter for 100 years. Despite these cost pressures the Company has still managed to deliver efficiencies to hold the year on year increase to just 3.4%.

Operating profit

As a result of static turnover, increased operating expenditure, as explained above, and an increase in depreciation of £49.8m (14.5%) reflecting the significant capital investment over recent years, operating profit has fallen by 10.6% to £600.2m (2010: £671.1m).

Capital expenditure

2011 has been a successful year for capital delivery with the Company investing over £1bn and completing all of its capital regulatory outputs within the first year of Asset Management Period 5 ("AMP5"). This is a great start to the new AMP and a solid platform to deliver the Company's required investment programme of nearly £5bn over the regulatory period.

¹ Operating expenditure: operating costs, excluding depreciation and the Infrastructure Renewals Charge ("IRC").

² Operating profit: turnover less operating costs for the Company but including profit on sale of assets for the regulated business.

³ Total capital expenditure: total expenditure on tangible fixed assets including contributions received. Regulatory capital expenditure, in addition includes maintenance non infrastructure income.

3. REGULATORY and BUSINESS UPDATE

Executive Team Update

Stuart Siddall is to join Thames Water as Chief Financial Officer this September after leaving his current role as Chief Executive of The Association of Corporate Treasurers.

Stuart joined Price Waterhouse in Johannesburg after qualifying as a Chartered Accountant. Returning to the UK, Stuart held several senior financial roles and was among the first students to qualify with the Association of Corporate Treasurers. He has gained extensive experience in the construction, engineering and utilities sectors, including serving as Finance Director for Amec plc, Balfour Beatty Limited and Manweb plc.

Key performance measures

The table below shows the Company's performance against its key performance measures, which with two exceptions all measures with target were achieved.

Key performance measures		Target	2011 Actual	Target achieved
Customer Services levels				
Inadequate pressure (DG2)	Properties	34	14	✓
Interruptions to supply (DG3)	Points	0.35	0.58	✗
Billing queries (DG6)	%	99.9	99.9	✓
Complaint handling (DG7)	%	99.6	99.6	✓
Meter reading (DG8)	%	99.7	99.7	✓
Abandoned rate (DG9)	%	7.5	5.1	✓
Security of Supply				
Security of supply score	Annual average	100	100	✓
Security of supply score	Critical period	99	100	✓
Leakage	Mld	674	665	✓
Pollution Incidents				
Serious or significant pollution incidents	Number	0	10	✗
Quality				
Water quality mean zonal compliance	% (2010 calendar)	99.97	99.97	✓
Sewage works compliance	% (All measures)	100	100	✓
Serviceability				
Water non-infrastructure (process)		Stable	Stable	✓
Water infrastructure (network)		Stable	Stable	✓
Wastewater non-infrastructure (process)		Stable	Stable	✓
Wastewater infrastructure (network)		Stable	Stable	✓

Key performance measures – highlights

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

Water Service and Environmental Performance

- Between 2005 and 2011, the Company has reduced leakage by 27% by replacing old Victorian pipes mainly under London. Despite the coldest start to a winter for 100 years the Company has now met Ofwat's annual leakage target for the last five years. This improved performance follows the acquisition of the Company by a consortium of investors led by the Macquarie European Infrastructure Funds in 2006.
- This year the Company's mains replacement programme moved out of London for the first time, with projects starting in Slough and Reading. This work continues to contribute to the overall range of measures and initiatives in keeping leakage under control.
- The Company's drinking water quality performance remains high at 99.97% compliance. 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' pipework and fittings. To that extent, 100% compliance is not within the control of the Company. However, management continues to strive to achieve this aim and the Company is one of the best performing companies in the industry.
- The Company always encourages people to use water wisely – something which resulted in a daily saving of 5Mld last year (two Olympic-size swimming pools a day), surpassing Ofwat's 4Mld target.

Sewerage Service and Environmental Performance

- During this year, the number of homes at the highest risk of internal sewer flooding due to lack of sewer capacity has reduced to 1,526 (2010: 1,604) The Company's ambition is to eliminate this service failure.
- Every year the Company clears approximately 55,000 blockages in sewers at a cost of around £12m, three quarters of these are caused by 'sewer abuse' which is when anything other than human waste or toilet paper goes down into the drains.
- The Company achieved 100% compliance with the Environment Agency's standards on treated effluent across all of the 349 treatment works.
- Sludge is a by-product of the sewage treatment process. The majority of this has been recycled and used on agricultural land as fertiliser.
- The Company has maintained its 100% compliance with statutory requirements for dealing with sludge and was able to meet the new tougher quality requirements in the voluntary code of practice known as the 'Safe Sludge Matrix'.

Security of Supply

- The Company has delivered 100% Security of Supply to all its customers.

Customer Service

- Digital communications are now at the forefront of modern business and the Company is very proud to have been the only UK water company named in the 'Social Brands 100' report.
- The Company's new customer centre at Kemble Court in Reading was opened in May 2010 and has already led to improvements in the way the Company plans and coordinates its work and responds to customer queries.

- The Company has also made it easier for customers to speak directly to an agent and has introduced an additional feature to enable customers to find out about anything affecting water supply on the same phone line. As a result of these changes, there has been a marked reduction in the number of calls that have been abandoned this year.
- This year the Company staged its biggest-ever public consultation on the proposed Thames Tunnel, receiving some 3,000 individual responses. The next phase of the public consultation is due to start in September 2011 before the Company submits a final planning application for the scheme in 2012.

Incidence Rate – accidents per 1,000 employees

Management continue to focus on health and safety, with a number of initiatives launched in the year. The headlines for 2011 show a significant improvement in the Company's processes and compliance capability:

- The number of reportable accidents fell to an Accident Incident Rate ("AIR") of 0.39, injuries per 1,000 employees, (2010: 0.50) across the business, a 22% improvement.
- The Company introduced a new Health and Safety Management System with over 400 managers now trained in risk assessment and managing health and safety. The Company aims to have all people managers trained by mid year.
- An AMP5 contractors' conference was held during the year with a presentation of the Excellence in Health and Safety Awards, recognising improvement, achievement and excellence.
- The Company introduced flu vaccinations, which have been taken up by over 300 staff at a number of locations.

Principal risks and uncertainties

Risk overview

The Company's Risk Management process is integrated within the business, and is designed both to identify emerging risks and to minimise the adverse impact of emerging and existing risks. Each business area is responsible for managing its risks, and maintains a risk register, which is reviewed regularly. Significant risks are escalated and reviewed by the Executive.

The Company is exposed to a number of potential risks and uncertainties that could have a material impact on its long-term performance. These include:

- Delivery of Thames Tunnel – As an innovative solution to the challenge of reducing sewage discharges into the Thames, the design and construction of the Thames Tunnel presents a number of major technical and logistical challenges. These include the need to identify and secure a number of construction sites in central London, to obtain the planning consents needed from London boroughs and to manage the inevitable disruption. As well as the many stakeholder issues, a key challenge is to finance the project, which has a different scale and risk profile to other Company activities. A number of possible funding and delivery models are being considered between the Company, Ofwat and the Department for Environment, Food and Rural Affairs ("Defra"), including delivery by a specialist project company appointed under the Flood and Water Management Act 2010.
- PR14 determination – All UK water and sewerage companies must justify the operating costs and capital investment needed to deliver service to customers in the five-year period from April 2015. Failure to demonstrate the Company's case to Ofwat's satisfaction may mean that it is unable to invest in asset improvements that the Company believes will benefit its customers in the long term.
- Failure to meet regulatory targets – The Company is required to meet targets set by Ofwat, the Environment Agency, the Drinking Water Inspectorate and other regulators. In order to achieve this, the Company must continue to deliver cost and efficiency savings in line with a challenging FD, while maintaining and improving operational performance. Performance against these is the subject of frequent management review.
- Managing increased competition in the water industry – A White Paper is expected in December 2011, leading to legislation from 2012 setting out a framework for competition beyond 2015. Separate proposals are potentially anticipated for upstream (wholesale) and downstream (retail) competition.

- Transfer of private drains and sewers – The Government has committed to transferring responsibility for operation, maintenance and replacement of private sewers and pumping stations to water and sewerage companies, with effect from 1 October 2011. Limited information is available on these assets, and companies will have to provide an acceptable level of customer service and obtain retrospective funding through Ofwat for the costs incurred in the current regulatory period.
- Employee pension scheme funding – The Company operates two defined benefit pension schemes. Whilst the Company has reduced its future exposure by closing the final salary schemes to new entrants, and moving a number of senior employees onto a defined contribution scheme, the Company remains liable for the historic rights earned by past and present employees. There is a risk that further falls in asset values will increase the deficit further and require further employer contributions to safeguard members' benefits.
- Failure to maintain adequate funding arrangements – As at 31 March 2011, the Company has adequate cash at bank and short term deposits of £776m (2010: £579m) and undrawn committed bank facilities of £1,175m (2010: £1,105m) in place to provide liquidity as required. The Company will need to renew £425m of 364 day committed facilities by July 2011. The Company has been extremely successful in raising new debt financing in difficult market conditions, with circa £1.8bn raised in the financial year to 31 March 2011. However, due to continuing uncertainties in credit markets, there is a risk that the cost of raising new debt and refinancing bank facilities will put pressure on key financial covenants (as defined by the Company's capital structure). Whilst RPI at March 2011 is at a recent high, the impact of a falling RPI rate on the RCV could create further pressure on financial covenant headroom, specifically the ratio of net debt to RCV.
- Future changes in laws or regulations – The Company is not funded by Ofwat for changes in obligations that would affect the whole economy. Consequently the Company may, for example, have to meet the obligations resulting from changes in environmental legislation without recourse to Ofwat. However, changes that are specific to, or are more material for, the water industry may be funded by Ofwat as a relevant change of circumstance.
- Failure of a major asset – A failure at one of the Company's major assets could significantly impact the safety of its workforce and the public, as well as interrupting supply to customers and breaching environmental and regulatory targets. The impact would be both financial and reputational, and as a result the Company has a specific process to manage the identified risks.
- The effects of climate change and long-term changes in weather patterns – As the Company continues to supply an increasing population, the effects of climate change could adversely affect its ability to maintain its Security of Supply Index (SoSI) requirements. Consequently, in addition to substantially enhanced demand management measures, the Company is currently making provision for new sources of potable water, greater network integrity and, together with other water companies and regulators, is actively contributing to work to identify the wider water resources needs across the South East of England.
- Shortage of skilled labour – The shortage of available skilled labour in London and the South East creates an environment in which the Company must compete with other organisations for staff with the necessary skills, particularly engineering, in order to deliver the capital programme agreed in the FD and additional major planned projects. Failure to deliver agreed targets may result in fines, intervention by Ofwat and less favourable future periodic determinations.
- Impact of low inflation or deflation – In return for their capital investment in assets, regulated water companies earn a return on their RCV, which is adjusted by the RPI. In times of low inflation or

- Customer experience measures – The measure for customer performance is evolving from quantitative to qualitative criteria. All water companies will need to adapt processes in order to optimise performance against these new criteria to be measured against Ofwat's Service Incentive Mechanism ("SIM").

4. OUTSOURCING

Following an extensive review and market testing exercise the strategic sourcing function of Supply Chain was outsourced to Efficio, a leading procurement service provider. The five year contract is expected to deliver significant savings and improved service levels to the business. 21 staff transferred to Efficio in April 2011.

Thames Water consolidated its metering services operations within an outsourcing contract awarded to Vennsys. The £300m contract is drafted to incentivise best performance at best price and include further benchmarking and supplier change control provisions to manage the cost of delivery. Vennsys are required to drive continuous improvement through assessments of options to outperform and expand the baseline service. 125 meter reading and sales investigation staff transferred to the new supplier.

A market-test of our arrangements for operating the Kempton granular activated carbon plant is underway. This may result in outsourcing the operation but remains subject to evaluation.

Earlier in the year, 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, for AMP 5 the majority of capital schemes were procured and are to be delivered as programmes of projects, rather than by letting an individual contract for each project. This will enable 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. The contracts were awarded following rigorous market competition.

The Company also awarded contracts for AMP5 for network repair and maintenance services. These contracts will enable the Company to reduce costs and improve operational flexibility and performance.

5. FINANCING

Debt financing is raised by the Company or through the Company's wholly owned subsidiary; Thames Water Utilities Cayman Finance Limited. Previously, debt had been raised through Thames Water Utilities Finance Limited; another wholly owned subsidiary. 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.

In July 2010, Thames Water Utilities Cayman Finance Limited issued Class B bonds on behalf of the Company. This Class B debt is rated Baa3 by Moody's and BBB by Standard and Poor's.

During the twelve months to 31 March 2011 the following debt was raised:

- In July 2010, Thames Water Utilities Cayman Finance issued a £550m 5.375% Class B bond due 2025 and callable 2017. The issue is the largest Class B issuance with the lowest coupon achieved by a UK utility company. The issue was two times oversubscribed.
- In September 2010, Thames Water Utilities Cayman Finance issued a £300m 5.75% Class B bond due 2030 and callable 2022. The bond has the longest term of any Class B issuance by a UK utility company. The issue was six times oversubscribed.
- In October 2010, Thames Water Utilities Cayman Finance issued a £40m 1.974% RPI-linked Class A bond due 2045.
- In November 2010, Thames Water Utilities Cayman Finance issued a €500m 3.25% Class A bond due 2016.
- In February 2011, Thames Water Utilities Cayman Finance issued a £500m 5.50% Class A bond due 2045

During the period Thames Water Utilities Limited repaid external loans totalling £145m, repaid an inter-company loan of £150m and Thames Water Utilities Finance repaid a £250m bond.

Class A and Class B bonds outstanding as at 31 March 2011 are as follows:

Issuer	Curr	Amt	Coupon %	Maturity Date	Description	Value in £m at 31 March 2011
TWUF	JPY	2bn	3.00	06/05/2011	Reverse dual currency Bond	15.0
TWUCF	EUR	500m	6.125	04/02/2013	Fixed Rate Bond	464.2
TWUCF	USD	156m	1.386	17/02/2015	Floating Rate Note	96.7
TWUF	GBP	200m	4.9	30/06/2015	Fixed Rate Bond	200.0
TWUCF	EUR	500m	3.25	09/11/2016	Fixed Rate Bond	439.2
TWUCF	GBP	550m	5.375	21/07/2017	Fixed Rate Bond, Class B	550.0
TWUCF	GBP	400m	7.241	09/04/2018	Fixed Rate Bond	400.0
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	256.1
TWUCF	GBP	300m	5.75	13/09/2022	Fixed Rate Bond, Class B	300.0
TWUF	GBP	330m	6.75	16/11/2028	Fixed Rate Bond	330.0
TWUF	GBP	200m	6.5	09/02/2032	Fixed Rate Bond	200.0
TWUF	GBP	600m	5.125	28/09/2037	Fixed Rate Bond	600.0
TWUCF	JPY	20bn	3.28	20/08/2038	Fixed Rate Bond	138.6
TWUCF	GBP	50m	3.853	15/12/2040	LPI Linked Bond	67.6
TWUCF	GBP	500m	5.5	11/02/2041	Fixed Rate Bond	500.0
TWUCF	GBP	50m	1.98	28/08/2042	RPI Linked Bond	47.1
TWUCF	GBP	55m	2.091	06/10/2042	RPI Linked Bond	53.5
TWUCF	GBP	40m	1.974	12/10/2045	RPI Linked Bond	38.3
TWUCF	GBP	100m	1.846	28/08/2047	RPI Linked Bond	92.4
TWUCF	GBP	200m	1.819	28/08/2049	RPI Linked Bond	182.8
TWUF	GBP	300m	1.68	11/07/2053	RPI Linked Bond	315.5
TWUF	GBP	300m	1.681	11/07/2055	RPI Linked Bond	300.0
TWUCF	GBP	200m	1.771	28/08/2057	RPI Linked Bond	180.1
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	312.0
						6,904.1

Accretion to date on RPI Linked Bonds amounts to £245.8m.

Class A debt also includes £400m of RPI Linked loans including £300m from EIB. As at 31 March 2011 accretion on these loans amounted to £24.2m.

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	
EUR	500m	GBP	438.1m	9 Nov 2016	
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 2011 (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		Notional	
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 2011 on RPI Linked swaps: £116.9m. Percentage of accretion versus Class A net indebtedness: 1.95% (limit 8% of Class A net indebtedness).

As at 31 March 2011 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 £1,175m all of which were un-drawn. As at July 2011 a process was underway to increase the liquidity facilities by £25m (bringing the total to £450m), re-allocating the facilities amongst a group of twelve relationship banks. These facilities will provide the necessary liquidity to fund the operation of the business for at least the next twelve months. A process will be undertaken shortly to extend the £750m revolving credit facility term to five years well ahead of the current maturity of September 2012 re-allocating the facility amongst the enlarged group of twelve relationship banks.

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.

Directors, in assessing the dividend to be paid (to a maximum of statutory distributable reserves), are required to ensure that:

- Sufficient liquidity is maintained to enable the business to meet its financial obligations for 15-months.
- Post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis.

In the year ending 31 March 2011 the Company paid the following dividends in respect of year ended 31 March 2010:

- In June 2010 an interim dividend of £28.2m (2.7p per ordinary share) was paid to Thames Water Utilities Holdings Limited ('TWUHL') and was used by TWUHL to settle inter-company interest owing to the Company.
- An interim dividend of £75.1m (7.3p per ordinary share) was paid in November 2010.

In the year ending 31 March 2011 the Company paid the following dividends in respect of year ended 31 March 2011:

- An interim dividend of £132.3m (12.8p per ordinary share) was paid in two tranches of £75.0m in June 2010 and £57.3m in September 2010.
- An interim dividend of £35.8m (3.5p per ordinary share) was paid in March 2011.

The following post balance sheet payments were paid in respect of year ended March 2011

- On 3 March 2011, the directors approved an interim dividend of £24.4m (2.4p per ordinary share). The interim dividend was paid to Thames Water Utilities Holdings Limited ("TWUHL") on 11 April 2011 to be used by TWUHL to settle inter-company interest owing to Thames Water Utilities Limited.
- On 9 June 2011, the directors approved an interim dividend of £100m (9.7p per ordinary share) and was paid on 23 June 2011.

7. FINANCIAL RATIOS

We have made three adjustments to amounts referred in the 31 March 2011 TWUL financial statements in order to arrive at the 2011 covenants below in accordance with the terms of the Common Terms Agreement:

1. Senior Net Indebtedness:

Date	31 March 2011
Senior Net Debt per accounts:	£6,795.8m
Less subordinated intercompany debt ^{a)}	£0m
Add back amortised debt fees	£52.8m
Senior Net Indebtedness per compliance statement:	£6,848.6

Class A Net Indebtedness

Date	31 March 2011
Senior Net Debt per accounts:	£6,795.8m
Less Class B	£850m
Add back amortised debt fees	£44.6m
Class A Net Indebtedness per compliance statement:	£5,990.4

a) TWUL has a £200m subordinated intercompany loan facility from Thames Water Limited of which £0m was drawn at 31 March 2011.

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

Date	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Corporation tax paid per accounts:	£26.0m	£13.5m	£10.7m	£35.8m	£56.3m
Less Tax in respect of interest received on the Intra-Group Loan between TWUL and TWUH ^{c)}	(£6.8m)	(£4.7m)	(£8.2m)	(£10.2m)	(£11.3m)
Corporation tax paid	£19.2m	£8.8m	£2.4m	£25.6m	£45.0m

b) TWUL receives interest on its £1,865m 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 2010/11 year was £24.4m and the tax paid was £6.8m

We confirm that in respect of the Calculation Date on 31 March 2011, 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:

Ratios as follows:

Date	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
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)	67.7%	71.1%	71.3%	70.1%	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)	77.4%	80.6%	80.0%	78.9%	77.3%

Test Period	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014	1 April 2014 to 31 March 2015
Class A ICR	4.8	4.0	4.1	4.2	4.1
Class A Adjusted ICR	2.1	1.7	1.9	2.0	2.0
Senior Adjusted ICR	2.1	1.4	1.6	1.6	1.6
Class A Average Adjusted ICR	1.9	1.8	2.0	2.0	2.0
Senior Average Adjusted ICR	1.7	1.5	1.6	1.6	1.6

(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:

Year Ended

	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Net Cash Flow divided by Class A Debt Interest Class A ICR	923.9 (192.2) 4.8	934.5 (230.8) 4.0	1,094.4 (267.7) 4.1	1,168.4 (280.1) 4.2	1,240.7 (303.5) 4.1
Net Cash Flow less CCD & IRC Adjusted Cash Flow divided by Class A Debt Interest Class A Adjusted ICR	923.9 <u>(513.0)</u> 410.9 (192.2) 2.1	934.5 <u>(548.3)</u> 386.2 (230.8) 1.7	1,094.4 <u>(586.1)</u> 508.3 (267.7) 1.9	1,168.4 <u>(616.1)</u> 552.3 (280.1) 2.0	1,240.7 <u>(637.5)</u> 603.2 (303.5) 2.0
Net Cash Flow less CCD & IRC Adjusted Cash Flow divided by Senior Debt Interest Senior Adjusted ICR	923.9 <u>(513.0)</u> 410.9 (192.2) 2.1	934.5 <u>(548.3)</u> 386.2 (278.2) 1.4	1,094.4 <u>(586.1)</u> 508.3 (321.9) 1.6	1,168.4 <u>(616.1)</u> 552.3 (340.3) 1.6	1,240.7 <u>(637.5)</u> 603.2 (367.9) 1.6
Year 1 Class A Adj. ICR Year 2 Class A Adj. ICR Year 3 Class A Adj. ICR Class A Average Adjusted ICR	2.1 1.7 1.9 1.9	1.7 1.9 2.0 1.8	1.9 2.0 2.0 2.0	2.0 2.0 1.9 2.0	2.0 2.0 1.9 2.0
Year 1 Senior Adj. ICR Year 2 Senior Adj. ICR Year 3 Senior Adj. ICR Senior Average Adjusted ICR	2.1 1.4 1.6 1.7	1.4 1.6 1.6 1.5	1.6 1.6 1.6 1.6	1.6 1.6 1.6 1.6	1.6 1.6 1.6 1.6

	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Senior Net Indebtedness divided by	6,848.6	8,054.6	8,716.6	9,440.1	9,966.1
RCV	8,849.1	9,998.9	10,894.6	11,957.4	12,892.3
Senior RAR	77.4%	80.6%	80.0%	78.9%	77.3%
Class A Net Indebtedness divided by	5,990.4	7,104.6	7,766.6	8,380.0	8,792.4
RCV	8,849.1	9,998.9	10,894.6	11,957.4	12,892.3
Class A RAR	67.7%	71.1%	71.3%	70.1%	68.2%


Payment of the Annual Finance Charge

We certify that on 1 April 2010 the Annual Finance Charge Amount was £221.9m and the Monthly Payment Amount equated to £18.5m. Periodically the Annual Finance Charge Amount is reforecast and the reforecast Annual Finance Charge at the end of the current period was £192.8m. At the start of the next financial year, being 1 April 2011, the Annual Finance Charge is £284.0m. The Monthly Payment Amount is £23.7m adjusted to cover the large interest payment due in April 2011 of £48.1m.

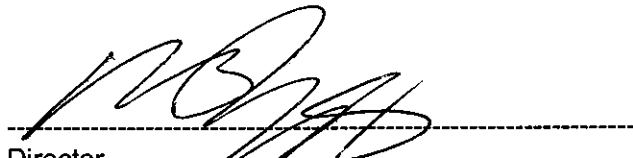
We also confirm that:

- (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.

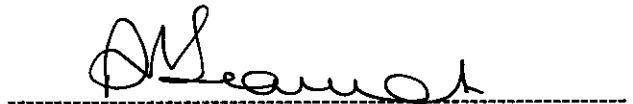
Yours faithfully,



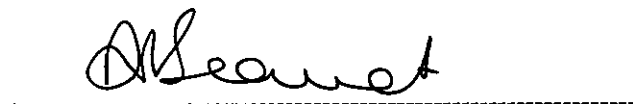
Chief Financial Officer



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