

Investors Report

For the period ended 30 September 2010



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1. GENERAL OVERVIEW

The information provided in this report is sourced primarily from the interim report and financial statements of Thames Water Utilities Limited (the 'Company') for the six-month period ended 30 September 2010.

Financial highlights for the six months to 30 September 2010

- Turnover £813.7m (2009: £805.6m)
- EBITDA of £505.1m (2009: £506.6m)
- Capital investment of £328.1m (2009: £379.2m)

The business continued to deliver strong financial performance in the six months to 30 September 2010. Earnings Before Interest, Tax, Depreciation and Amortisation has remained consistent period on period falling by £1.5m to £505.1m compared to £506.6m for the six months to 30 September 2009.

Regulatory reform

The Water Services Regulation Authority ("Ofwat") has introduced two new customer service measures to drive improvements in customer experience across the water industry. The measures focus on driving a reduction in unnecessary customer contacts and improving customer satisfaction as measured by independent research. From April 2011, the measures will form part of a new Service Incentive Mechanism ("SIM") which replaces the Overall Performance Assessment ("OPA"). The basket of measures used in OPA, including the Director General ("DG") customer service levels 1 - 9 will continue. For some time the customer experience has been at the forefront of the Company's values and it welcome's this regulatory mechanism as an incentive to improve its own customers' experience and to raise the bar across the whole water industry.

There is also currently a major change agenda for the water industry. Ofwat is conducting a review of how it regulates the industry and determines price controls. The Government is also reviewing the future challenges facing the water industry and has committed to publishing a Water White Paper in summer 2011. The Water White Paper will encompass the Government's conclusions on Professor Martin Cave's 'Review of Competition and Innovation in Water Markets' and Anna Walker's 'Review of Charging for Household Water and Sewerage Services'.

While the existing regime has delivered demonstrable benefits to customers, the Company recognises that reform has the potential to deliver further improvements. It is essential that the strong performance and stability of the existing regulatory regime are not compromised, and that the impact of all material changes are fully understood in advance by all parties. To this end, the Company is working collaboratively with its stakeholders to help advance the debate and ensure that the reforms deliver the most benefit for its customers.

Public Inquiry

The Public Inquiry into the Company's draft 'Water Resources Management Plan' ended in August 2010. The Inspector has indicated that she will submit her report to the Secretary of State in December 2010 and the Company does not expect to hear the outcome formally until spring 2011. The Company considered that the proposed plan was presented effectively, placing appropriate emphasis on the need to meet statutory requirements on security of supply over the full 25 years of the plan. The Company has committed to undertake further work on a number of issues raised at the inquiry, to inform the next round of water resource planning.

Transforming Thames

The Transforming Thames project continues and in recent months has gathered more pace. In the Company's Annual Report and Financial Statements for the year ended 31 March 2010, there was discussion of the Asset Management business model deemed necessary to fulfil the significant challenges presented in Ofwat's Final Determination. The Asset Management business model was implemented at the start of 2010 and puts the Company in a good position to deliver efficiently the £4,900m capital programme agreed with Ofwat for the five years ending 31 March 2015. Further, the "back office" Finance, Supply Chain and Human Resources work packages of SAP have been very successful implementations. Further roll-out of SAP and the development of increasingly sophisticated approaches to running the business will enable the Company to deploy best practice, end-to-end business processes across its operations, as described below, and provide further operating efficiencies.

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 the Company's current operational efficiency and is part of 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 programme called Work Asset Management and Information ("WAMI"). This is a far-reaching two year programme 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 see its asset information in one place, 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, giving 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, allowing customers to see a quicker response to events such as burst mains and flooding and enabling more efficient scheduling while keeping the Company's customers informed every step of the way.

The Company has demonstrated continuing improvement in both operational and financial performance providing a strong platform for the future.

2. FINANCIAL PERFORMANCE

Financial Key Performance Indicators ('KPIs')

Performance Measure	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m
Turnover	813.7	805.6
Operating expenditure	311.4	301.9
EBITDA	505.1	506.6
Total capital expenditure	328.1	379.2

Methodology and calculation of financial KPIs

1. EBITDA: Profit before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge ('IRC').
2. Total capital expenditure: Total expenditure on tangible fixed assets excluding contributions received.
3. Operating expenditure: Operating costs excluding amortisation, depreciation and IRC.

Turnover

Turnover for the six month period ended 30 September 2010 was £813.7m (2009: £805.6m), an increase of 1.0% compared to the prior period. Real price increases as agreed with Ofwat, together with increases linked to the Retail Price Index ("RPI") increased turnover by £2.5m, with new properties and increased consumption accounting for a further increase of £7.0m. This has been offset by a reduction in water and drainage search revenue of £1.4m as a result of the abolishment of Home Information Packs.

Operating expenditure

Operating expenditure for the six month period ended 30 September 2010 has increased by 3.1% on the prior period. Increases in pension costs (driven by assumptions surrounding current service costs) and an increase in rates account for the majority of this increase. These increases in operating costs are due to factors outside of the Company's control and are not a true reflection on underlying operating efficiency.

EBITDA

The increase in turnover has been more than offset by the increase in operating expenditure described above leading to a reduction in EBITDA of £1.5m.

Capital Expenditure

Capital expenditure for the six months to 30 September was £328.1m compared to £379.2m for the prior period. The start of a new five year regulatory period necessitates embedding significant new capital delivery contracts. This, combined with third parties and planning issues, has caused small delays in the programme in the first six months of the year, but the rate of delivery is expected to recover by the year end.

Net cash flow before financing activities

Net cash outflow before financing activities of £396.5m (2009: inflow: £41.2m) has moved significantly primarily as a result of an upstream loan made to the immediate parent company of £685.0m (which has been included within Net cash outflow from capital investment and financial investment activities). Other key movements include: a further £210.0m was placed on deposit compared to the prior period and interest receivable from the immediate parent company has reduced by £88.7m leading to a net cash outflow from returns from investments and servicing of finance of £83.6m (2009: inflow of £0.1m).

3. REGULATORY and BUSINESS UPDATE

Non Financial Performance Measures – Service Performance Overview

Summary

In 2009/10 the Company delivered a further improvement in operational performance for the fourth consecutive year and achieved a record OPA score. The Company is targeting improvements in customer satisfaction in the current financial year.

Overall performance assessment

The Company achieved an OPA score of 416 for the period 2009/10. This is a best ever performance, with an improvement of ten points from the 2008/09 score of 406. Based on the Ofwat 'Service and Delivery Report' published on 28 October 2010, the Company was the third best Water and Sewerage company performer in the industry.

Leakage

For the year ended 31 March 2010 the Company outperformed its leakage target despite a severe winter which caused a major increase in burst pipes. The Company has reduced leakage by 27% in the last four years. The Company is targeting further investment in leakage in the current financial year to pro-actively manage performance through the 2010/11 winter.

Security of Supply

The Company closed the 2005-2010 price control period achieving a score of 100 in the regulator's security of supply index. This compares to a score of only 22 at the start of the period in 2005/06. The Company has also completed a Public Inquiry into its draft Water Resource Management Plan as explained earlier.

Drinking water quality and sewage works compliance

The Company continues to achieve outstanding levels of performance for both water quality and sewage works compliance, achieving 99.98% compliance for drinking water quality standards at the customer's tap and 100% compliance with effluent quality standards for our sewage treatment works.

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 AMP5. 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 included in the 2010-2015 Price Determination. 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 design and enabling works during AMP5 in order to ensure that the project can move to the construction phase in AMP6 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 could 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. Work is on-going to agree the appropriate delivery mechanism for the Tunnel and the Company, Ofwat and Defra are working closely together.

Managing increased competition in the water industry

Ofwat are currently reviewing their approach to the regulation of the industry. As well as looking to reduce regulatory burden and ensuring future challenges such as climate change can be met, they are also looking at whether changes should be made to introduce competition in parts of the value chain. The Company will have to meet any challenges posed by any aspiring new entrants and the resultant effect on its pricing schemes and modes of operation. Some of the long term issues to be addressed 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 the period, several reviews continue to establish the potential for additional added value from outsourcing, notably:

Managed Metering Services - market tendering and negotiation continue with recommendations due to be made in November, subject to Board approval.

Supply Chain Managed Services - market proposals were invited for the out-sourcing of the strategic sourcing function within Procurement Department to deliver increased skills, capacity and flexibility of resources, processes and systems, enabling the business to drive additional cost-reductions during the AMP5 business plan. Recommendations to the Executive are due in February 2011, and subject to approval TUPE transfer of 20 staff would occur in April 2011.

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.

From 1 April 2010, the Company and the Securitisation Group had the option to issue Subordinated Debt ("Class B"), with an increase in the combined Class A and Class B (together "Senior") net Debt/RCV ratio to a limit of 85 per cent. As at 30 September 2010, the Company had issued £850m (2009: £nil) of Class B bonds. Class B debt is rated Baa3 by Moody's and BBB by S&P.

During the six months to 30 September 2010 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.
- During the period Thames Water Utilities Limited repaid a £45m loan and Thames Water Utilities Finance repaid a £250m bond.

Additionally, Thames Water Utilities Cayman Finance issued a further £40m RPI-linked Class A bond in October and a €500m Class A bond in November.

Class A and Class B bonds outstanding as at 30 September 2010 are as follows:

Issuer	Curr	Amt	Coupon %	Maturity Date	Description	Value in £m at 30 Sept 2010
TWUF	JPY	2bn	3.00	06/05/2011	Reverse dual currency Bond	15.0m
TWUCF	EUR	500m	6.125	04/02/2013	Fixed Rate Bond	423.7m
TWUCF	USD	156m	1.386	17/02/2015	Floating Rate Note	98.8m
TWUF	GBP	200m	4.90	30/06/2015	Fixed Rate Bond	200.0m
TWUCF	GBP	550m	5.375	21/7/2017	Fixed Rate Bond, Class B	550.0m
TWUF	GBP	200m	5.05	30/06/2020	Fixed Rate Bond	200.0m
TWUF	GBP	225m	6.59	20/04/2021	Fixed Rate Bond	225.0m
TWUF	GBP	175m	3.375	21/07/2021	RPI Linked Bond	219.7m
TWUCF	GBP	300m	5.75	13/09/2022	Fixed Rate Bond, Class B	300.0m
TWUF	GBP	330m	6.75	16/11/2028	Fixed Rate Bond	330.0m
TWUF	GBP	200m	6.50	09/02/2032	Fixed Rate Bond	200.0m
TWUF	GBP	600m	5.125	28/09/2037	Fixed Rate Bond	600.0m
TWUCF	JPY	20bn	3.280	20/08/2038	Fixed Rate Bond	150.4m
TWUCF	GBP	50m	3.853	15/12/2040	LPI Linked Bond	51.3m
TWUCF	GBP	50m	1.98	28/08/2042	RPI Linked Bond	54.0m
TWUCF	GBP	55m	2.091	06/10/2042	RPI Linked Bond	57.6m
TWUCF	GBP	100m	1.846	28/08/2047	RPI Linked Bond	108.0m
TWUCF	GBP	200m	1.819	28/08/2049	RPI Linked Bond	216.1m
TWUF	GBP	300m	1.68	11/07/2053	RPI Linked Bond	339.3m
TWUF	GBP	300m	1.681	11/07/2055	RPI Linked Bond	339.3m
TWUCF	GBP	200m	1.771	28/08/2057	RPI Linked Bond	216.1m
TWUCF	GBP	400m	7.241	09/04/2058	Put Call Fixed Rate Bond	400.0m
TWUCF	GBP	350m	1.76	28/08/2062	RPI Linked Bond	378.2m
						5672.5m

Accretion to date on RPI Linked Bonds amounts to £199.6m.

Class A debt also includes £400m of RPI Linked loans including £300m from the EIB. As at 30 September 2010 accretion on these loans amounted to £13.6m.

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	470.0m	4 Feb 2013	
USD	156m	GBP	100.0m	17 Feb 2015	
JPY	20bn	GBP	153.6m	20 Aug 2038	with early termination rights

Swaps with breaks amount to 1.8% of RCV at 30 September 2010 (covenant limit 5% of RCV).

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

Payment of accretion			
At regular pay-down intervals	GBP	100.0m	31 Dec 2029
At maturity	GBP	200.0m	9 Feb 2032
At maturity	GBP	400.0m	28 Sep 2037
At regular pay-down intervals	GBP	200.0m	29 Sep 2037
At regular pay-down intervals	GBP	94.1m	20 Aug 2038
At regular pay-down intervals	GBP	200.0m	31 Dec 2039
At regular pay-down intervals	GBP	100.0m	17 Feb 2060
		1,294.1m	

There are no breaks on the index-linked swaps. Accretion to 30 September 2010 on RPI Linked swaps: £82.0m. Percentage of accretion versus Class A net indebtedness: 1.46% (limit 8% of Class A net indebtedness).

As at 30 September 2010 the Company had undrawn committed facilities in place (via Thames Water Utilities Cayman Finance Ltd) with a syndicate of ten relationship banks to the value of £1,175m. These facilities will provide us with the necessary liquidity to fund the operations of the business for at least the next twelve months. A new £70m liquidity facility was entered into during July 2010 and the existing £355m liquidity facility was renewed in August 2010. The £750m revolving credit facility matures in September 2012.

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.

During the period the Company paid three interim dividends totalling £160.5m of which £103.2m related to the year ended 31 March 2010 (including £28.2m of inter-company interest) and £57.3m relates to the current financial period.

On 24 November 2010, the Board of Directors approved an interim dividend of £75.0m in respect of the year ended 31 March 2011.

7. FINANCIAL RATIOS

We have made three adjustments to amounts referred in the 30 September 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 Net Indebtedness:

Date	30 Sept 2010
Senior Net Debt per accounts:	£6,406.0m
Less subordinated intercompany debt ^{a)}	£0m
Add back amortised debt fees	£43.5m
Senior Net Indebtedness per compliance statement:	£6,449.5

a) TWUL has a £200m subordinated intercompany loan facility from Thames Water Limited of which £0m was drawn at 30 September 2010.

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

Date	30 Sept 2010 (6 months)	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Corporation tax paid per accounts:	£21.5m	£40.3m	£20.1m	£22.9m	£42.0m	£52.5m
Less Tax in respect of interest received on the Intra-Group Loan between TWUL and TWUH ^{c)}	(£2.8m)	(£4.0m)	(£5.4m)	(£9.3m)	(£9.8m)	(£11.3m)
Corporation tax paid	£18.7m	£36.3m	£14.7m	£13.6m	£32.2m	£41.2m

c) 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 six month period was £9.8m and the tax paid was £2.8m.

Ratios as follows:

Date	30 Sept 2010	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)	67.3%	69.6%	70.2%	70.7%	69.8%	68.7%
Senior RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	77.5%	79.3%	79.8%	80.2%	79.2%	78.1%

Test Period	1 April 2009 to 31 March 2010	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	4.2	4.5	4.3	4.0	4.0	4.0
Class A Adjusted ICR	2.1	2.1	2.0	1.9	1.8	1.9
Senior Adjusted ICR	2.1	2.1	1.6	1.6	1.5	1.6
Class A Average Adjusted ICR	2.1	2.0	1.9	1.9	1.9	1.9
Senior Average Adjusted ICR	1.9	1.9	1.6	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 2010	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	943.7 (224.1) 4.2	936.9 (207.9) 4.5	991.4 (228.9) 4.3	1,088.2 (268.9) 4.0	1,122.9 (281.7) 4.0	1,201.4 (297.7) 4.0
Net Cash Flow less CCD & IRC divided by Class A Debt Interest Class A Adjusted ICR	461.7 (224.1) 2.1	439.7 (207.9) 2.1	450.9 (228.9) 2.0	513.2 (268.9) 1.9	519.8 (281.7) 1.8	579.0 (297.7) 1.9
Net Cash Flow less CCD & IRC divided by Senior Debt Interest Senior Adjusted ICR	461.7 (224.1) 2.1	439.7 (207.9) 2.1	450.9 (279.5) 1.6	513.2 (324.9) 1.6	519.8 (343.6) 1.5	579.0 (364.0) 1.6
Year 1 Class A Adj. ICR	2.1	2.1	2.0	1.9	1.9	1.9
Year 2 Class A Adj. ICR	2.1	2.0	1.9	1.8	1.8	1.8
Year 3 Class A Adj. ICR	2.0	1.9	1.8	1.9	1.9	1.9
Class A Average Adjusted ICR	2.1	2.0	1.9	1.9	1.9	1.9
Year 1 Senior Adj. ICR	2.1	2.1	1.6	1.6	1.6	1.6
Year 2 Senior Adj. ICR	2.1	1.6	1.6	1.5	1.5	1.5
Year 3 Senior Adj. ICR	1.6	1.6	1.5	1.6	1.6	1.6
Senior Average Adjusted ICR	1.9	1.9	1.6	1.6	1.6	1.6

	30 Sept 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Senior Net Indebtedness divided by	6,449.5	6,926.5	7,835.4	8,559.6	9,017.1	9,291.4
RCV	8,321.4	8,736.8	9,820.3	10,666.6	11,385.8	11,902.2
Senior RAR	77.5%	79.3%	79.8%	80.2%	79.2%	78.1%
Class A Net Indebtedness divided by	5,599.5	6,076.5	6,892.8	7,545.2	7,946.1	8,179.5
RCV	8,321.4	8,736.8	9,820.3	10,666.6	11,385.8	11,902.2
Class A RAR	67.3%	69.6%	70.2%	70.7%	69.8%	68.7%

Payment of the Annual Finance Charge

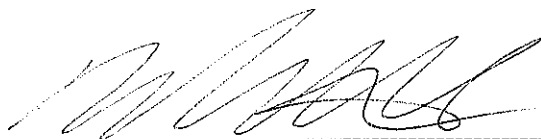
We certify that on 1 April 2010 the Annual Finance Charge Amount was £221.9m and the Monthly Payment Amount equated to £18.5m. Periodically the Annual Finance Charge Amount is reforecast and the reforecast Annual Finance Charge at the end of the current period was £199.5m. At the start of the new financial year, being 1 April 2010, a payment of £48.4m was made to the Debt Service Payment Account followed by payments of £15.8m in May, £20.6m in June, £17.2m in July, £17.3m in August and £36.8m in September.

As at the Calculation Date the Monthly Payment Amount was calculated by dividing the remaining Annual Finance Charge Amount, £44.2m, by the remaining number of months of the financial year, six: £44.2m divided by 6 = £7.4m.

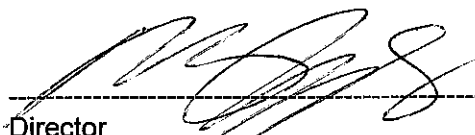
We also confirm that:

- (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.

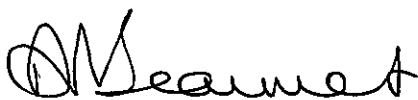
Yours faithfully,



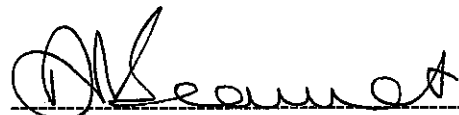
Chief Financial Officer



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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