

# **Investors Report**

**For the period ended 30 September 2011**



## **IMPORTANT NOTICE**

This report is being distributed in fulfilment of a document, the Common Terms Agreement (the 'CTA'), which governs the Company's obligations to its bondholders and other financial creditors. It is directed to, and intended for, existing investors in the Company. No other persons should act or rely on it. The Company makes no representation as to the accuracy of forecast information (or any other information in this report, other than set out in the CTA). These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake future investment in the Company. It should be noted that the Company's auditors have not reviewed the information in this report. For the purposes of the financial promotions regime under the Financial Services and Markets Act 2000, this report is given on the basis of the exemption provided in article 69 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as it relates to bonds which are already admitted to trading on a relevant market).

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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' or 'TWUL') for the six-month period ended 30 September 2011.

The Company's operating profit, including the exceptional pension curtailment gain of £40.0m for the six months to 30 September 2011 was £373.6m. Underlying operating performance increased by £25.4m to £333.6m compared to £308.2m for the six months to 30 September 2010 ("the prior period"). Operating expenditure is in line with expectations, despite increases in costs such as energy, materials and rates. Underlying profit for the period <sup>1</sup> of £117.0m is broadly in line with the prior period of £119.9m.

Capital expenditure for the six months to 30 September 2011 was £533.2m compared to £315.0m for the prior period, reflecting the Company's commitment to delivering nearly £5bn of investment over this regulatory period from April 2010 to March 2015 ("AMP5").

## **2. FINANCIAL PERFORMANCE**

The Company's financial KPIs are as follows:

<b>Performance Measure</b>	<b>Six months to 30 September 2011 £m</b>	<b>Six months to 30 September 2010 £m</b>
Turnover	<b>850.8</b>	813.7
Operating expenditure (1)	<b>308.7</b>	311.4
Operating profit	<b>373.6</b>	308.2
Underlying operating performance (2)	<b>333.6</b>	308.2
Total capital expenditure (3)	<b>533.2</b>	315.0

### **Methodology and calculation of financial KPIs**

1. Operating expenditure: Operating costs excluding exceptional item (2011/12 pension curtailment gain), amortisation, depreciation and Infrastructure Renewals Charge ("IRC").
2. Underlying operating performance: Operating profit excluding exceptional item (pre-tax).
3. Total capital expenditure: Total expenditure on tangible fixed assets including contributions received.

### **Turnover**

Turnover for the six month period ended 30 September 2011 was £850.8m (2010: £813.7m), an increase of £37.1m (4.6%) compared to the prior period. Real price increases as agreed with Ofwat (0.4%), together with increases linked to the Retail Price Index ("RPI") increased turnover by £40.4m. This has been partly offset by lower metered consumption reflecting customers' continued wise use of water.

### **Operating expenditure**

Operating expenditure, excluding exceptional item for the six month period ended 30 September 2011 has reduced by £2.7m (0.9%) to £308.7m (2010: £311.4m) compared to the prior period. A provision release in respect of certain legal claims has contributed to the reduction in operating costs. However, despite inflationary pressures with average RPI of 5.6%, and increased bad debts reflecting the current economic

<sup>1</sup> Underlying profit for the period excludes the post tax exceptional pension curtailment gain of £29.6m.

crisis, underlying operating costs are in line with the Company's expectations, whilst delivering its regulatory outputs.

### **Underlying operating performance**

Underlying operating performance has improved by £25.4m to £333.6m (2010: £308.2m). This improvement is due to the increase in turnover and reduced operating expenditure described above, offset by an increase in depreciation and IRC of £11.3m, reflecting the high level of capital investment over the first two years of AMP5.

### **Net cash flow before financing activities**

Net cash outflow before financing activities of £85.9m (2010: outflow: £396.5m) has decreased by £310.6m compared to the prior period. During the period there was an upstream loan made to the immediate parent company of £150.0m (2010: £685.0m).

Excluding this upstream loan, net cash flow before financing activities was an inflow of £64.1m (2010: inflow £288.5m), a decrease of £224.4m, principally as a result of the increase in capital expenditure, as discussed below, and an increase in net cash outflow from returns from investments and servicing of finance, reflecting the increase in net debt

### **Balance sheet**

Net assets as at 30 September 2011 are £50.9m lower than 31 March 2011, reflecting profit for the period of £146.6m, dividend payments of £179.5m and a post tax actuarial loss in relation to the pension schemes in the period of £18.0m.

### **Capital expenditure**

Capital expenditure for the six months to 30 September 2011 was £533.2m compared to £315.0m for the prior period. The Company, during the first year of the AMP5 ended 31 March 2011 delivered over £1bn of investment and is on course to deliver a further £1bn in the current financial year which is in line with the Final Determination.

## **3. REGULATORY and BUSINESS UPDATE**

### **Operating Performance**

On 26 October 2011, the Water Services Regulation Authority ("Ofwat") published its report on the water companies' performance for 2010/11. Ofwat reported that the regulatory targets it set the Company were achieved across the operational performance areas of customer experience, reliability and availability and environmental impact. The Company's good operational performance included outperforming its leakage target despite the harsh winter of 2010/11. In the report, Ofwat expressed concern about the information the Company keeps on properties at risk of sewer flooding. Ofwat is considering the issue and what action, if any, it may take. The Company is committed to resolving the issue with Ofwat; it has provided relevant documentation and is meeting with Ofwat regularly to discuss the issue. Ofwat has said that it expects to make a decision on this issue by April 2012.

The Company has maintained its operational performance for the six months to 30 September 2011. As a result, the Company is on track to meet all of its operational targets with the exception of pollution incidents where the Company is at risk of incurring more incidents than its target for 2011/12. Where these incidents have occurred the Company has taken all remedial actions necessary, working with the Environment Agency to limit the impact. The Company has also put in place a nineteen point plan to limit the occurrence and minimise the impact of these incidents going forward.

On 26 October 2011, Ofwat also published the results of the Service Incentive Mechanism ("SIM") scores for the water companies for 2010/11. SIM is a new mechanism introduced by Ofwat for this regulatory period. It is designed to measure the quality of service provided to customers. Based on their relative performance Ofwat will make financial adjustments to the water companies' allowances when it next sets prices. SIM was in an introductory trial period for the year ending 31 March 2011; Ofwat will not include the results of the SIM for that year in setting any financial adjustments. The Company's score, for the year ending 31 March 2011, was 3.92, giving it a mid-table position compared to the performance of other Water and Sewerage Companies ("WaSC"). The Company is committed to improving the service it provides to its customers and has recruited a new Customer Service Director, Natalie Beckerman. Natalie has a wealth of experience in customer service and is leading a transformation programme to deliver significant improvements in the Company's customer service over the next few years.

### **Health and safety**

The Company continues to have a key focus on health and safety. It has developed its 'one-safety hub', a shared facility enabling the Company and its contractors to share best practise in health and safety. In the current financial year the Company has also reviewed and enhanced its health and safety systems and held further health and safety conferences for the Company's employees and its contractors. However, it is with regret that the Company has to report that two employees of its contractors suffered fatal injuries in two separate incidents. The first of these occurred in June 2011 where the contractor was working in an excavation. The second occurred in October 2011, where the contractor was struck by a vehicle when working in a roadway. Full investigations are being carried out on both incidents.

### **Thames Tunnel**

The Thames Tunnel is needed to help tackle the 39 million tonnes of untreated sewage that on average overflows annually into the River Thames from London's Victorian sewerage network.

On 3 November 2011, Richard Benyon, Parliamentary Under-Secretary for Natural Environment and Fisheries, made a statement to Parliament confirming the Government's support for the Thames Tunnel project. On the following day the Company commenced a 14 week consultation on the plans for the proposed tunnel, including its preferred sites for the tunnel's construction and operation.

### **Regulatory reform**

Ofwat is continuing its review of the regulation of the Water Industry. Ofwat's review seeks to reduce the regulatory burden on WaSC whilst addressing future challenges to the industry. A number of consultative documents have been issued by Ofwat to meet these objectives.

In August 2011, Ofwat published a decision that in developing business plans for the next price control companies should engage with their customers to a greater extent than they have in the past.

On 31 October 2011, the Department for Environment, Food and Rural Affairs ("Defra"), introduced draft regulations to expand the business retail market. Subject to Parliamentary approval, Defra expects to reduce the market threshold from 50 ML (mega litres) per year to 5 ML per year by the end of 2011. The Company welcomes the Government's decision to allow businesses to choose their water supplier and the opportunity to demonstrate the value of its high quality service.

In addition, the Government is also reviewing the future challenges facing the industry and is expected to publish its Water White Paper on the long term direction for the industry in the winter of 2011.

The Company has been and will continue to be actively involved in the public debate on reform. The Company has sought to ensure that any reforms build on the successful record of the industry and thereby deliver for customers and other stakeholders.

## **Transfer of privately owned sewers and lateral drains**

On 1 July 2011, The 'Water Industry (Schemes for Adoptions of Private Sewers 2011)' came into force, whereby all privately owned sewers and lateral drains connected to an existing public sewer became the responsibility of sewerage undertakers.

As a result, 40,000 kilometres of privately owned sewers and lateral drains were transferred on 1 October 2011 to the Company, an increase of 60% in the sewer network for which the Company is now responsible.

The Company welcomes the clarity and peace of mind that the change in law will bring for its customers in the event of a sewer collapse or blockage. The Company expects that the number of blockages that it has to tackle will increase from 55,000 a year to around 250,000, increasing operating costs by approximately £35.0m a year.

## **Water Resource Management Plan Public Inquiry**

In March 2011, Defra published the Planning Inspector's report on the public inquiry into the Company's revised draft Water Resources Management Plan 2009 ("WRMP 2009"). The report's recommendations were accepted by the Secretary of State of Defra, including a requirement for additional work to the Company's WRMP 2009.

Defra issued instructions on the amendments the Company needed to make to this plan so that it meets the minimum requirements recommended by the Inspector, and also certain issues to be taken into account for the next plan, Water Resources Management Plan 2014. Public consultation on the revised draft plan will take place during December 2011 and January 2012. The Company expects to produce an updated plan, taking account of stakeholder comments, in February 2012 for submission to Defra, for consideration by the Secretary of State.

## **Transforming Thames – Making Tomorrow Better**

The Company has continued to improve both its operational and financial performance whilst implementing the key change initiatives of the Transforming Thames project. The culture of continuous improvement this has engendered within the organisation provides a strong platform for the future of the Company.

An integrated delivery plan has been compiled to ensure that all the key change initiatives being undertaken across the business, such as the Delivering Performance Excellence, Work Asset Management and Information ("WAMI"), Supervisory Control And Data Acquisition, Customer Service Transformation and Information Technology strategy programmes, are aligned to the Company's strategy and that interdependencies are identified, recognised and managed across all functions.

The WAMI solution is being implemented from 14 November 2011 and by March 2012 over 4,800 employees and contractors should have the WAMI capability.

Amongst its benefits will be:

- An improved customer experience with information available to inform customers when issues will be resolved using their preferred communication channel – letter, email or text during events that affect them.
- The solution should ensure that the right person is at the right place at the right time with the right tools.
- Improved management of data regarding all aspects of the Company's assets.

These benefits will help to improve the Company's performance, as measured by the SIM, and help it to reduce costs by over £100m during the current regulatory period.

The Company has recently reviewed its management structure and has made a number of changes to ensure full alignment with its strategy. These changes are part of the journey to make Thames Water the company of choice for customers by delivering the improved customer services and further efficiencies that the Company is committed to achieving.

As a result, the Company in addition to the appointment of Natalie Beckerman has made the following changes to its Executive team:

- Piers Clark joined the Company in May 2011 as Commercial Director.
- Michael Gerrard joined the Company in May 2011 as Managing Director for the Thames Tunnel.

Stuart Siddall (Chief Financial Officer) joined the Company in September 2011 and was also appointed to the Board of Directors (as an Executive Director) following the resignation of Mark Braithwaite.

#### **4. OUTSOURCING**

The Company continues to monitor and comply with the Outsourcing Policy as detailed under the Common Terms Agreement. This includes acting as a reasonably prudent water and sewerage undertaker and in accordance with Good Industry Practice. The Company continues to assess the viability of outsourcing certain business functions. An outsourcing review is underway in relation to certain aspects of Customer Services.

#### **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. Standard and Poor's Ratings Services rates Class A debt issuance 'A-' with a stable outlook and Class B debt is rated 'BBB' with a stable outlook. Moody's Investor Services rates Class A debt issuance 'A3' with a stable outlook and Class B debt 'Baa3' with a stable outlook.

During the six month period to September 2011 Thames Water Utilities Cayman Finance Limited issued a €113.0m (£100m) index linked bond, maturing in 2022 and redeemed a 2bn Yen (£9.2m) 3.0% fixed rate reverse dual currency bond.

Class A and Class B bonds outstanding as at 30 September 2011 are as follows:

<b>Issuer</b>	<b>Curr</b>	<b>Amt</b>	<b>Coupon %</b>	<b>Maturity Date</b>	<b>Description</b>	<b>Value in £m at 30 Sept 2011</b>
TWUCF	EUR	500m	6.125	04/02/2013	Fixed Rate Bond	435.4
TWUCF	USD	156m	1.386	17/02/2015	Floating Rate Note	99.8
TWUF	GBP	200m	4.9	30/06/2015	Fixed Rate Bond	200.0
TWUCF	EUR	500m	3.25	09/11/2016	Fixed Rate Bond	435.4
TWUCF	GBP	550m	5.375	21/07/2017 <sup>#</sup>	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	230.4
TWUCF	EUR	113m	2.3	18/07/2022	CPI Linked Bond	98.9

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	167.4
TWUCF	GBP	50m	3.853	15/12/2040	LPI Linked Bond	54.3
TWUCF	GBP	500m	5.5	11/02/2041	Fixed Rate Bond	500.0
TWUCF	GBP	50m	1.98	28/08/2042	RPI Linked Bond	56.9
TWUCF	GBP	55m	2.091	06/10/2042	RPI Linked Bond	60.5
TWUCF	GBP	40m	1.974	12/10/2045	RPI Linked Bond	42.0
TWUCF	GBP	100m	1.846	28/08/2047	RPI Linked Bond	113.9
TWUCF	GBP	200m	1.819	28/08/2049	RPI Linked Bond	227.7
TWUF	GBP	300m	1.68	11/07/2053	RPI Linked Bond	355.8
TWUF	GBP	300m	1.681	11/07/2055	RPI Linked Bond	355.8
TWUCF	GBP	200m	1.771	28/08/2057	RPI Linked Bond	227.7
TWUCF	GBP	350m	1.76	28/08/2062	RPI Linked Bond	398.6
						6,865.5

\* bond with a put call option in 2018 to be potentially remarketed with 2058 maturity

# Coupon step up and call date

Accretion to date on RPI Linked Bonds amounts to £304.0m and is reflected in the Interim report and financial statements for the six month period ended 30 September 2011.

TWUL Class A debt includes £400m of RPI Linked loans and £195m of finance leases net of costs. As at 30 September 2011 accretion on RPI Linked loans amounted to £35.2m.

#### *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:

EUR	500m	GBP	470m	4 Feb 2013
USD	156m	GBP	100m	17 Feb 2015
EUR	500m	GBP	438.1m	9 Nov 2016
EUR	113m	GBP	100m	18 July 2022
JPY	20bn	GBP	153.6m	20 Aug 2038

Swaps with breaks amount to 1.6% of RCV at 30 September 2011 (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.

<b>First payment of accretion</b>		<b>Notional</b>	<b>Maturity</b>
At maturity	GBP	100.0m	18 July 2022
31 December 2015	GBP	100.0m	31 Dec 2029
At maturity	GBP	200.0m	9 Feb 2032
At maturity	GBP	150.0m	28 Sep 2037
28 September 2023	GBP	250.0m	28 Sep 2037
28 September 2012	GBP	200.0m	28 Sep 2037
20 August 2013	GBP	94.1m	20 Aug 2038
30 June 2015	GBP	200.0m	31 Dec 2039
17 August 2015	GBP	100.0m	17 Feb 2060

1,394.1m

Accretion to 30 September 2011 on RPI Linked swaps is £153.9m. Percentage of accretion to Class A net indebtedness is 2.35% (limit 8%). There are no breaks on the index-linked swaps.

As at 30 September 2011, the Company had undrawn committed facilities to the value of £1,200m in place (via Thames Water Utilities Cayman Finance Ltd) with a syndicate of twelve relationship banks. These facilities will provide us with the necessary liquidity to fund the operations of the business for at least the next twelve months. As part of the liquidity facilities renewal the O&M facility was increased bringing the total liquidity facilities to £450m. The £750m revolving credit facility was renewed in September with a maturity date of September 2016 plus an option to extend the term one year further.

## **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 £179.5m of which £24.4m was paid to Thames Water Holdings Limited and was used to settle inter-company interest owing to Thames Water Utilities Limited, £55.1m was retained within the group and £100m was paid externally to shareholders.

On 24 November 2011, the Board of Directors approved an interim dividend of £100.0m.

## 7. FINANCIAL RATIOS

We have made three adjustments to amounts referred in the 30 September 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	30 Sept 2011
Senior Net Debt per accounts:	£7,365.8
Less subordinated intercompany debt <sup>a)</sup>	£0m
Add back amortised debt fees	£55.0m
Senior Net Indebtedness per compliance statement:	£7,420.8m

### Class A Net Indebtedness

Date	30 Sept 2011
Senior Net Debt per accounts:	£7,365.8m
Less Class B	£850m
Add back amortised debt fees	£47.3m
Class A Net Indebtedness per compliance statement:	£6,563.1m

a) TWUL has a £200m subordinated intercompany loan facility from Thames Water Limited of which £0m was drawn at 30 September 2011.

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

Date	30 Sept 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Corporation tax paid per accounts (negative inflow):	£4.8m	(£8.4m)	£16.2m	£44.7m	£61.8m
Less Tax in respect of interest received on the Intra-Group Loan between TWUL and TWUH <sup>c)</sup>	(£6.8m)	(£4.7m)	(£8.2m)	(£10.2m)	(£11.3m)
Corporation tax paid (negative is inflow):	(£2.0m)	(£13.0m)	£8.0m	£34.5m	£50.6m

b) TWUL receives interest on its £2,015m 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 £24.4m and the tax paid was £6.8m.

We confirm that in respect of the Calculation Date on 30 September 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	30 Sept 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)	<b>69.3%</b>	<b>69.3%</b>	<b>71.6%</b>	<b>71.1%</b>	<b>70.3%</b>
Senior RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	<b>78.4%</b>	<b>78.7%</b>	<b>81.2%</b>	<b>80.0%</b>	<b>79.6%</b>

# The number of Test Periods and forward-looking test dates varies dependent on the particular Calculation

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	<b>4.8</b>	<b>4.1</b>	<b>4.3</b>	<b>4.1</b>	<b>4.0</b>
Class A Adjusted ICR	<b>2.1</b>	<b>1.7</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>
Senior Adjusted ICR	<b>2.1</b>	<b>1.4</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>
Class A Average Adjusted ICR	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>
Senior Average Adjusted ICR	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>

(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 2012	31 March 2013	31 March 2014	31 March 2015
Net Cash Flow divided by Class A Debt Interest <b>Class A ICR</b>		946.3 (229.4) <b>4.1</b>	1,148.7 (270.3) <b>4.3</b>	1,172.0 (285.0) <b>4.1</b>	1,231.4 (304.7) <b>4.0</b>
Net Cash Flow less CCD & IRC Adjusted Cash Flow divided by Class A Debt Interest <b>Class A Adjusted ICR</b>		946.3 <u>(550.1)</u> 396.2 (229.4) <b>1.7</b>	1,148.7 <u>(587.5)</u> 561.2 (270.3) <b>2.1</b>	1,172.0 <u>(616.9)</u> 555.1 (285.0) <b>1.9</b>	1,231.4 <u>(637.6)</u> 593.8 (304.7) <b>1.9</b>
Net Cash Flow less CCD & IRC Adjusted Cash Flow divided by Senior Debt Interest <b>Senior Adjusted ICR</b>		946.3 <u>(550.1)</u> 396.2 (277.6) <b>1.4</b>	1,148.7 <u>(587.5)</u> 561.2 (324.5) <b>1.7</b>	1,172.0 <u>(616.9)</u> 555.1 (346.8) <b>1.6</b>	1,231.4 <u>(637.6)</u> 593.8 (370.3) <b>1.6</b>
Year 1 Class A Adj. ICR Year 2 Class A Adj. ICR Year 3 Class A Adj. ICR <b>Class A Average Adjusted ICR</b>		1.7 2.1 1.9 <b>2.0</b>	2.1 1.9 1.9 <b>2.0</b>	1.9 1.9 2.1 <b>2.0</b>	1.9 1.9 2.1 <b>1.9</b>
Year 1 Senior Adj. ICR Year 2 Senior Adj. ICR Year 3 Senior Adj. ICR <b>Senior Average Adjusted ICR</b>		1.4 1.7 1.6 <b>1.7</b>	1.7 1.6 1.6 <b>1.6</b>	1.6 1.6 1.7 <b>1.6</b>	1.6 1.6 1.7 <b>1.6</b>

	30 September 2011	31 March 2012	31 March 2013	31 March 2014	31 March 2015
Senior Net Indebtedness divided by	7,420.8	7,914.4	8,944.6	9,485.2	9,952.8
RCV	9,469.4	10,053.7	11,016.9	11,862.4	12,509.2
<b>Senior RAR</b>	<b>78.4%</b>	<b>78.7%</b>	<b>81.2%</b>	<b>80.0%</b>	<b>79.6%</b>
Class A Net Indebtedness divided by	6,563.1	6,964.4	7,888.5	8,429.1	8,793.9
RCV	9,469.4	10,053.7	11,016.9	11,862.4	12,509.2
<b>Class A RAR</b>	<b>69.3%</b>	<b>69.3%</b>	<b>71.6%</b>	<b>71.1%</b>	<b>70.3%</b>

## Payment of the Annual Finance Charge

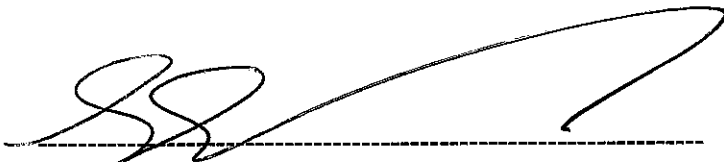
We certify that on 1 April 2011 the Annual Finance Charge Amount was £266.0m and the Monthly Payment Amount equated to £22.2m. Periodically the Annual Finance Charge Amount is reforecast and the reforecast Annual Finance Charge at the end of the current period was £278.6m.

As at the Calculation Date the Monthly Payment Amount was calculated by dividing the remaining Annual Finance Charge Amount, £107.8m, by the remaining number of months of the financial year, six: £107.8m divided by 6 = £18m.

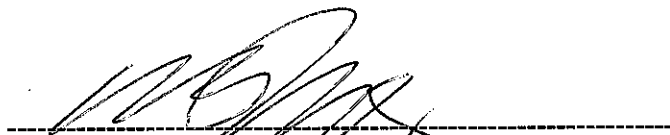
We also confirm that:

- (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,



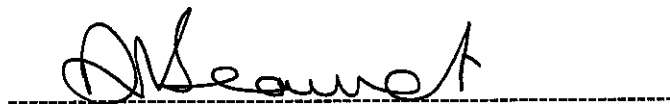
Chief Financial Officer



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**

